

CONFORMED COPY

CREDIT NUMBER 2890 KG

Development Credit Agreement

(Financial Sector Adjustment Credit)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 3, 1996

CREDIT NUMBER 2890 KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 3, 1996 between KYRGYZ REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Association has received a letter dated May 24, 1996, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

WHEREAS on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 2.01, paragraph 9, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

- (b) The last sentence of Section 3.02 is deleted;

- (c) Section 4.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

- (d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions. Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) 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 (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (e) The last sentence of Section 5.03 is deleted;

- (f) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

- (g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "APEAC Credit" means the credit made by the Association to the Borrower pursuant to a Development Credit Agreement entered into between the Borrower and the Association on July 28, 1995;

(b) "DEBRA" means the Debt Resolution Agency established pursuant to Resolution of the NBKR No. 17/1, dated May 3, 1996;

(c) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement;

(d) "ERRA" means the former Enterprise Reform and Resolution Agency, now known as the Foreign Investment Promotion Agency;

(e) "NBKR" means the National Bank of the Kyrgyz Republic;

(f) "Som" means the Borrower's currency; and

(g) "1996-97 Privatization Program" means the program attached to the Borrower's Governmental Resolution No. 82, dated February 28, 1996.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirty one million two hundred thousand Special Drawing Rights (SDR 31,200,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited in the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 15,600,000 unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in Schedule 2 to this Agreement have been taken. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be June 30, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set

as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2006 and ending January 15, 2031. Each installment to and including the installment payable on January 15, 2016 shall be one and one-fourth percent ( $1-1/4\%$ ) of such principal amount, and each installment thereafter shall be two and one-half percent ( $2-1/2\%$ ) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 Dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited, in accordance with appropriate auditing principles consistently applied, by independent auditors 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 date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Termination

Section 5.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
58, Erkindik Avenue  
Bishkek 720874  
Kyrgyz Republic

Telex:

245-156 NUR KH

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Almas T. Chukin  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang  
Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan;
3. expenditures 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 sub-groups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718	718.70	Nuclear reactors, and parts thereof, fuel elements

		(cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.30	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or para-military purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party); and

6. in furtherance of the purposes of Section 5.01 of the General Conditions, expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

#### SCHEDULE 2

##### Actions Referred to in Section 2.02 (d) of this Agreement

1. The Borrower's macroeconomic and fiscal performance continues to be satisfactory to the Association, according to indicators agreed with the Association.

2. The Borrower has created a central registry system for pledges, satisfactory to the Association, for the enforcement of security rights.

3. The Borrower has enacted a law on banks and banking activities, and on tax reform, in a manner satisfactory to the Association.

4. The Borrower has provided satisfactory evidence to the Association that the NBKR has introduced a new chart of accounts based on international accounting standards for all commercial banks, and has enforced the implementation of these accounts in at least five commercial banks.

5. The Borrower has completed coupon auctions for all enterprises included in the 1996-97 Privatization Program, and has reduced State ownership to a minority share in at least 320 enterprises included in the 1996-97 Privatization Program, except for the major utilities that have individual privatization plans.

6. The Borrower has provided satisfactory evidence to the Association that: (a) it has offered all potentially viable ERRA enterprises for sale; (b) it has initiated liquidation procedures for all other ERRA enterprises slated for liquidation; and (c) no funds have been allocated to ERRA enterprises from the 1997 budget, except for the completion of liquidation procedures.

7. The Borrower has provided satisfactory evidence to the Association that the NBKR has enforced a 25% maximum single borrower lending limit for all commercial banks.

8. The Borrower has provided satisfactory evidence to the Association that DEBRA has: (a) assessed the value of Elbank's and

Agroprombank's assets; (b) transferred all recoverable loan assets of these banks into a debt recovery unit; (c) reduced staff levels and closed or sold bank branches of these banks upon recommendation by the NBKR; and (d) prepared a timetable, satisfactory to the Association, for the completion of the liquidation of Elbank and Agroprombank.

9. The Borrower has provided satisfactory evidence to the Association that it has issued a long-term bond of 965 million Soms at an interest rate equal to 5% in exchange for a debt owed by Agroprombank to the NBKR.

10. If either Promstroi Bank or AKB Kyrgyzstan Bank has been unable to increase its capital from a negative to a positive or, at least, to a zero level by March 31, 1997, the Borrower has provided satisfactory evidence to the Association that the NBKR has placed such bank under formal receivership and started liquidation procedures; if, on the contrary, either bank has increased its capital from a negative to a positive or, at least, to a zero level by March 31, 1997, the Borrower has provided satisfactory evidence to the Association that the NBKR has instructed such bank to prepare a capital increase plan allowing it to reach an 8% capital adequacy requirement by September 30, 1997.

11. The Borrower has amended the prudential regulations for investment funds, in a manner satisfactory to the Association.

12. The Borrower's Government has prepared and submitted to the Borrower's Parliament draft laws on insurance companies and pension funds, and draft amendments to the law on leasing, in a manner satisfactory to the Association.

13. The Borrower has enacted a law on pledge and amendments to the law on bankruptcy, satisfactory to the Association.

14. The Borrower has provided satisfactory evidence to the Association that DEBRA has prepared a report classifying the non-performing loans under its control into two categories that will be treated differently, namely: (a) non-performing loans, the collection of which will be based on general debt collection criteria, satisfactory to the Association, applied automatically; and (b) non-performing loans, the collection of which will be based on a case-by-case approach, satisfactory to the Association.

15. The second tranche of the APEAC Credit has been released.

