Financing Agreement

(Economic Recovery Support Operation)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 25, 2011
FINANCING AGREEMENT

Agreement dated September 25, 2011, entered into between KYRGYZ REPUBLIC (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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:

(a) an amount equivalent to eight million five hundred thousand Special Drawing Rights (SDR 8,500,000) (“Grant”); and

(b) an amount equivalent to ten million four hundred thousand Special Drawing Rights (SDR 10,400,000) (“Credit”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III - PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration consist of the following, namely, the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, the Association is satisfied with the progress achieved by the Recipient in carrying
out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

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

ARTICLE VI - REPRESENTATIVE; ADDRESSES

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

6.02. 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

6.03. 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 in the District of Columbia, United States of America, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Melis Mambetjanov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Philippe H. Le Houerou

Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Recipient under the Program include the following:

1. The Development Fund that was designed to hold and allocate incoming external finance to investment projects outside the budgetary process has been placed under liquidation pursuant to Interim Government Ordinance Number 31, dated April 30, 2010, and the audit of said Development Fund by an external auditor appointed by the Recipient has commenced.

2. The following Resolutions of the Recipient have been passed to establish improved asset management norms and practices for the Ministry of State Property: (i) Resolution Number 178 of the Government of the Kyrgyz Republic, dated August 27, 2010; (ii) Resolution Number 309 of the Government of the Kyrgyz Republic, dated December 8, 2010; and (iii) Resolution Number 104 of the Government of the Kyrgyz Republic, dated March 14, 2011.

3. The Recipient has achieved compliance with the Extractive Industries Transparency Initiative’s (EITI) global standards for improved transparency in the oil, gas and mining sectors as evidenced by the declaration made by EITI at the March 2011 Global EITI Conference.

4. Recipient has adopted the Energy Sector Transparency Initiative (ESTI) pursuant to Presidential Decree Number 49, dated July 20, 2010, and the following measures have been carried out: (a) the Supervisory Council (SC) of the Ministry of Energy, comprising representatives of the Recipient, power companies and civil society, has been established to supervise ESTI implementation; (b) the SC has adopted internal regulations for its governance; and (c) a transparent and rules-based mechanism for managing and monitoring financial flows, particularly, electricity export proceeds in the escrow account, has been established.

5. Performance Agreements that include indicators pertaining to losses and the collection of revenue in the energy sector have been signed and are in effect between the Energy Regulatory Authority and the energy companies.

6. The National Bank of the Kyrgyz Republic (NBKR), as the banking supervisory authority, has restructured the financially distressed OJSC AsiaUniversalBank (AUB) into a new entity, the Zalkar Bank, and has introduced direct supervision and temporary administration procedures for the rehabilitation of financially distressed banks.
7. NBKR has issued Directive Number 30, dated May 26, 2011, for improving supervisory response mechanisms to identify shortcomings in, and initiate prompt preventive and corrective action to, financially distressed banks in the Kyrgyz Republic.

8. The Deposit Protection Agency has been reconstituted as an independent legal entity by Government Resolution Number 269, dated May 31, 2011.

9. In its respective national budgets for 2010 and 2011, and pursuant to Resolutions Number 131 of July 20, 2010, and Number 134 of April 4, 2011, respectively, the Recipient has increased the Guaranteed Minimum Income (GMI) by ten percent (10%) during the mid-2010 to mid-2011 period, and by 19 percent (19%) from mid 2011 onwards, in order to maintain the value of Monthly Benefits for the Low Income Families with Children in real terms.

10. Pursuant to Presidential Decree Number 795, dated December 22, 2009, On Providing Monetary Compensation to Selected Categories of Citizens in Connection with Changing Energy Prices, in-kind social benefits that would have been provided to beneficiaries have been monetized as direct cash payments to be made to beneficiaries, with the number of rights-based categories of said beneficiaries reduced from thirty-nine (39) to twenty-five (25).

11. Pursuant to the Interim Government Decree Number 124, dated August 24, 2010, additional monthly social benefits for families affected by the national crisis of 2010 have been introduced.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>18,900,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>18,900,000</td>
</tr>
</tbody>
</table>
C. **Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is June 30, 2012.
SCHEDULE 2

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, 2022 to and including July 15, 2031</td>
<td>1%</td>
</tr>
<tr>
<td>commencing January 15, 2032 to and including July 15, 2051</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “Deposit Protection Agency” means the Recipient’s deposit insurance agency established by Government Resolution Number 387, dated July 18, 2008, or any successor thereto.


5. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>Group</td>
<td>Sub-group</td>
<td>Description of Item</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---------------------</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

6. “Extractive Industries Transparency Initiative” or “EITI” means the extractive industries transparency initiative established under a multi-donor trust fund for providing countries with grant resources to implement EITI principles of revenue transparency as well as to implement global standards for improved transparency in the oil, gas and mining sectors.

7. “Financing Account” means the account referred to in Part D.1 of Section II of Schedule 1 to this Agreement.

8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.


10. “Ministry of State Property” means the Recipient’s Ministry of State Property, or any successor thereto.


12. “Program” means the program of actions, objectives and policies designed to protect basic services within a sustainable fiscal framework, and to lay foundation for post-crisis recovery and growth, as set forth or referred to in the letter dated June 21, 2011 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

13. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:
1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. “Section 3.02. Service Charge and Interest Charge

   (a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

   (b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   … (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.07. Program Monitoring and Evaluation
… (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(d) A new term called “Interest Charge” is added to read as follows:

“‘Interest Charge’ means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

(e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.
(g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).