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CONFORMED COPY

GRANT NUMBER H246-TJ

Financing Agreement

(Programmatic Development Policy Financing)

between

REPUBLIC OF TAJIKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 27, 2006

GRANT NUMBER H246-TJ

FINANCING AGREEMENT

Agreement dated July 27, 2006, entered into between the REPUBLIC OF TAJIKISTAN (“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 the Schedule 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 the Financing 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 in an amount equivalent to seven million Special Drawing Rights (SDR 7,000,000) (“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 Payment Dates are March 1 and September 1 in each year.
- 2.05. 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 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 exchange views with the Association on any proposed action to be taken after the disbursement of the Financing 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 Section I of Schedule 1 to this Agreement.

ARTICLE IV - EFFECTIVENESS

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

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance of the Recipient.
- 5.02. The Recipient's Address is:

Ministry of Finance
3 Akademikov Rajabovikh Ave.
Dushanbe, 734025
Republic of Tajikistan

Facsimile:

(992-372) 213329

5.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Dushanbe, Republic of Tajikistan, as of the day and year first above written.

REPUBLIC OF TAJIKISTAN

By /s/ Safarali Najmuddinov
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Aziz Khaidarov
Authorized Representative

SCHEDULE**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. Proposals to amend the Law of the Recipient “On Licensing of Selected Types of Activities”, in order to reduce entry barriers for private sector development, have been submitted to the Recipient’s Parliament.
2. A draft Law aimed at reduction of the scope of inspection over economic entities and at increase of accountability of inspection officers and corresponding amendments to the Recipient’s Tax Code with regard to tax inspections have been submitted to the Recipient’s Parliament.
3. A decision has been taken by the Recipient’s Government to remove, by the end of calendar year 2006, the civil aviation policy making function from the Recipient’s Department of Civil Aviation and to assign it to another governmental agency.
4. A decision has been taken by the Recipient’s Government to develop by the end of calendar year 2006 a timetable, agreed with the European Bank for Reconstruction and Development and acceptable to the Association, for legal and operational separation of airline, airport, and air traffic control management by the year 2008.
5. All necessary arrangements have been made to allow at least one major international carrier to start regular flights to and from the city of Dushanbe.
6. A resolution on application of the Universal Cotton Grading System has been adopted by the Recipient’s Government.
7. A public administration reform strategy, satisfactory to the Association, has been adopted by the Recipient.
8. A Presidential Decree on wage system reform in the core civil service, satisfactory to the Association, has been enacted.
9. A second phase in civil service wage system reform, consisting of further decompression of wages for 2007, has been agreed upon with the Association.

10. An asymmetric wage increase in the health sector in 2006 has been introduced by a Presidential Decree with a greater emphasis on primary health care workers' wages.

Section II. Availability of Financing Proceeds

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

B. Deposit of Financing Proceeds.

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two deposit accounts ("Deposit Accounts") on terms and conditions satisfactory to the Bank:

- (a) a deposit account in Dollars ("Foreign Currency Deposit Account"); and
- (b) a deposit account in the Recipient's currency ("Local Currency Deposit Account").

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. In case the Financing proceeds are used for expenditures in local currency, upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account. All amounts withdrawn from the Deposit Accounts shall be used exclusively for Eligible Expenditures.

C. Audit. The Recipient shall:

- 1. have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
- 2. furnish to the Association as soon as available, but in any case not later than two months after the end of the Recipient's fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
- 3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

D. 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.

E. Closing Date. The Closing Date is March 31, 2007.

APPENDIX

Section I. Definitions

1. “Deposit Accounts” means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.”
2. “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 Financing, 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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	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)

- (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, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association);
- (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) under a contract 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 during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.

3. "Foreign Currency Deposit Account" means the account referred to in Part B. 1 (a) of Section II of Schedule 1 to this Agreement.

4. "General Conditions" means the "International Development Association General Conditions for Financings", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.

5. "Local Currency Deposit Account" means the account referred to in Part B. 1 (b) of Section II of Schedule 1 to this Agreement.

6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letters dated March 28, 2006 and April 29, 2006 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.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 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”.