Financing Agreement

(Promoting Early Childhood Development Project)

between

REPUBLIC OF UZBEKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF UZBEKISTAN ("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) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of fifty-nine million five hundred thousand Dollars ($59,500,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.04. The Service Charge is the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.

2.05. The Interest Charge is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.
2.06. The Payment Dates are May 15 and November 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MPSE in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Co-financing Agreements have been executed and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

(b) The Recipient, through the MPSE, has established the PIU in a manner acceptable to the Association.

(c) The Recipient, through the MPSE, has adopted the POM satisfactory to the Association.

4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

4.03. For purposes of Section 10.05 (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 Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister of Finance.

5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:
(a) the Recipient’s address is:

Ministry of Finance
Istiqlol Street 29
Tashkent 100017
Republic of Uzbekistan; and

(b) the Recipient’s Electronic Address is:

<table>
<thead>
<tr>
<th>Telex:</th>
<th>Facsimile:</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 6360 IK BOL</td>
<td>(998-71) 239-1569</td>
<td><a href="mailto:invest@mf.uz">invest@mf.uz</a></td>
</tr>
<tr>
<td></td>
<td>(998-71) 239-1259</td>
<td></td>
</tr>
</tbody>
</table>

5.03. For purposes of Section 11.01 of the General Conditions: (a) The Association’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association’s Electronic Address is:

<table>
<thead>
<tr>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
</thead>
<tbody>
<tr>
<td>248423 (MCI)</td>
<td>1-202-477-6391</td>
</tr>
</tbody>
</table>
AGREED as of the Signature Date.

REPUBLIC OF UZBEKISTAN

By

Authorized Representative

Name: Djamshid Kuchkarov

Title: Deputy Prime Minister and Minister of Finance

Date: July 19, 2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Lilia Burunciuc

Title: Regional Director, Central Asia

Date: July 19, 2019
SCHEDULE 1

Project Description

The objectives of the Project are to (i) increase access to early childhood education, (ii) improve the quality of learning environments in selected public preschools, and (iii) enable a systematic measurement of education quality for informed decision-making.

The Project consists of the following parts:

Part A. Improving Quality of Preschool Education

1. Provide support to improve quality of preschool education through the following:

   (i) the improvement of the existing in-service training program for preschool teachers by defining the requirements and teachers’ competencies for child-centered approaches to teaching in line with international good practices;

   (ii) the provision of logistical support to the improvement of the existing in-service training program for preschool teachers;

   (iii) the purchase and installation of printing equipment, including supplies for the equipment, and training in its operation to promote a cost-effective production of teaching and learning materials;

   (iv) the design of a framework for professional development of preschool education staff, including the design of models for expanding the offer of training programs.

2. Provide support to enhance the capacity and governance for improved preschool education service provision through the following, inter alia:

   (i) (A) the design of a capacity enhancement plan for the preschool education system, including the review of existing monitoring and evaluation processes and/or tools at the central, regional and school level; and (B) the implementation of such capacity enhancement plan, upon its approval by the MPSE, including conducting training, logistical support to training events, study visits, and capacity building for relevant stakeholders;

   (ii) (A) the design and implementation of evaluations, studies, surveys for an evidence-based decision-making model in the preschool education system; (B) the design and implementation of a communication and awareness raising campaigns plan for the Project; (C) the review or development (as the case may be) of regulations to promote inclusive preschool education for children with disabilities or special educational needs; (D) the review or development (as the
case may be) of regulations on climate, vulnerability to natural hazards and seismic resilience of preschool buildings; and (E) the carrying out of forums for relevant stakeholders to learn about the interventions supported by the Project and early childhood development matters.

Part B. Increasing Access to Quality Early Learning Environments

1. Improve early learning environments through: (i) the purchase of modern child-friendly and age-appropriate equipment and furniture, as well as teaching and learning materials; and (ii) the purchase and distribution of laptops and printers for public preschool education institutions, including preparation of an environmentally disposal plan for the purchased equipment.

2. Expand access to early childhood education through alternative models through:

   (i) the design, implementation and evaluation of the following non-center based (alternative) models of ECD service provision: (A) a home visiting program focused on the first 1,000 days of life of children; (B) an early learning playgroup (community-based) program for children between 3 and 6 years old; and (C) a home visiting special needs education program focused on children ages 3 to 6;

   (ii) the promotion of citizen engagement in ECD; and

   (iii) the design and implementation of an impact evaluation of said alternative models referred to in paragraph (i) herein.

Part C. Partnering with the Private Sector through a Social Impact Bond

1. Support the Recipient in setting up and implementing a SIB model scheme through the provision of technical assistance to (a) design of the SIB model scheme, including drafting of the main SIB Documents, and (b) assess the achievement of DLIs under Part C.2 of the Project.

2. Provision of SIB Payments in support of the Recipient’s ECD services delivery performance, through the achievement of DLIs, in accordance with the following principles, as set forth in the SIBOM:

   (a) SIB Preschools total occupation rate;

   (b) disadvantaged children attending the SIB Preschools; and

   (c) quality of SIB Preschools’ learning environments.
Part D. Establishing an Education Quality Measurement System

Support the establishment of a system to measure education quality for informed decision-making through:

(i) the establishment of a center to measure and monitor quality from preschool to upper secondary education (continuous education) under a systematic approach, through the carrying out of standardized assessments and based on reliable evidence;

(ii) the development and modernization of student assessment systems and the development and implementation of a system for measuring the quality of preschool education and general secondary education, all through the provision of technical assistance, trainings and logistics;

(iii) the provision of technical assistance, training and logistic support for building capacity in education quality measurement; and

(iv) financing participation fees and/or other related costs for the participation of the Recipient in international assessments and surveys in education quality measurement.

Part E. Supporting Project Management

Provision of support to carry out Project management activities, including, monitoring, evaluation, coordination and supervision of the Project, and Project audits.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. At all times during the implementation of the Project, the Recipient, through MPSE, shall establish and maintain the PIU for the purposes of day-to-day Project management, monitoring and supervision with a staff (including a project coordinator, financial management specialist and assistant, procurement specialist, and a monitoring and evaluation specialist), resources and terms of reference as thereafter described in the POM and all satisfactory to the Association.

2. The Recipient, through MPSE, shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in this Agreement and in the Project Manuals and shall not amend, suspend, abrogate or waive any provisions of the Project Manuals without prior written approval of the Association. In case of any inconsistency between the provisions of the Project Manuals and those of this Agreement, those of this Agreement shall prevail.

3. The Recipient, through MPSE, shall, not later than thirty (30) days from the Effective Date, install an accounting software satisfactory to the Association.

B. SIB Model Scheme

1. For carrying out the activities under Part C.2 of the Project, the Recipient, through MPSE, shall ensure that the selected SIB Preschools and Lead Contractor shall be responsible for: (i) maintaining necessary technical information related to the DLIs in order to follow the progress of the Part C.2 of Project and have the information needed for the verification of DLIs and to prepare the final progress report of Part C.2 of the Project; (ii) maintaining a separate financial management system for implementing Part C.2 of the Project; (iii) preparing financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition; and (iv) registering separately the operations, resources and expenditures related to Part C.2 of the Project.

2. Verification Protocol

The Recipient, through MPSE, shall:

(a) hire and maintain, throughout the implementation of the Part C.2 of Project, an independent verification agent with qualifications and
experience and under terms of reference acceptable to the Association ("Independent Verification Agent"), to verify the data and other evidence supporting the achievement of one or more DLIs to be achieved by the SIB Preschools under Part C.2 of the Project;

(b) (i) ensure that the Independent Verification Agent carries out verification and process(es) in accordance with the Verification Protocol at least annually; and (ii) prepare and submit to the Association the corresponding verification reports not later than thirty (30) calendar days after the verification of compliance of said DLIs in form and substance satisfactory to the Association.

Section II. **Project Monitoring, Reporting and Evaluation**

The Recipient, through the MPSE, shall furnish to the Association each Project Report not later than one month after the end of each calendar semester, covering the calendar semester.

Section III. **Withdrawal of the Proceeds of the Financing**

A. **General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes other than Withheld Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consulting services, and Training under Part A of the Project</td>
<td>1,300,000</td>
<td>25%</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consulting services, and Training under Parts B.1 (other than those financed under</td>
<td>43,950,000</td>
<td>100%</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>---------</td>
<td>------------</td>
</tr>
<tr>
<td>GPE Grant) and C.1 of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Goods, non-consulting services, consulting services, and Training under Part B.2 of the Project</td>
<td>3,500,000</td>
<td>78%</td>
</tr>
<tr>
<td>(4) SIB Payments under Part C.2 of the Project</td>
<td>5,150,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Goods, non-consulting services, consulting services, Training and Participation Fees under Part D of the Project</td>
<td>4,900,000</td>
<td>83%</td>
</tr>
<tr>
<td>(6) Goods, non-consulting services, consulting services, Operating Costs and Training under Part E of the Project</td>
<td>700,000</td>
<td>58%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>59,500,000</strong></td>
<td></td>
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</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:

   (a) for payments made prior to the Signature Date; or

   (b) under Category (4) unless:

   (i) the MPSE has adopted the SIBOM in a manner satisfactory to the Association;
(ii) the MPSE has hired an independent verification agent in a manner satisfactory to the Association;

(iii) the MPSE has concluded the SIB Documents in a manner satisfactory to the Association;

(iv) the MPSE has submitted evidence satisfactory to the Association that a Lead Contractor has been hired in a manner satisfactory to the Association; and

(v) in respect to each SIB Payment: (a) the MPSE has adopted implementation arrangements satisfactory to the Association and in accordance with the SIBOM; and (b) any applicable DLLs as set forth in the SIBM and the respective SIB Preschool Agreement have been met in accordance with the Verification Protocol and in a manner satisfactory to the Association.

2. The Closing Date is December 31, 2024.
## 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 November 15 and May 15:</td>
<td></td>
</tr>
<tr>
<td>commencing November 15, 2024 to and including May 15, 2044</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing November 15, 2044 to and including May 15, 2049</td>
<td>3.40%</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 3.05 (b) of the General Conditions.
APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, 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 and as of July 1, 2016.

2. Basis Adjustment to the Interest Charge” means the Association’s standard basis adjustment to the Interest Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.

3. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.

4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

5. “Co-financing Agreements” means collectively the GPE Grant Agreement and the GPRBA Grant Agreement.

6. “DLI(s)” means the set of disbursement-linked indicators as specified in the SIBOM and the SIB Preschools Agreement to be achieved by the SIB Preschools under Part C.2 of the Project.


10. “GPE Grant Agreement” means the grant agreement for the Project between the Recipient and the World Bank acting as Grant Agent of the GPE, dated the same date as this Agreement, as such grant agreement may be amended from time to time. “GPE Grant Agreement” includes all appendices, schedules and agreements supplemental to the GPE Grant Agreement.
11. "GPRBA" means Global Partnership for Results-Based Approaches.

12. "GPRBA Grant Agreement" means the grant agreement for the Project between the Recipient and the World Bank acting as Administrator of the GPRBA, dated the same date as this Agreement, as such grant agreement may be amended from time to time. "GPRBA Grant Agreement" includes all appendices, schedules and agreements supplemental to the GPRBA Grant Agreement.

13. "Independent Verification Agent" means an independent entity contracted by the Recipient for the purposes of certifying the achievement of the DLIs to be achieved by the SIB Preschools under Part C.2 of the Project and referred to in Section I.B.2 of Schedule 2 to this Agreement.

14. "Lead Contractor" means a firm to be recruited by the SIB Investors for the duration of Part C.2 of the Project implementation with qualifications and with terms of reference acceptable to the Association, and responsible for the overall SIB performance management, managing SIB Investors funds, and supervising the operations of SIB Preschools.

15. "MELE" means Measure of Early Learning Environments.


17. "Operating Costs" means the expenditures incurred on account of Project implementation, management and monitoring, which are the expenditures that would not have been incurred in the absence of the Project, including utilities, supplies, bank charges, communications, equipment maintenance, advertising expenses, translations, fuel, travel, lodging and per diems for the PIU staff, salaries of the PIU staff, including the Social Charges (but excluding salaries of officials or employees of the Recipient’s civil service, as well as any contributions by these officials or employees to any social fund), office rent and any other expenditures incurred by the PIU on account of Project implementation, provided that all said expenses are acceptable to the Association.

18. "Participation Fees" means the fee for the participation of the Recipient in international assessments and surveys in education quality measurement under Part D (iv) of the Project.

19. "PIU" means the project implementation unit established pursuant to Section 4.01 (a) of this Agreement, and referred to in Section I.A.1 of Schedule 2 of this Agreement.

20. "POM" means the Project operations manual acceptable to the Association adopted by the Recipient, through MPSE, pursuant to Section 4.01 (b) of this
Agreement, setting forth, inter alia: (a) the institutional, operational, and administrative Project responsibilities; (b) disbursement, procurement, and financial management requirements; (c) detail on verification of achieved Variable Part Indicators (s) as set forth in Schedule 3 of the GPE Grant Agreement for the purpose of processing payments under Part B.1 of the Project; and (d) data collection and reporting requirements, as said manual may be amended from time to time, with prior approval of the Association.


22. “Project Manuals” means, collectively, the POM and the SIBOM.

23. “Social Impact Bond” or “SIB” means a financing scheme whereby SIB Investors provide upfront capital to the Lead Contractor to work with SIB Preschools for delivering preschool education services, which upfront capital is reimbursed by the Recipient to said SIB Investors upon the achievement of the pertinent DLIs.

24. “SIB Documents” means the documents that will regulate the contractual commitments among the different participants of the SIB model scheme, including but not limited to the Recipient’s Ministry of Finance and MPSE, SIB Investors, Lead Contractor and SIB Preschools, in accordance with the provisions of the SIBOM and this Agreement.

25. “SIB Investors” means any individual or legal person that meets the eligibility criteria for investing into the Social Impact Bond, as set forth in the SIBOM.

26. “SIB Payment” means the payment made out of the proceeds of the Credit and GPRBA Grant to finance eligible expenditures consisting of goods, non-consulting services consulting services and Training related to the achievement of the DLIs under Part C.2 of the Project; “SIB Payments” means the plural thereof.

27. “SIB Preschool” means any of the private preschools selected, pursuant to the eligibility criteria outlined in the SIBOM, to perform services aimed at meeting the DLIs under Part C.2 of the Project in accordance with the provisions of the SIBOM and the SIB Preschool Agreement; “SIB Preschools” means the plural thereto.

28. “SIB Preschool Agreement” means the agreement referred to in Section III.B.1 (v) in Schedule 2 to this Agreement, to be entered into between each SIB Preschool, MPSE and the Lead Contractor pursuant to the conditions set forth in the SIBOM and satisfactory to the Association.

29. “SIBOM” means the SIB operations manual setting forth inter alia: (i) SIB Documents; (ii) SIB Preschools selection criteria and operational procedures; (iii)
independent evaluation methodology; (iv) the disbursement, procurement and financial management arrangements specific to the SIB, including flow of funds, controls and reporting; (v) SIB Payment formulas and timetable; and (vi) the DLI matrix, as said manual may be amended from time to time with prior approval of the Association.

30. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

31. “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 Recipient’s legislation.

32. “Training” means expenditures (other than those for consultants’ services) incurred for training and training-related activities under the Project, including seminars, workshops and study tours, travel, lodging and subsistence allowances for training participants, trainers’ fees, rental of training facilities, preparation and reproduction of training materials and other activities incidental to the preparation and implementation of training activities.

33. “Verification Protocol” means the Recipient’s Verification Protocol, as included in the SIBOM, setting forth the detailed criteria for the achievement of the DLIs to be achieved by the SIB Preschools under Part C.2 of the Project and means by which the same will be verified under the Project, as such Verification Protocol may be amended from time to time with the prior written agreement of the Association.

34. “Withheld Taxes” means the following taxes withheld at source: taxes for social charges; income taxes for residents and non-residents; and custom registrations duties withheld at the source.