

CONFORMED COPY

CREDIT NUMBER 3756-KG

Development Credit Agreement

(Governance Structural Adjustment Credit)

between

KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 28, 2003

CREDIT NUMBER 3756-KG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 28, 2003, between the KYRGYZ REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated April 19, 2003, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's public 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;

(B) the Borrower has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) 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 three 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, (as amended through October 6, 1999) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, 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) Section 4.01 is modified to read:

“Except as the Borrower and the Association 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.”;

(c) 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”;

(d) The last sentence of Section 5.03 is deleted;

(e) 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

(f) 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) “Budget Commission” means the commission of the Government of the Kyrgyz Republic established pursuant to the Decree of the Government of the Kyrgyz Republic No. 196, dated April 7, 1999, as amended, or any successor thereto;

(b) “Chamber of Accounts Law” means the Law of the Kyrgyz Republic on the Chamber of Accounts No. 55, dated October 19, 1996, as amended;

(c) “Civil Service Law” means the Law of the Kyrgyz Republic on Civil Service No. 132, dated November 23, 1999, as amended;

(d) “CPAR Action Plan” means an action plan set forth in Annex 1 to the Kyrgyz Republic Country Procurement Assessment Report prepared by the World Bank and dated December 24, 2002;

(e) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(f) “Economic Policy Council” means the council established by the Decree of the President of the Kyrgyz Republic No. 332, dated November 15, 2001, as amended, or any successor thereto;

(g) “Goskominvest” means the State Commission on Foreign Investment and Economic Assistance established by the Decree of the President of the Kyrgyz Republic No. 115, dated April 15, 2001, as amended, or any successor thereto;

(h) “ME” means the Ministry of Education and Culture of the Borrower or any successor thereto;

(i) “MH” means the Ministry of Health of the Borrower or any successor thereto;

(j) “MJ” means the Ministry of Justice of the Borrower or any successor thereto;

(k) “MLSP” means the Ministry of Labor and Social Protection of the Borrower or any successor thereto;

(l) “SCA” means State Communications Agency of the Borrower or any successor thereto; and

(m) “SEA” means State Agency on Energy of the Government of the Borrower or any successor thereto.

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 fourteen million seven hundred thousand Special Drawing Rights (SDR 14,700,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) 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.

(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:

(i) After the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR3,675,000 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:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of

indicators agreed between the Borrower and the Association ; and

- (C) that the actions described in Section I of Schedule 2 to this Agreement have been taken.
- (ii) After the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 7,350,000 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:
- (A) with the progress achieved by the Borrower in the carrying out of the Program;
 - (B) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association ; and
 - (C) that the actions described in Section II of Schedule 2 to this Agreement have been taken.

If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of (A), (B) and (C) above, as the case may be, 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, 2005, 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 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 and 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 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 charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2013 and ending April 15, 2043. Each installment to and including the installment payable on April 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more

after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 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 (l) 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 ninety (90) 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 the 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 of the Kyrgyz Republic
58 Erkindik Blvd., Bishkek City, 720040
Kyrgyz Republic

Telex:	Facsimile:
245-156NUR KH	(996-312) 661645

For the Association:

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)	(202) 477-6391

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/ Abrisaev Baktybek Dyushenovich
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Cheryl Gray

Authorized Representative

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 any of 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 Bank or the Association 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 subgroups 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 Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
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)

4. expenditures for goods intended for a military or paramilitary 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);
6. 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; and
7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Section I: Actions Referred to in Section 2.02 (d) (i) of this Agreement

1. A new law, satisfactory to the Association, on declaration and publication of income and assets of high state officials in the executive, judicial and legislative branches of the State, including the President, the Prime Minister, Vice Prime Ministers, ministers, deputy ministers, judges and members of the Parliament, and their close family members (spouse and dependent children, parents, brothers and sisters), has been enacted.
2. Amendments, satisfactory to the Association, have been introduced to the Civil Service Law to: (i) differentiate political appointees and career civil servants, (ii) increase competitiveness in recruitment and promotion of civil servants and reduce political interference in personnel management decisions, (iii) improve incentives for performance and integrity; (iv) improve institutional arrangements for management of the civil service, (v) require declaration of income and assets of civil servants and their close family members (spouse and dependent children, parents, brothers and sisters), and (vi) make declarations of income and assets of civil servants available to the public on request, and declarations of income and assets of their close family members available to specified state bodies.
3. Amendments, satisfactory to the Association, have been introduced to the Chamber of Accounts Law to: (i) ensure that the Budget Committee of the Parliament has an opportunity to review jointly with the Ministry of Finance the draft budget of the Chamber of Accounts prior to its submission to the Government; (ii) eliminate the provision entitling the Chamber of Accounts to retain 10 percent of the amounts recovered to the budget as a result of its activity, and provide compensatory funding through the State budget; and (iii) adopt international audit standards acceptable to the Association.
4. Actions, satisfactory to the Association, have been taken by the Borrower for integration of the budget related functions of the Budget Commission and Goskominvest within the Economic Policy Council.
5. An Action Plan, satisfactory to the Association, for transferring all extra-budgetary accounts, with the exception of the Social Fund, into the Treasury General Ledger has been adopted by the Borrower's Government and is under successful implementation.

6. The Borrower has achieved satisfactory progress in the implementation of the CPAR Action Plan.

7. A Law, satisfactory to the Association, introducing a single-payer system in the Health Sector has been enacted by the Borrower.

8. A capitation-based formula for calculating categorical grants in health and education sectors, satisfactory to the Association, has been developed and introduced by an appropriate legal instrument.

Section II: Actions Referred to in Section 2.02 (d) (ii) of this Agreement

1. The Borrower has achieved satisfactory progress in the implementation of a new law referred to in paragraph 1 of Section I of this Schedule 2, including publishing of income and assets declarations of high state officials in the executive, judicial and legislative branches of the State and their close family members.
2. Declarations of income and assets of all civil servants have been made available to the public according to the amended Civil Service Law.
3. Amendments, satisfactory to the Association, have been introduced to the Law on Guarantees and Freedom of Access to Information, to enhance access of the public to official information, to strengthen the right of individuals to appeal against denials of requests for information, and to provide a mechanism for monitoring of state bodies' compliance with the provisions of this Law.
4. The Borrower has successfully implemented a set of legislative and other measures, satisfactory to the Association, to ensure that fees from issue of licenses, permits, certificates and other similar requirements placed on economic activities, and fines resulting from inspections are directed only to the State budget and not credited to the Special Means Accounts of regulatory agencies, with the exception of SEA and SCA, and that regulatory agencies are provided compensatory funding through the State budget.
5. A draft budget for FY 2005, providing: (i) more transparent presentation of the policy priorities financed by the budget; (ii) sectoral ceilings for two consecutive years, based on the medium term budget framework; and (iii) an integrated presentation of recurrent and investment expenditures, has been presented to the Parliament.
6. The Borrower has completed the transfer of all extra-budgetary accounts, with the exception of the Social Fund, into the Treasury General Ledger.
7. The Borrower has achieved satisfactory progress in the implementation of the action plan for phasing out off-sets and non-cash transactions in the State budget and Social Fund.
8. The CPAR action plan has been successfully implemented.

9. The Borrower has achieved satisfactory progress in the implementation of a capitation-based formula for calculating categorical grants in the health and education sectors.

10. The Civil Service Management Agency has been established by the Borrower and is fully operational with staff, resources and terms of reference satisfactory to the Association.

11. The Borrower has achieved satisfactory progress in the implementation of recommendations of functional reviews of central and local levels of MH, ME, MLSP, MJ and their affiliated agencies.