H.E. Andriy Kluyev  
First Deputy Prime Minister and  
Minister of Economic Development and Trade of Ukraine  
12/2 M. Hrushevsky St.  
Kyiv, 01008  
Ukraine

Re: Ukraine – IDF Grant No. TF096928  
Auditing Road Infrastructure Projects Project

Excellency:

In response to the request for financial assistance made on behalf of Ukraine ("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 and seventy six thousand United States Dollars (U.S.$476,000) ("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"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World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 BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Martin Raiser
Country Director
Ukraine, Belarus and Moldova
Europe and Central Asia

AGREEED:
UKRAINE

By /s/ Andriy Kluyev

Date: December 4, 2010

Enclosures:

(2) Disbursement Letter dated December 17, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
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.

   (a) “Roads and Safety Improvement Project” or “RSIP” means the project funded by a loan provided by the World Bank under a loan agreement (Loan No. 7677-UA) between the World Bank and Ukraine, dated April 21, 2009.

   (b) “Ukravtodor” means the State Road Administration of Ukraine, the central executive body of Ukraine established by the Decree of the President of Ukraine No 1056 dated November 8, 2001 “On Measures to Increase Efficiency of the Road Sector of Ukraine” and charged with the responsibility to manage road networks and road sector financing and funding in Ukraine, whose functions are governed by a regulation adopted by the Decree of the Cabinet of Ministers of Ukraine No 628 dated April 17, 2007.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to increase local capacity for technical auditing of road infrastructure projects in Ukraine by using RSIP as an example. The Project consists of the following parts:

Part A. Independent Technical and Procurement Audit, and On-the-Job Training

Provision of consultants’ service for:

   (a) carrying out an independent audit of civil works’ and consultancy services’ procurement made under RSIP and preparing a report on the said audit;

   (b) carrying out an independent technical audit on the quality and performance of the road works carried out under RSIP and preparing a report on the said audit; and

   (c) providing on-the-job training, using the actual practice of the procurement and technical audits specified in paragraphs (a) and (b) above, to the staff of relevant road sector government agencies, and research and educational institutions in Ukraine.
Part B. Institutionalization and Implementation of Audit Mechanism in Road Sector

Provision of consultants’ service for assisting the Recipient in establishing and institutionalizing a mechanism for procurement audit and technical audit in road sector, including an assistance in carrying out a diagnostic study of the existing audit practices, and developing and implementing a strategy to build the local capacity to oversee road projects.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall implement the Project through Ukravtodor 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 (“Anti-Corruption Guidelines”), with the modifications set forth in Section I of the Appendix to this Agreement; and (c) this Article II.

2.03. Institutional and Other Arrangements. (a) In order to implement Part B of the Project effectively, Ukravtodor shall collaborate with other government agencies in charge of overseeing fiscal spending, such as the Ministry of Finance of Ukraine, national audit organizations as well as road sector research and education institutions.

(b) At all times during the implementation of the Project, the Recipient shall, through Ukravtodor, provide (i) office facilities, (ii) counterpart staff time, (iii) trainee time, and (iv) administrative support necessary for the Project.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and 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 the period of six months, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Procurement and technical audits for RSIP are carried out by an independent reputable specialized consultant.

(ii) Mechanisms for road procurement and technical audits are fully institutionalized, including necessary tools for independent procurement and technical audits in the roads sector, i.e. guidelines, draft regulations, procedures, software and manuals have been prepared and/or used by Ukravtodor and by other relevant agencies for their own procurement and technical audits of another road project in Ukraine.

(iii) Capacity within the Government of Ukraine to carry out roads procurement and technical audits is improved.

(c) The Recipient shall 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 six months after the Closing Date.
2.05. **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 not later than forty-five (45) days after the end of each six (6) months, covering the six (6) months, in form and substance satisfactory to the World Bank.

(c) The Recipient shall, upon the World Bank’s request, have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period indicated in the World Bank’s request. The audited Financial Statements for each period shall be furnished to the World Bank not later than six months after the World Bank’s request.

2.06. **Procurement**

(a) **General.** All 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 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 and May 2010 (“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 Consultant Guidelines.

(c) **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 method may be used for the procurement of consultants’ services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use, namely, Least Cost Selection.

(d) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, each first contract to be awarded in accordance with each procurement method shall be subject to Prior Review by the World Bank. 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 100% of Eligible Expenditures consisting of consultants’ services, including audit.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made, namely, 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**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Economy.

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

Ministry of Economy of Ukraine  
12/2 M. Hrushevsky St.  
Kyiv, 01008  
Ukraine

Facsimile:  
+38044 226-3181

4.03. **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: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391
APPENDIX

Modifications to the Anti-Corruption Guidelines

Section I. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are
not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”