Mr. Temirbek Sariev  
Acting Minister of Finance  
Ministry of Finance  
Bishkek  
Kyrgyz Republic  

Dear Mr. Sariev  

Re: Kyrgyz Republic: IDF Grant for Introduction of Quality Management Systems in the Roads Sector Project, IDF Grant No. TF095989  

In response to the request for financial assistance made on behalf of the Kyrgyz Republic (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”) proposes to extend to the Recipient, a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed four hundred eighty thousand United States Dollars (U.S.$480,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).  

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.  

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.  

Very truly yours,  
INTERNATIONAL DEVELOPMENT ASSOCIATION  

By /s/ Motoo Konishi  
Regional Director  
Central Asia  

AGREED:  
KYRGYZ REPUBLIC  

By: /s/ Chorobek Imashev  
Authorized Representative  
Name: Chorobek Imashev  
Title: Minister Finance  
Date: August 18, 2010
Enclosures:

Article I

Standard Conditions; Definitions

1.01.  **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02.  **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II

Project Execution

2.01.  **Project Objectives and Description.** The objective of the Project is to set a foundation for improving the performance of the Recipient’s road sector through the development and implementation of internationally accepted quality management systems reflecting best practice. The Project consists of the following parts:

   (a) **Quality management to enhance public service delivery in the road sector:** Provision of technical assistance, goods and training to assist the Recipient in carrying out an assessment of existing operational processes of its Ministry of Transport and Communication (MoTC) and to improve MoTC’s budget decision-making, sectoral planning, overall program and project management, including MoTC’s accountability, as well as to improve the performance of the road sector.

   (b) **Independent procurement assessment of MoTC’s Road Department:** Provision of technical assistance, goods and training to assist MoTC in developing and institutionalizing a framework for carrying out independent procurement audits and quality management systems within MoTC’s Road Department.

2.02.  **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MoTC in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 (c) this Article II.

2.03.  **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one month after the date of such request.
(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) A plan to improve quality management systems in the roads sector is developed and adopted.

(ii) A framework for carrying out procurement audits is developed and institutionalized.

(iii) Capacity of MoTC to carry out procurement and technical audits of various projects and programs in the roads sector is enhanced.

(c) The Recipient shall, upon the World Bank’s request, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date.

2.04. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.05. Procurement

(a) General. All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 (“Consultant Guidelines”), in the case of consultants’ services.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.
(c) **Particular Methods of Procurement of Goods.** Goods shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection based on Consultants’ Qualifications; (B) Single-source Selection; (C) Selection of Individual Consultants; and (D) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) first contract for goods; and (b) each contract for consultants’ services provided by an individual estimated to cost the equivalent of $50,000 or more; and (c) each contract for consultants’ services provided by a firm estimated to cost equivalent to $100,000 or more. All other contracts shall be subject to Post Review by the World Bank.

### Article III

#### Withdrawal of Grant Proceeds

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, training and audit</td>
<td>42,500</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services</td>
<td>437,500</td>
<td>100% for local expenditures 90% for foreign expenditures</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>480,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section:
(a) the term “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel, per diem costs of trainees, trainers and trainers’ fees, and interpretation and translation services;
(b) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for consultants’ services supplied from the territory of any other country other than that of the Recipient; and
(c) the term “local expenditures” means expenditures in the currency of the Recipient for consultants’ services supplied from the territory of the Recipient.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date of countersignature of this Agreement by the Recipient.

**Article IV**

**Additional Remedies**

4.01. **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following: the World Bank has suspended in whole or in part the right of the Recipient to make withdrawals under the National Road Rehabilitation (Osh-Batken-Isfana) Project (Credit No. 4658-KG; Grant No. H520-KG).

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Minister of Transport and Communications.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Telex: 245-156 NUR KH  
Facsimile: (996-312) 661645

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:  
Telex:  
Facsimile:
INTBAFRAD  248423 (MCI) or 1-202-477-6391
Washington, D.C.  64145 (MCI)