

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

CONFORMED COPY

January 8, 2002

Mr. Temirbek Akmatalliev
Minister of Finance
Erkindik Boulevard 58
Bishkek 720874
Kyrgyz Republic

Re: Kyrgyz Republic: Japanese Grant for the
Preparation of the Community Investment Project Grant TF026808

Dear Mr. Akmatalliev:

I am writing on behalf of the International Development Association (IDA) to indicate IDA's agreement, as administrator of grant funds provided by the Government of Japan, to make a grant in an amount not exceeding four hundred ninety thousand two hundred ten United States dollars (US\$490,210) (the Grant) to the Kyrgyz Republic (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dennis de Tray
Country Director
Central Asia Country Unit
Europe and Central Asia Region

AGREED:

KYRGYZ REPUBLIC

By: Minister of Finance

Date: 01/02/2002

Purposes, Terms, and Conditions of the Grant

1. Purposes and Activities

1.1. The purpose of the Grant is to assist the Recipient, through its Office of the Prime Minister, in the preparation of the Community Investment Project, which has as its main objectives to alleviate rural poverty and to strengthen the capacity of rural stakeholders to design and implement developmental activities on their own (the Project). The activities (the Activities) for which the Grant is given are as follows:

(a) Social and Environmental Assessment Component

Provision of technical assistance to: (i) prepare a social assessment covering geographically and socially representative communities and prepare a baseline survey of pre-project conditions; (ii) prepare an environmental impact assessment and an environmental management plan; (iii) conduct workshops/consultations with the key stakeholders. These activities are estimated to cost US\$89,375 equivalent.

(b) Capacity Assessment of Rural and Community Institutions Component

Provision of technical assistance to: (i) assess the institutional capacity of local communities and community groups and capacity building requirements; (ii) assess existing rural entrepreneurial capacity and opportunities and identify needs and ways to strengthen this capacity. These activities are estimated to cost US\$39,125 equivalent.

(c) Development of a Typology of Micro-Projects Component

Provision of technical assistance to: (i) assess business opportunities for rural off-farm employment and income generation; and (ii) develop a typology of micro-projects to be supported by the Project. These activities are estimated to cost US\$185,450 equivalent.

(d) Design of Project Implementation Framework Component

Provision of technical assistance to prepare and design the implementation arrangements for the Project. These activities are estimated to cost US\$84,100 equivalent.

(e) Establishment of the Project Preparation Unit (PPU) Component

Provision of technical assistance to: (i) support the establishment of a PPU under the Office of the Prime Minister of the Recipient, including the design and establishment of appropriate systems of financial management, procurement, Project monitoring and evaluation; (ii) develop a plan and timetable to convert the PPU into an autonomous Project funding and coordinating unit agency. These activities are estimated to cost US\$92,160 equivalent.

2. Implementation Generally

The Recipient, through its Office of the Prime Minister, shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of

the proceeds of the Grant as IDA shall reasonably request; (d) from time to time exchange views with IDA's representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable IDA to visit the territory of the Recipient for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Activities a report, in form and substance satisfactory to IDA, on the results and impact of the Activities.

3. Procurement

3.1. Except as IDA shall otherwise agree, procurement of the consultants' services and goods required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn there from by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

Item	Amount of the Grant Allocated (in U.S. dollars)	% of Expenditures to be Financed
(1) Consultants' Services	472,810	100%
(2) Goods	12,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 85% of local expenditures for other items procured locally
(3) Workshops	5,400	
TOTAL	<u>490,210</u>	

For purposes of this paragraph, the term:

- (a) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;
- (b) "local expenditures" means any expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures; and
- (c) "workshops" means expenditures for non-consultants' costs of the stakeholder consultations such as facilities, materials and supplies, and participants accommodation.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of IDA or for goods produced in or services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to IDA's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) No withdrawals shall be made from the Grant Account after October 16, 2002, or such later date that IDA shall establish by notice to the Recipient (the Closing Date), provided that, except in special circumstances, the Closing Date shall not be extended beyond the expected date of IDA approval of financing for the Project. However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by IDA within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in IDA's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, IDA may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in IDA's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance of the Recipient or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. IDA may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) services of individual consultants costing less than US\$50,000 equivalent each; (b) goods; and (c) workshops, all under such terms and conditions as IDA shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

4.7. To facilitate the carrying out of the Activities, the Recipient may open and maintain in United States dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient, through its Office of the Prime Minister, shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to IDA, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Activities.

(b) The Recipient, through its Office of the Prime Minister, shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to IDA, consistently applied, by independent auditors acceptable to IDA; (ii) furnish to IDA as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as IDA shall have reasonably requested; and (iii)

furnish to IDA such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as IDA shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient, through its Office of the Prime Minister, shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after IDA has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable IDA's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

6. Suspension and Cancellation

6.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the International Bank for Reconstruction and Development (the IBRD) has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the IBRD or any development credit agreement with IDA shall have been suspended.

6.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to IDA, within six months after the effective date hereof, to carry out the Activities; or (c) if IDA has decided, at any time after consultation with the Recipient, to withdraw its support to the Project; or (d) if the Recipient has withdrawn its request for IDA's assistance in financing the Project.

Procurement

Section I. Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the World Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines), and the following provisions of this Section I.

Part B: Procedures for the Selection of Consultants

Individual Consultants

Services for social and environmental assessment, capacity assessment of rural and community institutions, development of a typology of micro-projects, design of project implementation framework and support for the establishment of the PPU, under paragraph 1.1 (a), (b), (c), (d) and (e) of the Annex shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by IDA of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Activities shall be furnished to IDA for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by IDA, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to IDA for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section II. Procurement of Goods

Goods shall be procured: (a) in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in

January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word “bids”, in such paragraph 4, shall be read as “quotations”.

Special Account

1. For the purposes of this Attachment:
 - (a) the term "eligible items" means the items set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant; and
 - (c) the term "Authorized Allocation" means an amount equivalent to US\$75,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
3. After IDA has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) The Recipient shall furnish to IDA a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b) (i) For replenishment of the Special Account, the Recipient shall furnish to IDA requests for deposits into the Special Account at such intervals as IDA shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to IDA the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by IDA from the Grant Account under the eligible item(s), and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as IDA shall reasonably request, furnish to IDA such documents and other evidence showing that such payment was made exclusively for eligible expenditures.
5. Notwithstanding the provisions of paragraph 3 of this Attachment, IDA shall not be required to make further deposits into the Special Account:

(a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, IDA shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If IDA shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to IDA, the Recipient shall, promptly upon notice from IDA: (A) provide such additional evidence as IDA may request; or (B) deposit into the Special Account (or, if IDA shall so request, refund to IDA) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless IDA shall otherwise agree, no further deposit by IDA into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If IDA shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from IDA, refund to IDA such outstanding amount.

(c) The Recipient may, upon notice to IDA, refund to IDA all or any portion of the funds on deposit in the Special Account.

(d) Refunds to IDA made pursuant to paragraph 6 (a), (b) and (c) shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement.