Financing Agreement

(Second Development Policy Operation)

between

THE KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 16th, 2014
FINANCING AGREEMENT

Agreement dated June 16th, 2014, entered into between the KYRGYZ REPUBLIC ("Recipient") and the 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 adequate macroeconomic 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 nine hundred ninety thousand Special Drawing Rights (SDR 8,990,000) ("Credit"); and

(b) an amount equivalent to seven million one hundred ninety thousand Special Drawing Rights (SDR 7,190,000) ("Grant").

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 15 and August 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 United States 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.

ARTICLE IV—ADDITIONAL EVENT OF SUSPENSION

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

ARTICLE V—EFFECTIVENESS

5.01. The Additional Event of Effectiveness consists of the Association being 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 one hundred twenty (120) days after the date of signing of this Agreement.
ARTICLE VI—REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient’s Address is:

Ministry of Finance of the Kyrgyz Republic  
58 Erkindik Blvd., Bishkek City, 720040  
Kyrgyz Republic  
Telex: 245-156NUR 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 address: INDEVAS  
Telex: 248423(MCI)  
Facsimile: 1-202-477-6391  
Washington, D.C.
AGreed at Bishkek, the Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By: ________________________________

Authorized Representative

Name: Olera Lavrova

Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: ________________________________

Authorized Representative

Name: Alexandr Kremer

Title: Country Manager
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

1. The Recipient's State Personnel Service has completed the first round of verification of asset declarations of civil servants in political functions, and submitted the summary results to the Government.

2. The Recipient, through Government Resolution No. 498, dated September 9, 2013, approved a Regulation on Internal Audit Council establishing said council; the Recipient, through Government Resolution No. 722 dated December 31, 2013, has adopted a regulation on Financial Management and Control in Budget Organizations; and the Recipient, through Government Resolution No. 721, dated December 31, 2013, has adopted ethical standards for internal auditors in public agencies of the Recipient.

3. The Recipient, through Government Resolution No. 69, dated February 3, 2014, "On draft Public Procurement Law of the Kyrgyz Republic," has approved and submitted to Parliament, a draft of said law; and the Recipient, through Government Resolution No. 68, dated February 3, 2014 “On Public Procurement Department under the Ministry of Finance of the Kyrgyz Republic", has strengthened the role of the public procurement regulatory body within the Recipient’s Ministry of Finance.

4. The Recipient, through its Ministry of Energy and Industry, has issued the Order No. 174, dated October 10, 2013, which aims to increase the transparency of the energy sector by requiring the Energy Companies to regularly publish on their respective websites, the following information: (i) monthly balances of the special accounts of EPP and NEGK, and transit accounts of Severelectro, Vostokelektro, Oshelectro, and Jalal-abatelectro; (ii) quarterly operational and technical performance data of the Energy Companies; and (iii) annual financial statements together with audit reports.

5. The Recipient, through Government Resolution No. 174 “On Draft State Target Program on Development of the Judicial System of the Kyrgyz Republic for 2014-2017”, dated March 19, 2014, has submitted to Parliament the draft of said program which aims to increase the financial independence of the judicial system.

Law on Joint Stock Companies of the Kyrgyz Republic”, has submitted to Parliament a draft of said law that aims to strengthen the responsibilities of members of management bodies.

7. The Recipient has operationalized the single automated database for inspections of businesses (KontrPro3) in the Recipient’s Ministry of Economy and six inspectorates in the City of Bishkek, that aims to reduce the burden of inspections on businesses.

8. The Recipient, through the Resolution No. 20/7 of the Board of the National Bank of the Kyrgyz Republic (NBKR) “On Amending the Regulation on Periodic Bank Reporting”, dated June 26, 2013, and the Resolution No. 27/1 of the Supervision Committee of NBKR “On Amending the Methodological Guidelines for Periodic Bank Reporting”, dated August 7, 2013, has strengthened bank reporting to support the functions of the NBKR’s newly established credit registry.

9. The Recipient, through Government Resolution No. 528 “On Draft Law on Introducing Amendments to the Law on Protection of Bank Deposits”, dated September 27, 2013, has approved and submitted to Parliament, a draft of said law that aims to strengthen governance, coordination, and operations of the deposit protection scheme.

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 withdrawal 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 Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>8,990,000</td>
<td>7,190,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>8,990,000</td>
<td>7,190,000</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**

1. The Recipient shall open a deposit account in United States Dollars (“Foreign Currency Deposit Account”) prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Kyrgyz Som (“Local Currency Deposit Account”) and the Foreign Currency Deposit Account on terms and conditions satisfactory to the Association.

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall convert and transfer an equivalent amount into the Local Currency Deposit Account. All amounts withdrawn from the Local Currency Deposit Account shall be used exclusively for Eligible Expenditures.

E. **Audit**

Upon the Association’s request, the Recipient shall:

(a) have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with the consistently applied auditing standards acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the final withdrawal from the Deposit Accounts and following the Association’s request, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonable request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

(c) furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

F. **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.

G. **Closing Date.** The Closing Date is December 31, 2015.
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 February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>Commencing August 15, 2024 to and including February 15, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>Commencing August 15, 2034 to and including February 15, 2054</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. “Energy Companies” means the following companies: (i) EPP; (ii) NEGK; (iii) Severelectro; (iv) Vostokelektro; (v) Oshelectro; (vi) Jalal-abatelectro.


3. “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>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</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></td>
<td></td>
<td>(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

(f) 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.


5. “Foreign Currency Deposit Account” means the account referred to in Section II.D.1 of Schedule I to this Agreement.

6. “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.

7. “Jalal-abatelectro” means an open joint stock company established pursuant to the Recipient’s Government Decree “On the Program for Denationalization and
Privatization of Joint Stock Company Kyrgyzenergo” (No. 239, dated April 23, 1997), or any successor thereto.

8. “Kyrgyz Som” means the national currency of the Kyrgyz Republic.

9. “Local Currency Deposit Account” means the Current Treasury Account in Kyrgyz Som referred to in Section II.D.1 of Schedule I to this Agreement.


12. “Program” means the program of actions, objectives and policies designed to promote sustainable growth through more accountable use of public resources and an improved environment for doing business as set forth or referred to in the letter of development policy 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.


14. “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 I 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. 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.

4. 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.

5. 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."

6. 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 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."

7. 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 "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".