

**OFFICIAL
DOCUMENTS**

**CREDIT NUMBER 5583-KG
GRANT NUMBER D028-KG**

Financing Agreement

(Energy Sector Development Policy Financing)

between

THE KYRGYZ REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *March 10*, 2015

**CREDIT NUMBER 5583-KG
GRANT NUMBER D028-KG**

FINANCING AGREEMENT

Agreement dated *March 10*, 2015, 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 nine million one hundred thousand Special Drawing Rights (SDR 9,100,000 (“Credit”)); and
 - (b) an amount equivalent to seven million four hundred thousand Special Drawing Rights (SDR7,400,000 (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.

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 — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, that 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, namely, that the event specified in Section 4.01 of this Agreement occurs.

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
58 Erkindik Blvd.
Bishkek City, 720040
Kyrgyz Republic

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

- 6.03. The Association's Address is:

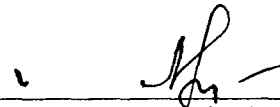
International Development Association
1818 H Street, N.W.
Washington, D.C.20433
United States of America

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

AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By



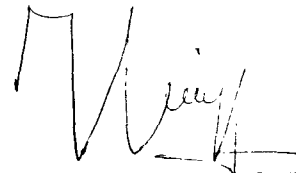
Authorized Representative

Name: Ms. Olga Levitov

Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Jean-michel Kappi

Title: Country Manager

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

Pillar I: Improving Financial Viability

1. The Recipient has approved the Medium-Term Tariff Policy for Electricity and Heating for 2014-2017 (MTTP) pursuant to Resolution No. 660, dated November 20, 2014, and effective on December 10, 2014.
2. The Recipient, through the State Regulatory Agency of the Fuel and Energy Complex has approved changes in electricity end-user tariffs for: (a) December 11, 2014 - March 31, 2015, pursuant to Order No. 45, dated December 11, 2014; and (b) April 1, 2015, pursuant to Order No. 47, dated December 11, 2014.
3. The Recipient, through the State Regulatory Agency of the Fuel and Energy Complex has approved changes in district heating and hot water end-user tariffs for: (a) December 11, 2014 – March 31, 2015, pursuant to Order No. 44, dated December 11, 2014; and (b) April 1, 2015, pursuant to Order No. 46, dated December 11, 2014.
4. The Recipient, through the: (a) State Regulatory Department of the Fuel and Energy Complex has approved a tariff setting methodology for the power sector companies pursuant to Order No. 32, dated November 10, 2014; and (b) State Regulatory Agency of the Fuel and Energy Complex has established the 2015 tariffs for Electric Power Plants, National Electricity Grid of Kyrgyzstan, Severelectro, Vostokelectro, Oshelectro and Jalala-abatelectro, consistent with the methodology in said Order No. 32 and pursuant to Order No. 50, dated December 15, 2014.

Pillar II: Enhancing Sector Governance, Transparency and Accountability

5. The Recipient has established a framework pursuant to which the State Regulatory Agency of the Fuel and Energy Complex shall carry out its economic regulatory functions in the energy sector, pursuant to Resolution No. 650, dated November 14, 2014, and effective on November 25, 2014.
6. The Recipient, through the State Regulatory Department of the Fuel and Energy Complex has approved a performance reporting and monitoring framework for the power sector pursuant to Order No. 33, dated November 10, 2014.

7. The Recipient, through the State Regulatory Department of the Fuel and Energy Complex has established a working group to conduct public outreach campaigns and institutionalize public hearings on its main economic regulatory decisions in the energy sector pursuant to Order No. 31, dated November 10, 2014.

Pillar III: Managing the Impact of Power Shortages on Poor Regions

8. The Recipient, through its Ministry of Energy and Industry has established monitoring and communication arrangements in the power supply management plans of the Recipient's regions consistent with the Fall-Winter Preparedness Plan 2014-2015, pursuant to Order No. 174, dated November 11, 2014.

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:

Allocations	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)
Single Withdrawal Tranche	9,100,000	7,400,000
TOTAL AMOUNT	<u>9,100,000</u>	<u>7,400,000</u>

- 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 adequacy of the Recipient's macroeconomic policy framework.
- D. **Deposit 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 (the Foreign Currency Deposit Account) acceptable to the Association; and

2. the Recipient shall ensure that upon such deposit of an amount of the Financing into the Foreign Currency Deposit Account, an equivalent amount is converted and accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. Audit. Upon the Association's request, the Recipient shall:

1. have the Foreign Currency Deposit Account 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 six months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and
3. furnish to the Association such other information concerning the Foreign Deposit Account and the 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 January 31, 2016.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15: commencing May 15, 2021 to and including November 15, 2052	1,5625%

* 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. "Electric Power Plants" 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 its legal successor thereto.
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 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
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) 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.
3. "Fall-Winter Preparedness Plan for the 2014-2015" means a set of measures issued by the Recipient to its agencies to prepare for the winter season.
 4. "Foreign Currency Deposit Account" means the account referred to in Section II.D.1 of Schedule 1 to this Agreement.
 5. "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.
 6. "Jalalabatelectro" 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 its legal successor thereto.
 7. "MoEI" means the Recipient's Ministry of Energy and Industry or its legal successor thereto.
 8. "MTTP" or "Medium-Term Tariff Policy" means the Recipient's policy for setting end user tariffs for electricity and heating, approved pursuant to Resolution No.660, dated November 20, 2014.
 9. "National Electric Grid of Kyrgyzstan" 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 its legal successor thereto.

10. “Oshelectro” 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 its legal successor thereto.
11. “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 letter dated December 23, 2014 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.
12. “Sevelectro” 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 its legal successor thereto.
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 I to this Agreement.
14. “State Regulatory Agency of the Fuel and Energy Complex” means the Recipient’s agency (successor to the State Regulatory Department of the Fuel and Energy Complex under the MoEI) established and operating pursuant to the regulation approved under Resolution No. 650, dated November 14, 2014, and effective on November 25, 2014, or its legal successor thereto.
15. “State Regulatory Department of the Fuel and Energy Complex” means the predecessor to the State Regulatory Agency of the Fuel and Energy Complex.
16. “Vostokelectro” 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 its legal successor thereto.

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 subsequent 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. Paragraph (c) of 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”.