

CONFORMED COPY

**CREDIT NUMBER 4982-KG
GRANT NUMBER H718-KG**

Financing Agreement

(Additional Financing for Second On-farm Irrigation Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2011

**CREDIT NUMBER 4982-KG
GRANT NUMBER H718-KG**

FINANCING AGREEMENT

AGREEMENT dated July 25, 2011, entered into between the KYRGYZ REPUBLIC (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to four million two hundred thousand Special Drawing Rights (SDR 4,200,000) (“Grant”); and
 - (b) an amount equivalent to five million two hundred thousand Special Drawing Rights (SDR 5,200,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is US Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through SCWRLI in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, PIP has been revised for the purposes of this Additional Financing, satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance of the Recipient.

5.02. The Recipient's Address is:

Ministry of Finance
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

Telex:

245-156 NUR KH

Facsimile:

(996-312) 661645

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI)

Facsimile:

1-202-477-6391

AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Melis Mambetjanov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dinara Djoldosheva

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve irrigation service delivery on a sustainable basis that will contribute to increased agricultural productivity among irrigation farmers.

The Project consists of the Original Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project in accordance with the provisions of the PIP and the EMP and shall not amend, suspend, abrogate, repeal or waive any provision of the PIP and the EMP without prior approval of the Association.
2. The Recipient, through SCWRLI, shall maintain the PIU during execution of the Project with staff whose qualifications and terms of reference shall be satisfactory to the Association, and resources adequate to enable it to effectively implement the Project.
3. The Recipient, through SCWRLI, shall ensure that the PIU shall be responsible for: (a) Project management, coordination and monitoring, including evaluation, and reporting; (b) preparation of applications for withdrawals of the proceeds of the Financing; (c) management of Designated Account; (d) procurement of goods, works, non-consulting services and consultants' services for the Project; (e) maintenance of records and accounts related to the Project and arranging for the audit thereof; (f) preparation of an annual work program for the Project; and (g) overall responsibility for accounting, financial reporting and management, and preparing of the Project Reports.
4. The Recipient, through SCWRLI, shall ensure that all Sub-projects for rehabilitation and construction works under Part II of the Project are selected in accordance with criteria and procedures set forth in Section I.C below.
5. The Recipient shall ensure that any law and regulation in force governing the setting of irrigation service fees shall not be amended in a manner which will adversely affect the implementation of the Project activities. Any new law, regulation or amendment thereof shall be satisfactory to the Association.
6. The Recipient, through SCWRLI shall by October 31 each year, prepare and furnish to the Association for its review and approval, an annual work program and budget for the Project activities to be carried out during the following calendar year, and shall finalize the said work program based on recommendations of the Association.
7. The Recipient, through SCWRLI, shall ensure that by December 1 of each year the PIU prepares and furnishes to the Association for its prior review and approval an annual training plan describing training, workshops, and study tours to be carried out under the Project.

8. The Recipient, through SCWRLI, shall maintain, throughout the Project execution, the WUA Support Units established under the Association's financed On-Farm Irrigation Project (Credit Number 3369 KG) with adequate technical and financial resources to ensure that the Project receives necessary support during the implementation of the activities.

9. The Recipient, through PIU, shall undertake all measures necessary to ensure that the Project shall be carried out in a manner which fosters transparency and accountability, and to this end, shall maintain appropriate measures in the PIP, satisfactory to the Association.

10. The Recipient, through SCWRLI, shall ensure that the technical credits to be provided to selected WUAs under Part I (a) of the Project as well as the repayment of said technical credits are in accordance with procedures satisfactory to the Association.

B. Anti-Corruption

The Recipient, through PIU, shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Eligibility Criteria and Procedures Applicable to Sub-projects proposals under Part II of Schedule 1 to this Agreement

Part A: Sub-project proposal Eligibility Criteria

1. Sub-project proposals under Part II of Schedule 1 to this Agreement shall be selected by the Recipient, through PIU, in accordance with criteria, satisfactory to the Association, including the following criteria:

(a) rehabilitation and modernization Sub-project proposals for WUA-managed irrigation and drainage systems shall be for existing irrigation and drainage infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;

(b) the rehabilitation and modernization Sub-project proposals of each WUA-managed irrigation and drainage system shall have an economic rate of return equal to or larger than twelve percent;

(c) the rehabilitation and modernization Sub-project proposals for each WUA-managed irrigation and drainage system shall be in conformity with all national environmental standards, and their design and implementation shall provide for adequate mitigation measures to ensure full compliance with national health, environmental, and safety standards and requirements; and

(d) the rehabilitation and modernization Sub-project proposals for each WUA-managed irrigation and drainage system shall be carried out with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with appropriate administrative, financial, technical, and engineering standards.

Part B: Sub-project proposal Selection Procedures

1. The Recipient, through PIU, shall, prior to the commencement of rehabilitation works under each Sub-project, submit the proposal for that Sub-project to the Association for its review and approval.

2. In submitting a proposal for a Sub-project under Part II of Schedule 1 to this Agreement to the Association for its review and approval, the Recipient, through PIU, shall prepare and furnish to the Association a brief report satisfactory to the Association which shall contain: (i) a description of the current condition of the irrigation and drainage infrastructure, the proposed rehabilitation and modernization measures, cost estimates, and the results of the economic analysis of the proposed Sub-project; (ii) information on the WUA responsible for the proposed Sub-project, including information on its system operation and maintenance implementation capacity, irrigation service fee levels, and the fee collection rates; (iii) WUA members' participation in the selection of the proposed rehabilitation works; (iv) the environmental considerations; and (v) such other information as the Association shall reasonably request.

3. The Recipient, through PIU, shall allow the representatives of the Association, if the Association shall so request, to inspect the sites, works, plants, goods and construction included in the Sub-project under Part II of Schedule 1 to this Agreement, the operation thereof, and any relevant records and documents.

D. Safeguards

1. The Recipient, through PIU, shall implement the EMP, including Guidelines for Dealing with Irrigation, Dams and Water Storage Reservoirs, and site-specific EMPs, in a manner satisfactory to the Association and shall provide the Association with a summary status of the implementation (including results from environmental monitoring) as part of annual Project reporting or when specifically requested by the Association.

2. The Recipient, through PIU, shall ensure that if an eligible Sub-project under Part II of the Project is served by a storage reservoir, no rehabilitation and modernization activities for Sub-project shall start, unless the engineering and safety assessment of such storage reservoir has been carried out by a qualified engineering consulting firm and the results of such assessment and the proposed remedial measures, if any, have been reviewed and agreed upon with the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. The Recipient, through SCWRLI, shall:

(a) have the internal control framework, the operational processes and procedures followed under the Project, audited for the fiscal years 2012 and 2013 (or other period agreed to by the Association), in accordance with terms of reference and by independent auditors both acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such fiscal year (or such other period agreed to by the Association): (i) certified copies of the assessment of the internal control framework, the operational processes and procedures referred to in paragraph (4) of this Section for such fiscal year (or other period agreed to by the Association), as so audited; and (ii) an opinion on such processes and procedures by said auditors, in scope and detail satisfactory to the Association, as to whether they provide the Recipient adequate accounting, internal control and financial reporting as intended for the Project; and

(c) furnish to the Association such other information concerning such internal control framework, operational processes and procedures, the audit of such

internal control framework, operational processes and procedures and concerning said auditors, as the Association may from time to time reasonably request.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-consulting services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding, subject to the following additional provisions: <ol style="list-style-type: none">1. The eligibility of bidders shall be as defined under Section I of the Guidelines Procurement under IBRD Loans and IDA credits; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section I of the Guidelines Procurement under IBRD Loans and IDA credits. Exclusion from participation as a result of debarment should result from violation of clearly

Procurement Method

identified grounds of misconduct and in accordance with a fair and transparent process;

2. Procuring entities shall use the appropriate standard bidding documents acceptable to the Association;
3. An extension of bid validity, if justified by exceptional circumstances, shall be requested in writing from all bidders before the expiration date and for a minimum period required to complete the evaluation or award contract;
4. No national preferences may be applied on the basis of the origin of products or labor;
5. Entities in which the State owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law;
6. Pre-qualification shall be conducted for large works contracts and shall be applied upon the Association's agreement;
7. The pre- and post- qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
8. Joint venture partners shall be jointly and severally liable for their obligations;
9. State unit costs shall not be used for contract budgeting and evaluation for civil works contracts;
10. Bids shall be opened in public, immediately after the deadline for their submission. No bids can be rejected at bid opening and under the circumstances referred to Article 6 of the Recipient's Public Procurement Law;
11. No bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of clause 2.62 of the Guidelines Procurement under IBRD Loans and IDA credits, are met;
12. All bid evaluation criteria shall be quantifiable in monetary term;
13. Qualification criteria for bid evaluation shall be applied on a pass or fail basis;
14. Contracts shall be awarded to qualified bidder having submitted the lowest

Procurement Method
<p>evaluated substantially responsive bid and no negotiation shall take place;</p> <p>15. There should be an effective and independent protest mechanism allowing bidders and interested parties to protest and to have their protest handled in a timely manner; and</p> <p>16. Advance no objection of the Association is required for any modifications in the contract scope/conditions during contract implementation.</p>
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Selection Under a Fixed Budget
(c) Least Cost Selection
(d) Selection Based on the Consultants' Qualifications
(e) Single-Source Selection
(f) Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to said Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

Category	Amount of IDA Grant allocated (expressed in SDR)	Amount of IDA Credit allocated (expressed in SDR)	Percentage of Expenditures to be financed (inclusive of taxes)
(1) Works, Goods, Consultants' services, Non-consulting services, including Audit, Training and Incremental Operating Costs	4,200,000	5,200,000	100%
Total Amount	<u>4,200,000</u>	<u>5,200,000</u>	

For the purposes of this Schedule,

(a) the term "Incremental Operating Costs" means: (i) operating expenditures incurred by the PIU and ORTs and the site supervisors on account of the Project implementation, management and monitoring, including operation and maintenance of vehicles, Social Charges, office equipment operation and supplies,

communication costs, support for information systems, translation costs, bank charges, travel and per diem costs and other reasonable expenditures directly associated with the implementation of the Project activities, all based on an annual budget acceptable to the Association; and (ii) incremental operating expenditures incurred by WUA Support Units for vehicle operation, training, workshops, office administration costs, and other reasonable expenditures directly associated with the carrying out of the Project and acceptable to the Association, all based on an annual budget acceptable to the Association;

(b) the term “Social Charges” means any payments, premia, or contributions for health benefits, unemployment benefits, disability insurance, workers’ compensation benefits, retirement (pension or social security) benefits, and life insurance, which constitute payment for the drawdown of future benefits to the staff concerned; and

(c) the term “Training” means expenditures incurred on account of Project related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; and

(b) for Works under Category 1 for an eligible Sub-project, unless the engineering and safety assessment of storage reservoir has been carried out by a qualified engineering consulting firm and the results of such assessment and the proposed remedial measures, if any, have been reviewed and agreed upon with the Association.

2. The Closing Date is December 31, 2015.

SCHEDULE 3
Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing July 15, 2021 to and including January 15, 2031	1%
commencing July 15, 2031 to and including January 15, 2051	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
2. “Category” means the category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
4. “Environmental Management Plan” or “EMP” means the environmental management plan prepared and disclosed for the purposes of the Original Project, and updated and re-disclosed for the purposes of this Additional Financing, satisfactory to the Association, referred to in paragraph 1 of Section I.D of Schedule 2 to this Agreement, describing the environmental mitigation and monitoring measures under the Project.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
6. “Guidelines for Dealing With Irrigation, Dams and Water Storage Reservoirs” means the guidelines for dealing with irrigation, dams and water storage reservoirs adopted by the Recipient under the Original Project, and updated and re-disclosed for the purposes of this Additional Financing, satisfactory to the Association, referred to in paragraph 1 of Section I.D of Schedule 2 to this Agreement.
7. “Original Financing Agreement” means the financing agreement for the Second On-Farm Irrigation Project between the Recipient and the International Development Association, dated August 29, 2007 (Grant No. H312-KG).
8. “Original Project” means the Project described in the Original Financing Agreement.
9. “ORTs” means Oblast Rehabilitation Teams established by the Recipient and operating in each of the seven (7) Oblasts of the Recipient for the purpose of preparing rehabilitation and modernization designs and supervise construction works related to the implementation of the designs.

10. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 17, 2011, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. “PIP” means the project implementation plan adopted by the Recipient under the Original Project, as revised for the purposes of this Additional Financing.
13. “PIU” means the Project Implementation Unit established by SCWRLI, or any successor thereto.
14. “SCWRLI” means the Recipient’s State Committee for Water Resources and Land Improvement, established pursuant to Presidential Decree Number 41, dated May 20, 2010, or any successor thereto.
15. “Sub-project” means a project for rehabilitation and modernization of a specific irrigation distribution facility under Part II of the Project selected in accordance with the provisions of Section I.C of Schedule 2 to this Agreement.
16. “WUA” means the Water Users Associations defined in the Recipient’s WUA Law, No. 38, dated March 27, 2002.