Financing Agreement

(Emergency Recovery Project)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 2010
FINANCING AGREEMENT

AGREEMENT dated October 1, 2010, entered into between the KYRGYZ REPUBLIC ("Recipient") and 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 twenty one million one hundred thousand Special Drawing Rights (SDR 21,100,000) ("Grant"); and (b) an amount equivalent to twenty five million three hundred thousand Special Drawing Rights (SDR 25,300,000) ("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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 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 Part 1 of the Project, through MoF, and Part 2 of the Project through MoE, 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 the Recipient has adopted the Project Operational Manual for the Project in form and substance satisfactory to the Association.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.03. For the 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 the Minister of Finance.
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

Washington, D.C.
AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Chorobek Imashev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alexander Kremer

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in: (a) strengthening the prospects for macroeconomic stability and the government’s fiscal resilience to meet the priority needs of its emergency recovery and reconstruction program; and (b) restoring and ensuring continuous provision of the basic energy (power/heat/gas) services with a focus on the Affected Areas so as to support economic output and provide adequate heating to population during the winter.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve said objective:

Part 1: High Priority Expenditures Pertaining to Emergency Recovery and Reconstruction

(a) Provision of Eligible Essential Goods and Commodities, as set forth in Schedule 4 to this Agreement.

(b) Carrying out Project management activities in areas of implementation, audit, monitoring and evaluation as well as in the coordination of Project management activities.

Part 2: Rehabilitation and Repair of Energy Infrastructure and Networks

(a) Restoring power, heat and gas supply to Affected Areas through the urgent repair and rehabilitation of damaged infrastructure and networks for electricity, heating and gas supply.

(b) Carrying out the procurement of fuel for thermal power plants and district heating systems.

(c) Rehabilitation and repair of power generation and distribution systems.

(d) Completion of activities approved for financing under the Financing Agreement for the Energy Emergency Assistance Project (Credit No. 4524-KG and Grant No. H429-KG) relating to the rehabilitation of the electricity and heating systems of the Recipient’s Power Plants Company.

(e) Carrying out Project management activities in areas of implementation, audit, monitoring and evaluation as well as in the coordination of Project management activities.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Overall Project Implementation and Coordination

1. (a) The Recipient shall carry out Part 1 of the Project through MoF and Part 2 of the Project through MoE, in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operational Manual.

   (b) Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any provisions of the Project Operational Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Recipient shall vest in MoF the responsibility for the overall coordination and oversight of the Project and the carrying out of audits, financial management and disbursements.

   (b) The Recipient shall maintain the PIU within MoF, with functions, staffing, and resources acceptable to the Association, for the purposes of, inter alia, coordination and monitoring of the Project activities.

   (c) The Recipient shall maintain JEPIG within MoE, with functions, staffing, and resources acceptable to the Association, for the purposes of managing the procurement process and monitoring the repair and rehabilitation activities under Part 2 of the Project. In carrying out its function, JEPIG shall work closely with the PIU.

   (d) The Recipient shall, within ninety (90) days from the Effective Date, enter into arrangements satisfactory to the Association with JSC PP, JSC OE, JSC KG, JSC SE, JSC VE, JSC JE, JSC BTS and KJKS for the transmission and proper maintenance of assets procured under Part 2 of the Project for the benefit of said JSC PP, JSC OE, JSC KG, JSC SE, JSC VE, JSC JE, JSC BTS and KJKS.

3. The Recipient shall ensure that the selection of Project sites for carrying out Part 2(a) of the Project, shall be conducted in accordance with the procedures and selection methods and criteria set forth in the Project Operational Manual and agreed to with the Association.

4. The Recipient shall: (a) ensure that the Project activities are carried out in accordance with the policy and legislative framework governing the Recipient's reconstruction, reconciliation and recovery program; (b) promptly consult with the
Association on any proposed substantive changes to said framework; and (c) make reasonable efforts to address the Association’s comments on such proposed changes.

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 shall, by not later than sixty (60) days as at the Effective Date of the Project prepare an Environmental and Social Screening and Assessment Framework satisfactory to the Association.

2. The Recipient shall: (a) prior to the commencement of any works under the Project: (i) prepare an EMP satisfactory to the Association, in accordance with the ESSAF; and (ii) disclose such EMP and conduct proper consultations in accordance with the ESSAF; (b) carry out the Project in accordance with the ESSAF and the Environmental Management Plan; and (c) not amend, suspend or abrogate any of the provisions of the ESSAF and/or the EMP without the prior agreement of the Association.

3. In carrying out the Project, the Recipient shall ensure that no land shall be acquired and no activity shall be undertaken involving resettlement and/or land acquisition.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient, through MoF, 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 the indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, 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 a financial management system for the Project 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 the Financial Statements of the Project audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. The Recipient shall furnish the audited financial statements to the Association not later than four (4) months after the semi-annual reporting period agreed with the Association.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

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

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding subject to the modifications set forth in paragraph 3 below.</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>
3. Procedures for National Competitive Bidding shall be carried out by using standard bidding documents acceptable to the Association, subject to the following provisions:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The eligibility of bidders 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 Association for reasons other than those provided in Section I of the Procurement Guidelines. Exclusion from participation as a result of debarment should result from violation of clearly identified grounds of misconduct and in accordance with a fair and transparent process;</td>
</tr>
<tr>
<td>2.</td>
<td>Procuring entities shall use the appropriate standard bidding documents acceptable to the Association;</td>
</tr>
<tr>
<td>3.</td>
<td>An extension of bid validity, if justified by exceptional circumstances, shall be requested in writing from all bidders before the expiration date and for a minimum period required to complete the evaluation or award contract;</td>
</tr>
<tr>
<td>4.</td>
<td>No national preferences may be applied on the basis of the origin of products or labor;</td>
</tr>
<tr>
<td>5.</td>
<td>Entities in which the State owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law;</td>
</tr>
<tr>
<td>6.</td>
<td>Pre-qualification shall be conducted for large works contracts and shall be applied upon the Association’s agreement;</td>
</tr>
<tr>
<td>7.</td>
<td>The pre- and post- qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;</td>
</tr>
<tr>
<td>8.</td>
<td>Joint venture partners shall be jointly and severally liable for their obligations;</td>
</tr>
<tr>
<td>9.</td>
<td>State unit costs shall not be used for contract budgeting and evaluation for civil works contracts;</td>
</tr>
<tr>
<td>10.</td>
<td>Bids shall be opened in public, immediately after the deadline for their submission. No bids can be rejected at bid opening and under the circumstances referred to Article 6 of the Recipient’s Public Procurement Law;</td>
</tr>
<tr>
<td>11.</td>
<td>No bids shall be rejected solely because they exceed the estimated price. Bids can be cancelled and new bids invited, only if the conditions of paragraph 2.62 of the Procurement Guidelines, are met;</td>
</tr>
</tbody>
</table>
12. All bid evaluation criteria shall be quantifiable in monetary terms;

13. Qualification criteria for bid evaluation shall be applied on a pass or fail basis;

14. Contracts shall be awarded to qualified bidder having submitted the lowest evaluated substantially responsive bid and no negotiations shall take place prior to the contract award;

15. There should be an effective and independent protest mechanism allowing bidders and interested parties to protest and to have their protest handled in a timely manner; and

16. Advance no objection of the Association is required for any modifications in the contract scope/conditions during contract implementation.

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 table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
<td></td>
</tr>
<tr>
<td>(b) Selection Based on the Consultants’ Qualifications</td>
<td></td>
</tr>
<tr>
<td>(c) Single-Source Selection</td>
<td></td>
</tr>
<tr>
<td>(d) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants</td>
<td></td>
</tr>
</tbody>
</table>

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 category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to the Category below, and the percentage of expenditures to be financed for Eligible Expenditures in said 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 Grant Allocated (expressed in SDR)</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Essential Goods and Commodities, as specified in Schedule 4 hereto, Goods, Works and Consultants’ Services (including audits), Operating Costs for the Project</td>
<td>21,100,000</td>
<td>25,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>21,100,000</td>
<td>25,300,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Schedule:

(a) the term “Operating costs” means incremental operating expenditures incurred by the Recipient on account of Project implementation, management, and monitoring and evaluation, including office rent and maintenance, materials and supplies, communication costs, support for information systems, translation costs, bank charges, salaries of contractual PIU and JEPIC staff including Social Charges, and travel and per
diem costs, as well as other reasonable expenditures directly associated with the implementation of the Project, all based on an annual budget acceptable to the Association, but excluding salaries of the Recipient's civil servants; and

(b) the term “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.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed: (a) SDR 8,400,000 out of the Grant; and (b) SDR 10,100,000 out of the Credit, may be made for payments made prior to this date but on or after November 1, 2009, for Eligible Expenditures.

2. The Closing Date is December 31, 2012.
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 January 15, 2021 to and including July 15, 2030</td>
<td>1%</td>
</tr>
<tr>
<td>commencing January 15, 2031 to and including July 15, 2050</td>
<td>2%</td>
</tr>
</tbody>
</table>
SCHEDULE 4

Eligible Essential Goods and Commodities

1. Fuel, including diesel;

2. Gas;

3. Office furniture and IT equipment for government entities that have been destroyed;

4. School text books, equipment, furniture and supplies;

5. Trucks and their spare parts;

6. Telecommunications equipment; and

7. Critical medical equipment.
APPENDIX

Section I. Definitions

1. "Affected Areas" means the city and regions of Osh and Jalalabad, and any other city or region that the Association and the Recipient may jointly designate.

2. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006, with the modifications set forth in Section II of this Appendix.

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


5. "Eligible Essential Goods and Commodities" means the list of goods and commodities set forth in Schedule 4 to this Agreement, as the same may be updated from time to time in agreement with the Association.

6. "Environmental and Social Screening and Assessment Framework" or "ESSAF" means the environmental and social screening and assessment framework satisfactory to the Association, to be prepared by the Recipient in accordance with paragraph 1 of Section I.C of Schedule 2 to this Agreement and consisting of, inter alia: (a) a description of the sites where the Project activities are to be carried out; (b) the potential and actual adverse environmental impacts of the activities referred to under paragraph (a) above; and (e) a description of measures to be taken during the implementation and operation of the Project, to mitigate, eliminate or otherwise offset adverse environmental impacts under the Project, including preparation of the EMP based on the detailed designs.

7. "Environmental Management Plan" or "EMP" means the document, to be prepared by the Recipient, pursuant to the ESSAF and paragraph 2 of Section I.C 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 at a particular location, 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.


18. “MoE” means the Recipient’s Ministry of Energy or any successor thereto.

19. “MoF” means the Recipient’s Ministry of Finance or any successor thereto.

20. “PIU” means the Project implementing unit maintained within MoF as referred to in paragraph 2 of Section I.A of Schedule 2 to this Agreement or any successor thereto.

22. "Procurement Plan" means the Recipient’s procurement plan for the Project, dated September 8, 2010, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

23. "Project Operational Manual" means Project operational manual for this Project referred to in paragraph 1 of Section I.A under Schedule 2 to this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and including, *inter alia*, procedures governing the site selection methods and criteria, administrative, procurement, accounting, financial management, auditing, and monitoring and evaluation arrangements for the Project; as the same may be amended from time to time with the agreement of the Association.

Section II. Modifications to the Anti-Corruption Guidelines

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, collusive, 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.”