Financing Agreement

(Central Asia Road Links Project – CARs-1)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2014
FINANCING AGREEMENT

AGREEMENT dated July 25, 2014, entered into between the KYRGYZ REPUBLIC ("Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS:

(A) the Association has received a letter dated February 28, 2014, from the Recipient confirming its commitment to the Central Asia Roads Links (CARs) Program aimed at increasing transport connectivity between neighboring countries in Central Asia along priority cross-border road links, whilst supporting improvements in road operations and maintenance practices (the Program); and

(B) the Recipient, having been satisfied as to the feasibility and priority of the project (the Project) described in Schedule 1 to this Agreement, has requested the Bank to assist in the financing of the Project, as the first phase of the CARs Program;

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 five million three hundred thousand Special Drawing Rights (SDR 5,300,000) ("Grant"); and

(b) an amount equivalent to twenty-three million nine hundred thousand Special Drawing Rights (SDR 23,900,000) ("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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

2.05. The Payment Dates are February 15 and August 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 objective of the Project and the Program. To this end, the Recipient shall carry out the Project, through MOTC, 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, that OBI UAD has been assigned with responsibility for routine maintenance and emergency works of road sections along the Osh-Batken-Isfana-Tajikistan road corridor in accordance with the Annual Service Level Agreement.

4.02. The Effectiveness Deadline is the date one hundred twenty (120) 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 its Minister of Finance.

5.02. The Recipient’s Address is:

58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

Telex: Facsimile:
245-156 NUR KH (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: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at Bishkek, Kyrgyz Republic as of the day and year first above written.

KYRGYZ REPUBLIC

By

Authorized Representative

Name: Olga dokurova
Title: Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Alexander Kremek
Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to increase transport connectivity between the Kyrgyz Republic and Tajikistan along priority cross-border road links in Batken Oblast, whilst supporting improvements in road operations and maintenance practices.

The Project consists of the following parts:

Part I: Rehabilitation of Priority Road Sections in Batken Oblast

Rehabilitating approximately 56 kilometers of road section in Batken Oblast, including and within close proximity of the road linking Osh-Batken-Isfana, through the provision of works and consultants’ services.

Part II: Improvement of Road Operations and Maintenance Practices

Provision of goods and consultants’ services for improving road operations and maintenance practices, including: (i) establishment of Service Level Agreement between MOTC and OBI UAD; (ii) provision of equipment to OBI UAD and its local maintenance units; (iii) technical assistance to OBI UAD management to get exposure to international practices on maintenance techniques; and (iv) review of regional standards, norms and parameters on vehicle weight and axle load limits and tariffication, development of a strategic plan for transport control and setting up of an axle-load control system.

Part III: Project Management and Implementation

Supporting project coordination, implementation and management through the provision of goods, consultants’ services, Training, and Incremental Operating Costs, including for Project audit.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Recipient shall carry out the Project in accordance with the following institutional and other arrangements:

1. The Recipient, through the MOTC, shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operational Manual, the Resettlement Policy Framework and the EIA, and shall not assign, amend, abrogate or waive any provisions of the Project Operational Manual, the Resettlement Policy Framework, or the EIA without prior approval of the Association.

2. At all times during the implementation of the Project, the Recipient shall ensure that IPIG is maintained with a composition, resources and terms of reference satisfactory to the Association. Staffing of the IPIG shall include the following: (a) road engineer; (b) financial manager; (c) disbursement specialist; (d) procurement specialist; (e) environmental specialist; (f) contract administration specialist; (g) communications specialist; (h) lawyer; and (i) two office managers/translators.

3. Within thirty (30) days of the Effective Date of the Project, the Recipient shall ensure that IPIG will have installed an update of its accounting software.

4. Within three (3) months of the Effective Date of the Project, the Recipient shall ensure that IPIG will have signed contracts for the employment of: (a) a road engineer; (b) a contract administration specialist; and (c) a lawyer, all with qualifications and experience satisfactory to the Association.

5. At all times during the implementation of the Project, the Recipient shall ensure that OBI UAD is maintained with a composition and resources specified in an Annual Service Level Agreement satisfactory to 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.

C. Safeguards

1. The Recipient, through the MOTC:
(a) prior to the commencement of any works on those sections within the Project area where land acquisition or resettlement may be required, shall prepare a Resettlement Action Plan or Plans, satisfactory to the Association, in accordance with the Resettlement Policy Framework; and shall disclose and carry out consultations for said Resettlement Action Plans in accordance with the provisions of the RPF;

(b) shall carry out the Project in accordance with the Resettlement Action Plan or Plans, as the case may be; and

(c) shall not amend, suspend or abrogate any of the provisions of the Resettlement Action Plan or Plans, as the case may be, without the prior agreement of the Association.

2. The Recipient, through the MOTC:

(a) shall prepare, prior to the commencement of any works under the Project, a site-specific Environmental Management Plan, satisfactory to the Association, in accordance with the EIA;

(b) shall carry out the Project in accordance with the EIA and the site-specific Environmental Management Plan; and

(c) shall not amend, suspend or abrogate any of the provisions of the site-specific Environmental Management Plan without the prior agreement of 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 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. 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, 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 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, 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 methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

   (a) National Competitive Bidding, subject to the additional provisions set forth in the Annex to this Schedule II.

   (b) Shopping; and
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 of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category. To the extent
practicable and relevant for Category (1), the proceeds of the Grant shall be disbursed before disbursement of the proceeds of the Credit.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works for Part I of the Project</td>
<td>23,900,000</td>
<td>1,940,000</td>
<td>82%</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants' services, Training and Incremental Operating Costs (including audit) for the Project</td>
<td>0</td>
<td>3,360,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>23,900,000</td>
<td>5,300,000</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;
   (b) under Category (1), unless an Environmental Management Plan and a Resettlement Action Plan have been prepared in accordance with paragraphs 1 and 2 of Section I.C of Schedule 2 to this Agreement; and
   (c) under Category (1), unless a contract for road maintenance equipment, as referenced in and to be used for compliance with the Annual Service Level Agreement, has been signed with a supplier.

2. The Closing Date is April 30, 2019.
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 February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2024 to and including February 15, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>commencing August 15, 2034 to and including February 15, 2054</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.
ANNEX TO SCHEDULE 2

Modifications to National Competitive Bidding (NCB) Procedures

The procurement procedure to be followed for National Competitive Bidding shall be the tendering with unlimited participation procurement method set forth in the Law of the Kyrgyz Republic on Public Procurement No. 69 of May 24, 2004, as amended (the “PPL”); provided, however, that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the “Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” (January 2011) (the “Procurement Guidelines”) and 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, 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 fifteen percent (15%); 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.
APPENDIX

Definitions

1. “Annual Service Level Agreement” means an annual agreement between MOTC and the Roads Department, satisfactory to the Association, whereby OBI UAD is obligated to maintain road sections along the Osh-Batken-Isfana-Tajikistan road corridor in serviceable condition through routine maintenance and emergency repairs.


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


5. “Environmental Impact Assessment” or “EIA” means the environmental impact assessment, dated September 10, 2013, prepared, updated and disclosed in-country by the Recipient on October 8, 2013, and through Infoshop on October 22, 2013, satisfactory to the Association, consisting of, inter alia: (i) a detailed description of the sites where the Project activities are to be carried out; (ii) the potential and actual adverse environmental impacts of the activities referred to under paragraph (i) above; and (iii) a EMP setting out good practices and measures to be taken during the implementation and operation of the Project to mitigate, eliminate or otherwise offset adverse environmental impacts under the Project.

6. “Site-specific Environmental Management Plan” or “Site-specific EMP” means the site-specific document, prepared by the Recipient, set forth in the EIA, described in paragraph 4 of Section I.A of Schedule 2 to this Agreement, and satisfactory to the Association, in respect of works to be undertaken by the Recipient under the Project defining details of measures to manage potential environmental risks and mitigate, reduce and/or offset adverse environmental impacts associated with the implementation of activities under the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, as the same may be amended and supplemented from time to time with the Association’s prior written approval.

8. “Incremental Operating Costs” means incremental expenditures incurred by the MOTC on account of Project implementation, management and monitoring, including: dissemination of Project related information, travel costs, lodging and per diem for field trips related to Project implementation, at the rates specified under the financial management requirements set forth in the Project Operational Manual; vehicle rent; supplies and utilities; salaries and Social Charges of contractual staff; mail, advertisement costs, translation costs, commercial bank charges, communication costs, office equipment and maintenance, hardware and software, as such costs shall be agreed with the Association on an annual basis, but excluding salaries of officials and/or employees of the Recipient’s civil service as well as any contributions by employers to the Social Fund.

9. “IPIG” means the Investment Project Implementation Group established within MOTC for purposes of day-to-day Project management and referred to in paragraph 2 of Section I.A of Schedule 2 to this Agreement or any successors thereto.

10. “MOTC” means the Ministry of Transport and Communication of the Recipient or any successors thereto.

11. “OBI UAD” means Osh-Batken-Isfana Road Department within MOTC, or any successors thereto.


13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 11, 2014 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.

14. “Resettlement Action Plan” or “RAP” means the site-specific documents, to be adopted by the Recipient, pursuant to paragraph 1 of Section I.C of Schedule 2 to this Agreement, and satisfactory to the Association, containing, inter alia, a program of actions, measures and policies for compensation and resettlement of persons, including compensation and resettlement arrangements, budget and cost estimates, and sources of funding, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with its terms for the site, including the RAP disclosed by the Recipient on February 17, 2014.
15. "Resettlement Policy Framework" or "RPF" means the document dated September 4, 2013, prepared and endorsed by the Recipient and disclosed in-country, and through Infoshop on September 13, 2013, setting forth resettlement procedures, institutional arrangements, eligibility criteria, entitlements and compensation, including valuation procedures, public consultation and participation, monitoring and evaluation and disclosure criteria to be applied in preparing a Resettlement Action Plan.

16. "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.

17. "Taxes" means all government imposed taxes and tariffs, including mandatory insurance contributions and taxes imposed on non-residents.

18. "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 and trainers and trainers' fees, based on an annual budget agreed with the Association.