Financing Agreement

(Sector Support for Education Reform Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 9, 2013
FINANCING AGREEMENT

AGREEMENT dated October 9, 2013, entered into between the KYRGYZ REPUBLIC ("Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). 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 Nine Hundred Thousand Special Drawing Rights (SDR 4,900,000) ("Grant"); and

(b) an amount equivalent to Six Million Special Drawing Rights (SDR 6,000,000) ("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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 U.S. Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project 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 Conditions of Effectiveness consist of the following:

(a) The Project Coordination Unit ("PCU") has been established by MoES in a manner and with the composition and terms of reference satisfactory to the Association, including modification of existing accounting software to generate interim unaudited financial reports and recruitment of a full-time, qualified disbursement specialist;

(b) The Project Operational Manual, satisfactory to the Association, has been adopted by the PCU; and

(c) The Sector-wide Steering Committee has been established with representation from MoES and development partners in a manner and with the composition and terms of reference satisfactory to the Association.

4.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the signing 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 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
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

[Signature]

Authorized Representative

Name: Olga Lurova
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Dinar Djoldosheva
Title: Sr. Country Officer
SCHEDULE 1

Project Description

The objective of the Project is to create conditions for improved learning outcomes in basic education.

The Project consists of the following parts:

Component 1: Enhanced Learning

Improving pedagogical practices and teaching-learning materials availability in the classroom, through the provision of training, educational materials, goods, and technical assistance:

(a) Development and delivery of in-service training program for primary school teachers and pedagogical staff; provision of teaching materials and strengthening the capacity of the Kyrgyz Academy of Education and Oblast In-service Teacher Training Institutes and Methodological Centers through provision of technical assistance in the form of furniture, materials, and trainings.

(b) Development of new manuscripts and publication of textbooks for relevant target groups; provision of technical assistance to MoES.

(c) Supporting the piloting and revision process of the revised subject standards.

(d) Assessment of learning system performance and effectiveness of education reforms through surveys and observations.

Component 2: Improved Management and Accountability of School Resources

(a) Provision of technical assistance, training, furniture, equipment and materials for the design and operationalizing of an automated monitoring system for school budgets and expenditures; provision of training on the per-capita financing (PCF) system in general education; and provision of technical assistance to support key stakeholders in implementing PCF and other improved practices in management and accountability in four selected oblasts.

(b) Provision of training to school leadership and school accountants in school budgeting, development planning and reporting.
Component 3: **Communications and Implementation Support**

(a) Support for communicating to stakeholders about changes in the education sector.

(b) Providing implementation support to the Project, including incremental operating costs.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project implementation and management with due diligence and efficiency.

2. The Project shall be carried out by the Project Coordination Unit within the MoES. The Recipient shall ensure that the PCU is staffed with capable staff in adequate numbers.

3. The Recipient shall ensure that the Project is carried out in accordance with the Project Operational Manual. The Recipient shall not amend or waive, or permit to be amended or waived, the Project Operational Manual, except with the prior written approval of the Association.

B. Anti-Corruption

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

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 indicators acceptable to 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 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 months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-consulting Services. All goods 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

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

2. Other Methods of Procurement of Goods and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan:

   (a) Limited International Bidding;

   (b) National Competitive Bidding, subject to the following additional provisions:

      1. Eligibility: Eligibility of bidders to participate in a procurement process and to be awarded an Association-financed contract shall be as defined under Section I of the Procurement Guidelines;
accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Bank or Association for reasons other than those provided in Section I of the Procurement Guidelines.

2. **Domestic Preference:** No domestic preference may be applied in bid evaluation on the basis of bidder nationality, the origin of goods, services or labor, and/or preferential programs.

3. **Registration and Licensing:** Registration shall not be used to assess bidders’ qualifications. A foreign bidder shall not be required to register or obtain a license as a condition for submitting its bid, and a foreign bidder recommended for contract award shall be given a reasonable opportunity to register or obtain a license, with the reasonable cooperation of the Borrower, prior to contract signing.

4. **Bidding Documents:** Procuring entities shall use the appropriate standard bidding documents acceptable to the Association, which documents shall be prepared so as to ensure economy, economy, efficiency, transparency, and broad consistency with the provisions of Section I of the Procurement Guidelines.

5. **Bid Validity:** The bid validity period required by the bidding documents shall be sufficient to account for any period that may be required for the approval and registration of the contract as contemplated in the PPL. An extension of bid validity, if justified by exceptional circumstances, may be requested in writing from all bidders before the original bid validity expiration date, provided that such extension shall cover only the minimum period required to complete the evaluation, award a contract, and/or complete the contract registration process. No further extensions shall be requested without the prior written concurrence of the Association.

6. **Qualification:** Qualification criteria shall be clearly specified in the bidding documents. All criteria so specified, and only such specified criteria, shall be used to determine whether a bidder is qualified. Qualification shall be assessed on a “pass or fail” basis, and merit points shall not be used. Such assessment shall be based entirely upon the bidder’s or prospective bidder’s capability and resources to effectively perform the contract, taking into account objective and measurable factors, including: (a) relevant general and specific experience; and satisfactory past performance and successful completion of similar contracts over
a given period; (b) financial position; and where relevant (c) capability of construction and/or manufacturing facilities.

Prequalification procedures and documents acceptable to the Association shall be used for large, complex and/or specialized works contracts. Verification of the information upon which a bidder was prequalified, including current commitments and the bidder’s capability with respect to personnel and equipment, shall be carried out at the time of contract award.

In the procurement of goods and works where prequalification is not used, the qualification of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying the qualification criteria stated in the bidding documents.

7. Cost Estimates and State Unit Costs: Cost estimates shall be confidential and shall not be disclosed to prospective bidders. No bids shall be rejected on the basis of comparison with the cost estimates and/or budget ceiling without the Association’s prior written concurrence. State unit costs shall not be used for contract budgeting and/or for evaluation for civil works contracts.

8. Bid Submission and Bid Opening: Prospective bidders shall be given at least thirty (30) days from the date of publication of the invitation to bid or the date of availability of the bidding documents, whichever is later, to prepare and submit bids. Bids shall be opened in public, immediately after the deadline for their submission. No bids shall be rejected at bid opening. A copy of the bid opening minutes shall be promptly provided to all bidders who submitted bids, and to the Association with respect to contracts subject to the Association’s prior review.

9. Rejection of Bids and Re-bidding: No bids shall be rejected solely because they exceed the estimated cost. All bids (or the sole bid if only one bid is received) shall not be rejected, the procurement process shall not be cancelled, and new bids shall not be solicited without the Association’s prior written concurrence.

10. Bid Evaluation: Evaluation criteria shall be clearly specified in the bidding documents. Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. All bid evaluation criteria other than price shall be
quantifiable in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation. Bidders shall not be eliminated on the basis of minor, nonmaterial deviations.

Contracts shall be awarded to the qualified bidder whose bid has been determined: (i) to be substantially responsive to the bidding documents; and (ii) to offer the lowest-evaluated cost. No negotiations shall be permitted in connection with the bid evaluation or the contract registration process.

11. **Guarantees:** Guarantees shall be in the format specified in the bidding documents. The bid guarantee shall be valid for twenty-eight days (28) beyond the original validity period of the bid, or beyond any period of extension if requested.

12. **Contract Modifications:** With respect to contracts subject to the Association's prior review, the Borrower shall obtain the Association's no objection before agreeing to: (i) a material extension of the stipulated time for performance of a contract; (ii) any substantial modification of the contract scope of services or other significant changes to the terms and conditions of the contract; (iii) any variation order or amendment (except in cases of extreme urgency) which, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than 15 percent; or (iv) the proposed termination of the contract. A copy of all contract amendments shall be provided to the Association.

13. **Fraud and Corruption:** The bidding documents and contract as deemed acceptable by the Association shall include provisions stating the Association's policy to sanction firms or individuals, found to have engaged in fraud and corruption as defined in the Procurement Guidelines.

14. **Inspection and Audit Rights:** In accordance with the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Association to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's inspection and audit rights provided for in
the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

(c) Shopping; and

(d) 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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:

(a) Quality-based Selection;
(b) Selection under a Fixed Budget;
(c) Least Cost Selection;
(d) Selection based on Consultants' Qualifications;
(e) Single-Source Selection; and
(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 categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the
amounts of the Credit and 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 Credit Allocated (expressed in SDR)</th>
<th>Percentage of Credit Expenditures to be Financed (inclusive of Taxes)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Grant Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services, Training, Goods (except for textbooks under Component 1(b)), and Incremental Operating Costs under Components 1, 2 and 3.</td>
<td>4,100,000</td>
<td>55%</td>
<td>3,610,000</td>
<td>45%</td>
</tr>
<tr>
<td>(2) Textbooks for fifth and sixth grades under Component 1(b)</td>
<td>1,570,000</td>
<td>55%</td>
<td>1,290,000</td>
<td>45%</td>
</tr>
<tr>
<td>(3) Refund of Preparation Advance</td>
<td>330,000</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,000,000</td>
<td></td>
<td>4,900,000</td>
<td></td>
</tr>
</tbody>
</table>

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 payments for Category 2 until the Recipient has adopted a sustainable financing mechanism, acceptable to the Association, to ensure timely replacement of textbooks for all grades of general basic education.

3. The Closing Date is July 16, 2018.
### SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15:</td>
<td></td>
</tr>
<tr>
<td>commencing July 15, 2023 to and including January 15, 2033</td>
<td>1%</td>
</tr>
<tr>
<td>commencing July 15, 2033 to and including January 15, 2053</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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

Definitions


2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. "Incremental Operating Costs" shall mean the expenses incurred by the Recipient or the PCU for the incremental expenses on account of Project implementation, management, monitoring, including utilities, supplies, communications, maintenance costs, advertising expenses, Social Charges, bank charges, travel and per diems for employees of the PCU, salaries and statutory contributions of support staff, but not including salaries of officials or employees of the Recipient's civil service, as well as any contributions by these officials or employees to any social fund.


8. "Procurement Plan" means the Recipient's procurement plan for the Project, dated January 16, 2013, 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.

10. "Social Charges" means any payments, premiums 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.

11. "Training" shall mean the expenses incurred by the Recipient or the PCU in connection with study tours, training courses, seminars, workshops and other training-related activities under the Project including travel costs and per diem for participants, trainers and trainees, trainers' fees, rental of training facilities, preparation and reproduction of training materials and other activities incidental to the preparation and implementation of training activities.

12. "US Dollars" and "US$" mean the lawful currency from time to time of the United States of America.