April 7, 2004
His Excellency Bolot Abildaev
Minister of Finance
Ministry of Finance
Erkindik Boulevard 58
Bishkek
Kyrgyz Republic

Re: Grant for Building Capacity in Governance and Revenues Streams Management in the Natural Resources
IDF Grant No. TF053432

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank’s agreement to make to Kyrgyz Republic (the Recipient) a grant in an amount not exceeding three hundred ten thousand United States dollars (US$310,000) (the Grant).

The Grant is made in response to the Recipient’s request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter-Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please note that it is the Bank’s policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter-Agreement. Upon receipt by the Bank of the copy of this Letter-Agreement countersigned by you, this Letter-Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: /s/ Dennis de Tray
   Director
   Central Asia Regional Office
   Europe and Central Asia Region

AGREED:
KYRGYZ REPUBLIC

By: /s/ Bolot Abildaev
Title: Minister of Finance
ANNEX

Purposes, Terms, and Conditions of the Grant

1. Purposes and Activities

1.1. The purpose of the Grant is assist the Recipient to build capacity in the mining sector of the economy by: (i) improving the regulatory environment to attract new investments; (ii) increasing transparency in revenue streams management in the mining sector; (iii) setting up a single Government agency and a focal point for the mining sector; and (iv) establishing technologies and systems to monitor the performance of the mining sector.

1.2. The activities (the Activities) for which the Grant is given are as follows:

(a) Improving legal and fiscal governance of the mining sector by: (i) carrying out a diagnosis of the existing legislation and preparation of recommendations and action plans to improve security of tenure; (ii) assisting in codification of the permitting processes with a view to increasing transparency in access to mineral rights by private parties and/or government entities and effective community participation in decision-making; (iii) carrying out diagnosis of the mining fiscal regime to propose modifications to make it competitive; (iv) carrying out training and capacity building for civil servants in negotiations, legal, taxation and financial skills; and (v) building capacity for local legal, accounting, professional, and civil society associations dealing with the mining sector. These activities are estimated to cost US$59,100.

(b) Enhancing management and transparency in mining revenues by: (i) carrying out a study and an audit of the flow of funds (taxes, royalties, dividends, other statutory levies) from mining sector through and to State institutions of the Recipient; (ii) carrying out diagnosis of the role of State Concern Kyrgyzaltin, including appraisal and valuation with a view to preparing recommendations and action plans for divestiture of State equity holdings in the mining sector; (iii) preparing a proposal to enhance tracking, accounting, and disclosure of revenue flows; and (iv) carrying out a study of constraints in local communities for management and use of funds, including recommendations for training in specific skills. These activities are estimated to cost US$75,000.

(c) Streamlining the functions, and clarifying mandates, of State agencies of the Recipient responsible for the mining sector by: (i) preparing an action plan for creation of a single State agency responsible for the mining sector; (ii) assessing needs and skills required for management of mining sector; (iii) designing a training and capacity building program for various Government departments, including outside vendors; (iv) designing and installing a modern cadastre and title registry system to allow rapid and transparent issuance of permits and tracking of same; and (v) providing computer, software, logistical and other information support. These activities are estimated to cost US$71,300.

(c) Improving capabilities of the Government of the Recipient to monitor and evaluate mining sector development by: (i) designing and preparing action plans for the installation of a modern Global Information System (GIS) for geo-science and environmental maps and information; (ii) installing a prototype GIS and provide training and capacity building in management and use of the system; and (iii) providing computer and software. These activities are estimated to cost US$104,600.
2. Implementation Generally

2.1. The Recipient, through the Department for Fuel, Energy Resources and Mining (DFERM) of the Office of the Prime Minister of the Recipient shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank’s representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable the Bank’s representatives to visit the territory of the Recipient for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Activities a report, in form and substance satisfactory to the Bank, on the results and impact of the Activities.

3. Procurement

3.1. Except as the Bank shall otherwise agree, procurement of the consultants’ services and goods required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:
<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount of Grant (US$)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Consultancy services, including audit</td>
<td>230,000</td>
<td>85% of expenditures for services of local consultants, 72% of expenditures for services of foreign consultants, and 100% of eligible social charges</td>
</tr>
<tr>
<td>2) Training</td>
<td>20,000</td>
<td>100%</td>
</tr>
<tr>
<td>3) Goods</td>
<td>50,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 83% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>4) Incremental Operating Costs</td>
<td>10,000</td>
<td>85%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>310,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this paragraph, the terms:

(a) “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) “local expenditures” means expenditures that are not foreign expenditures;

(c) “eligible social charges” mean any payments, premia, or contributions for, health benefits, unemployed 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 citizens of the Recipient;

(d) “training” means expenditures incurred in connection with training, workshops to be carried out under the Grant, including the travel costs and per diem allowances for the trainees and other expenditures as shall be agreed with the Bank; and

(e) “incremental operating costs” means expenditures incurred by the Recipient on account of implementation of the Grant such as the costs of copying, telecommunications, internet access and office supplies, costs of maintenance and service for vehicles and computer equipment, and other expenditures of an incremental nature as agreed with the Bank.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals from the Grant Account shall be made: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by the Bank; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; or (iv) for the purpose of any payment to persons or entities,
or for any import of goods, if such payment or import, to the Bank’s knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) No withdrawals from the Grant Account shall be made after a date three years from the date of countersignature of this Letter Agreement by the Recipient (the Closing Date). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in the Bank’s opinion, an amount of the Grant allocated to any of the categories in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such category, the Bank may, by written notice to the Recipient, reallocate to such category an amount of the Grant then allocated to another category which, in the Bank’s opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance of the Recipient or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. To facilitate the carrying out of the Activities, the Recipient may open and maintain a special deposit account (the Special Account) in U.S. dollars on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

4.6. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than the equivalent of US$50,000 each; (b) services of individual consultants costing less than the equivalent of US$5,000 each; (c) goods; (d) training; and (e) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.7. Withdrawals of the proceeds of the grant shall be made in U.S. dollars. However, the Bank, at the Recipient’s request and acting as an agent of the Recipient, shall purchase with US dollars withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.
5. **Records and Accounts**

(a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to IDA, adequate to reflect the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) have the financial statements referred to in subparagraph (a) above for each such fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards, acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in subparagraph (a) above for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as IDA shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) retain, until at least one year after the Bank has received the audit report for or covering the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) enable the Bank’s representatives to examine such records; and (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, or other period agreed to by IDA, referred to in subparagraph (b) above.

6. **Suspension and Cancellation**

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient has failed to comply with any of the obligations herein specified; or (d) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account and shall cancel any amount of the Grant remaining unwithdrawn: (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, regarding the implementation of the Activities within seven months after the notification by Bank to the Recipient of the approval of the Grant.
Procurement

Section I. Consultants’ Services

Part A: General

Consultants’ services shall be procured in accordance with the provisions of the Introduction and Section IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers”, published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), and the following provisions of this Section I.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants’ services estimated to cost more than US$100,000 shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for supporting the development of professional associations and/or training activities may be procured under contracts estimated to cost less than US$20,000 awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services for audit estimated to cost less than $10,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants’ Qualifications

Services for tasks estimated to cost less than US$25,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.
4. Single Source Selection

Services for improving legal and fiscal governance, enhancing management and transparent use of mining revenues, streamlining the functions of State sector institutions, and improving the capabilities to monitor and estimated to cost less than US$100,000 equivalent per contract, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services for project management and coordination, improving legal and fiscal governance, enhancing management and transparent use of mining revenues, streamlining the functions of State sector institutions, and improving the capabilities to monitor, tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Activities shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Such plan shall be updated every 6 months during the execution of the Activities, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for services estimated to cost the equivalent of US$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US$5,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.
3. **Post Review**

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

**Section II. Procurement of Goods**

Goods shall be procured: (a) in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word “bids”, in such paragraph 4, shall be read as “quotations”.
Attachment II

Special Account

1. For the purposes of this Attachment:
   
   (a) the term “eligible categories” means the categories set forth in paragraph 4.2 of the Annex to this Letter-Agreement;
   
   (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant; and
   
   (c) the term “Authorized Allocation” means the amount of US$50,000 to be withdrawn from the Grant Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Attachment II.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) The Recipient shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

   (b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

   (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Grant Account under the eligible category(ies), and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall not be required to make further deposits into the Special Account:
   
   (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

   (b) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter-Agreement; or

   (c) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

   Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

   (b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.