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December 15, 2017

Mr. Adylbek Kasymaliyev
Minister of Finance
Ministry of Finance
58, Erkindik Boulevard
Bishkek 720040
Kyrgyz Republic

Re: **Grant No. TF0A3998**
Second Capacity Building in Public Financial Management
Project
Letter Agreement

Mr. Kasymaliyev,

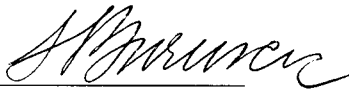
In response to the request for financial assistance made on behalf of the Kyrgyz Republic (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association (“World Bank”), acting as administrator of grant funds provided by various donors (“Donors”) under the Kyrgyz Republic Capacity Building in Public Financial Management II Multi-Donor Trust Fund (TF072607), proposes to extend to the Recipient a grant in an amount not to exceed three million fourteen thousand United States Dollars (USD 3,014,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.


Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

Very truly yours,
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT
ASSOCIATION

By 
Lilia Burunciuc
Regional Director
Central Asia Region

AGREED:

KYRGYZ REPUBLIC

By 
Authorized Representative
Name Asylbek Kasymaliyev
Title Minister of Finance
Date: January 24, 2018

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012
- (2) Disbursement Letter of the same date as this Agreement, together with "Disbursement Guidelines for Investment Project Financing", dated February 2017

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following additional terms have the following meanings:

- (a) “MOF” means the Recipient’s Ministry of Finance.
- (b) “Operating Costs” means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of Project implementation, management, monitoring and evaluation, consisting of vehicle operation and maintenance, communication and insurance costs, banking charges, rental expenses, support for information systems, office maintenance and repairs, expenditures for materials and supplies, utilities, document duplication/printing, interpretation and translation costs, consumables, travel cost and per diem for Project staff for travel linked to the implementation of the Project, salaries of contractual staff for the Project and the associated Social Charges (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).
- (c) “Project Board” means a board to be maintained by the Recipient in accordance with the provisions of Section 2.03 (a) of the Annex to this Agreement.
- (d) “Project Operational Manual” means the manual to be adopted by the Recipient for the implementation of the Project referred to in Section 2.03 (c) of the Annex to this Agreement, containing detailed arrangements and procedures for institutional coordination and day-to-day execution of the Project; disbursement and financial management; procurement; monitoring and evaluation, reporting and communication; and such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project; as said manual may be modified from time to time with the prior written no-objection of the World Bank, and such term includes any schedules to such manual.
- (e) “Social Charges” means any payments or contributions for health benefits, unemployment benefits, disability insurance, workers’ compensation benefits, retirement (pension or social security) benefits, and life insurance, or any other benefits according to the Kyrgyz Republic’s legislation.
- (f) “Technical Expert Panel” means a panel to be maintained by the Recipient in accordance with the provisions of Section 2.03 (b) of the Annex to this Agreement.

- (g) “Training” means the reasonable costs, as shall have been approved by the World Bank, for training conducted under the Project, including tuition, travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training course preparation and implementation (but excluding goods and consultants’ services).

Article II Project Execution

2.01. ***Project Objectives and Description.*** The objective of the Project is to improve budget predictability, control and transparency in the Kyrgyz Republic.

The Project consists of the following parts:

Part 1. Strengthening Budget Planning and Execution

Support MOF to: (a) carry out selected assessments of necessary changes to strengthen legislative and regulatory Public Finance Management (PFM) framework; (b) strengthen medium-term budgetary framework; (c) improve budget revenue and expenditure forecasting; (d) implement program budgeting reforms and improve program-based budgeting and investment planning, including improvements in sector-level expenditure planning; (e) improve budget transparency through improved coverage and quality of publicly disclosed fiscal information and institutionalization of public budget hearings; and (f) implement Training programs for participating stakeholders in the relevant sector.

Part 2. Building Capacity of the Ministry of Finance in Public Finance Management

Capacity building of MOF to: (a) implement PFM development strategy action plan; (b) carry out analysis of implementation processes and user requirements of budget information system; (c) manage public debt; (d) carry out certification program of selected internal auditors and pilot internal audits and Training; (e) implement financial management and internal control system; (f) further expand the government e-Procurement system; and (g) carry out Training needs assessment and development and implementation of selected Training programs.

Part 3. Strengthening of Intergovernmental Fiscal Relations and Sub-National PFM

Support MOF to: (a) operationalize the intergovernmental fiscal relations development concept, including *inter alia* through: (i) carrying out analysis of expenditure assignments, simplification of equalization formulae and improvements in tax capacity assessments; and (ii) developing and implementing a methodology for monitoring and evaluation of PFM quality at the sub-national level; (b) carry out two sub-national and one national public expenditure and financial accountability assessments; and (c) implement Training programs in such areas.

Part 4. Project Management

Provision of technical and operational support for the day-to-day management and monitoring and evaluation of the Project.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MOF in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Institutional and Other Arrangements.**

The Recipient shall:

- (a) Maintain a Project Board with a mandate, composition and resources satisfactory to the World Bank, throughout the period of implementation of the Project, which shall meet periodically for the purposes of, *inter alia*, (i) providing overall strategic guidance on all activities carried out under the Project; and (ii) facilitating the coordination and timely implementation of Project activities.
- (b) Maintain a Technical Expert Panel with a mandate, composition and resources satisfactory to the World Bank, throughout the period of implementation of the Project, to act as a discussion forum and source of advice on activities carried out under the Project.
- (c) Ensure that the Project is carried out in accordance with the arrangements and procedures set out in the Project Operational Manual (provided, however, that in the event of any conflict between the arrangements and procedures set out in the Project Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail) and shall not amend, abrogate or waive any provisions of the Project Operational Manual unless the World Bank has provided its prior no-objection thereof in writing.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Documents; Records.**

In addition, and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

- (a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

2.06. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.07. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days (45) after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.08. Procurement

(a) General. All goods, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Procurement Guidelines"), in the case of goods and non-consulting services;

(ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Consultant Guidelines") in the case of consultants' services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services

Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those assignments 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 of consulting firms; (f) Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

(f) Document Retention. Notwithstanding the provisions of paragraphs 2(j) and 5 of Appendix 1 to the Procurement Guidelines, and paragraphs 2(k) and 5 of Appendix 1 to the Consultant Guidelines, the Recipient: (i) shall retain all documentation with respect to each contract as described in said paragraphs for at least seven years and six months after the Closing Date set forth in Section 3.03 of this Agreement; (ii) shall furnish such documentation to the World Bank at any time upon request; and (iii) hereby authorizes the World Bank to disclose such documentation to the Donor.

Article III Withdrawal of Grant Proceeds

3.01. ***Eligible Expenditures***. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "Disbursement Guidelines for Investment Project Financing" dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs under the Project	3,014,000	100%
TOTAL AMOUNT	3,014,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 31, 2020.

Article IV Effectiveness; Termination

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.

- (a) The execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental actions;
- (b) The Recipient has prepared and adopted the Project Operational Manual, including a chapter on the specific procedures for procurement and financial management; in form and substance satisfactory to the World Bank; and
- (c) The Recipient has hired the Project staff, including head of Project implementation team; a financial management specialist; and a procurement specialist, with qualifications, performance record and under terms of reference satisfactory to the World Bank.

4.02. As part of the evidence to be furnished pursuant to Section 4.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

4.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 ("Effective Date"). If, before the

