

## LAW OF THE KYRGYZ REPUBLIC

### On cooperation

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This Law defines the general legal and economic fundamentals of the establishment and activity of cooperatives and their unions which comprise the system of cooperation in the Kyrgyz Republic, based on internationally accepted cooperative principles and values.

Relationships pertaining to the establishment and activity of cooperatives and their unions are regulated by this Law, the Civil Code of the Kyrgyz Republic, land legislation of the Kyrgyz Republic, laws and other normative legal acts of the Kyrgyz Republic.

### CHAPTER I GENERAL PROVISIONS

#### Article 1. Basic Terms

In this Law, the following basic terms are used:

1. Cooperation - system of various cooperatives and their unions formed by individuals and/or legal entities for the purpose of satisfying their economic and other needs.
2. Cooperative - a voluntary amalgamation of individuals and/or legal entities formed on the basis of membership to satisfy financial and other needs by arrangement of joint activity set forth in its charter on democratic basis and by pooling of share contributions by its members.
3. Agricultural cooperative - an organization formed by agricultural commodity producers on the basis of voluntary membership for the purposes of joint production or other economic activities based on pooling of their property share contributions aimed at satisfying financial and other needs of the cooperative members.
4. Member of a cooperative - an individual and/or legal entity that meets the requirements of this Law and charter of a cooperative, has made a share contribution in the amount and according to the procedure established by the charter of a cooperative and who has been admitted into a cooperative with the right to vote.
5. Associated member of a cooperative - an individual and (or) legal entity regardless of its organizational and legal form and type of ownership, that has made a share contribution on which dividends can be accrued but that does not have the right to vote, except in cases set forth in this Law.
6. Agricultural commodity producer - any individual or legal entity producing agricultural products which, if represented in money form, comprise more than 50% of the total volume of manufactured products.
7. Employee - a person who is not a member of a cooperative, who is engaged to work in a certain specialty, qualification, or position, in accordance with a labor agreement or contract.
8. Share contribution (share) - contribution of a cooperative member or associated member of a cooperative to the share fund of a cooperative in money, securities, as well as property and other property rights which have monetary evaluation. Share contribution may be obligatory or additional.
9. Obligatory share - the share contribution of a cooperative member that is obligatory and which gives the right to vote and the right to participate in the activity of the cooperative and to use its services and advantages which are set forth in the charter of the cooperative, and receive established cooperative payments.
10. Additional share - a share contribution of a member of a cooperative that is made at his discretion in excess of the obligatory share on which he receives dividends in the amount and according to the procedure set forth in the charter of a cooperative.
11. Dividend- the portion of income of a cooperative paid on additional shares of members and shares of associated members of a cooperative according to the procedure set forth in this Law and in the charter of a cooperative.
12. Cooperative payments - the portion of income of a cooperative distributed among its members, in proportion to their participation in the economic activity of the cooperative, or on other conditions provided by the charter of the cooperative.

13. Share fund - the fund comprising share contributions made by the members and associated members of a cooperative and representing one of the sources of property of a cooperative.

14. Reserve fund - the fund which is formed for the purpose of coverage of losses incurred as a result of extraordinary circumstances; procedures for formation and use of the reserve fund shall be set forth in the charter of the cooperative.

15. Participation in business activities of a cooperative activities of members of a cooperative which include supply of products and raw materials, purchase of goods from the cooperative, use of services provided by the cooperative, or other participation in economic activities of the cooperative provided by its charter.

16. Joint activity - activity of cooperative members directed at satisfaction of their material and other needs on the basis of founding documents of the cooperative.

## Article 2. Basic Principles of Formation and Operation of Cooperative

A cooperative is established and functions based on the following principles:

- voluntary membership in a cooperative and free exit therefrom in the procedure established by the Charter of the cooperative;
- mutual aid and fostering economic benefit for members of a cooperative participating in the economic activities thereof;
- management of activity of a cooperative on a democratic basis (one member - one vote, elected managerial bodies reporting to the general meeting of the cooperative members);
- designation of a cooperative for a most efficient meeting of economic and household needs of participants thereof;
- economic and business independence of members of a cooperative;
- ecological safety, observance of rights and legal interests of land plot owners and users;
- adequate conditions for providing training to and upgrading skills of cooperative members free access of members of a cooperative to information on its operation.

## Article 3. Cooperatives

1. Cooperatives are established by individuals and/or legal entities on a voluntary basis for joint activity in manufacturing, processing, procurement and sale of products, services to agrarian enterprises, logistics, transportation, storage, insurance, crediting, construction, public and other kinds of services, mining of mineral resources and other natural resources, conduct of scientific researches and project constructing works, and other activities not prohibited by legislation of the Kyrgyz Republic.

2. A cooperative must have no less than 3 members.

3. Cooperatives may be formed as for-profit or non-profit organizations.

## Article 4. Cooperative as a For Profit Organization

Any cooperative activities of which are aimed primarily at profit derivation shall be a for-profit organization.

## Article 5. Characteristics of a Cooperative as a Non-Profit Organization

1. Any cooperative formed for the purpose of satisfying material or other needs of its participants (members) shall be a non-profit organization.

2. Non-profit cooperatives may carry out business activity to the extent necessary for achieving purposes for which they were created.

3. Revenues gained by a non-profit cooperative as a result of business activities carried out subject to this Law and charter of the cooperative shall be distributed among members of the cooperative in accordance with the procedure established by this Law and the charter of the cooperative.

## Article 6. Agricultural Cooperatives

An agricultural cooperative shall be a voluntary unification of agricultural goods producers (individuals and legal entities) on the basis of membership for the purpose of carrying out joint activities on production, processing, storage, transportation, sale of agricultural products, and other activities not prohibited by law by voluntary unification of share contributions by its members, to satisfy material and other needs of its members.

## Article 7. Types of Agricultural Cooperatives

1. Agricultural cooperatives may be of the following types:

1) cooperatives manufacturing agricultural products, processing, sales, service, vendor, gardening, stock-raising cooperatives formed to implement specific functions to satisfy economic and other needs of their member, agricultural producers;

2) cooperative manufacturing agricultural products - a cooperative created by individuals and legal entities on the basis of voluntary membership for joint activity on manufacturing agricultural products (plant growing and cattle breeding). Activities of members of cooperatives manufacturing agricultural products shall be determined in the charter of the cooperative;

3) processing cooperatives shall be the cooperatives processing agricultural products (meat, fish, dairy, fruit and vegetable products, etc.);

4) sales cooperatives shall be the cooperatives selling, storing, sorting, packing, drying, washing, parceling and transporting agricultural products, performing transactions, surveying sales market, and organizing advertisement campaigns;

5) service cooperatives shall be the cooperatives activities of which include land reclamation, transportation, construction, ecology restoration, services on installation of telephone lines in the rural areas and electrification of rural areas, veterinary services, services on applying fertilizers and pesticides, scientific consulting services, information services, and others;

6) vendor cooperatives shall be the cooperatives purchasing and selling means of production, fertilizers, soil-chalking products, feeds, oil products, equipment, spare parts, pesticides, herbicides, or any other supplies needed for production of agricultural products; supplying seeds, young cattle and poultry; producing raw materials and supplying them to agricultural commodity producers.

2. Relationships arising in the process of formation and operation of agricultural cooperatives shall be regulated by this Law, the Land Code of the Kyrgyz Republic, other normative legal acts of the Kyrgyz Republic, and charter of the cooperative.

## Article 8. Characteristics of Formation of Agricultural Cooperatives

Land plots (shares) contributed by members of a cooperative as share contributions shall remain in their ownership and may only be transferred to cooperatives for use provided that this land plot (share) will be returned upon withdrawal of the cooperative members from it. Decision of a cooperative member that is the land plot owner, possessor or lessee to transfer the right to use the land plot (share) for use shall be executed on the basis of a written agreement. The land plot (share) which is used by the cooperative may be mortgaged by the owner of the land plot (share) only subject to notification of the cooperative.

## Article 9. Unions (Associations) of Cooperatives

1. Cooperatives may form non-profit organizations in the form of associations (unions) with or without participation of other legal entities (including agricultural commodity producers) for the purpose of coordinating their activities, and representation and protection of their common property interests, ensuring and rendering information services, arrangement of training and raising qualification of employees of cooperatives and other activity based on agreements and subject to the procedures set forth in the civil legislation of the Kyrgyz Republic. Associations (unions) of cooperatives may participate in the activities of international cooperative organizations in accordance with the procedure set forth in these organizations and legislation of the Kyrgyz Republic.

2. Should members of an association (union) resolve to empower the association to carry out business activities, the association (union) shall be transformed into an economic company or partnership subject to relevant provisions of civil legislation, or may form economic companies for the purpose of implementation of business activities, or participate in such companies.

Associations (unions) of cooperatives may carry out business activities to the extent necessary for their charter purposes.

3. Members of associations (unions) shall maintain their independence and rights they have as legal entities.

4. Founding documents of an association (union) shall be founders' agreement signed by its members, and charter approved by them.

5. Members of an association (union) may use its services chargefree, unless otherwise provided by the founding documents of the association (union).

6. Any member of an association (union) may, upon their discretion, withdraw from the association (union) at the end of a fiscal year. In this case the member shall, for two years from the date of withdrawal, bear subsidiary liability for obligations of the association (union). Such liability shall be proportionate to the member's contribution.

7. Any member of an association (union) may be expelled from the association upon decision of other members in cases and subject to procedures set forth in founding documents of the association. Liability of an expelled member of an association shall be subject to the provisions that apply in the event of voluntary withdrawal from an association (union).

8. New members may join an association (union) subject to the procedures set forth in the charter of the association (union). New members may join an association (union) as a result of their subsidiary liability for the obligations of the association (union) that has arisen prior to their joining the association (union).

9. The name of an association (union) shall refer to the principal activity of its members and shall contain the words "association", "union", "agricultural association", or "agricultural union".

#### Article 10. Legal Powers of a Cooperative

1. A cooperative shall have the following legal powers:

- to carry out activities provided by this Law and other activities which are not prohibited by law, subject to the procedures established by legislation of the Kyrgyz Republic;
- to open representation offices and branches, form economic companies and organizations, and exercise its rights with respect thereto subject to the procedures established by law;
- to own, buy, or otherwise acquire, sell, pledge, or exercise other substantive rights to property transferred to the cooperative as a share contribution to its share capital subject to the procedures and terms established by legislation of the Kyrgyz Republic and the charter;
- to form reserve and other funds of a cooperative, deposit funds in banks and other credit institutions, invest in securities and other property;
- to borrow funds and extend loans and advances to members of the cooperative;
- to issue securities other than shares in the procedure established by legislation of the Kyrgyz Republic on securities market;
- to conclude agreements and exercise any rights required to achieve the goals set forth in the charter of the cooperative;
- to carry out international business activities in accordance with the procedure established by legislation of the Kyrgyz Republic;
- to appeal in court from acts of state or local government bodies, as well as from unlawful actions of any officials that breach the rights of the cooperative;
- to reorganize or liquidate the cooperative;
- to execute other legal powers required to achieve the goals set forth in the charter of the cooperative but not contradicting the legislation of the Kyrgyz Republic.

2. The cooperative may be engaged in certain types of activity which are enlisted in the law on licensing only with special permission (license).

#### Article 11. Government and Cooperatives

1. The Kyrgyz Republic shall guarantee the rights and legal interests of cooperatives and their members.

2. Government bodies and bodies of local governments shall in every possible way promote development and growth of cooperatives. Government bodies and local governments shall in no way interfere in the economic, financial and other activities of cooperatives, except in the instances specifically set forth in legislation of the Kyrgyz Republic.

3. Damages incurred by a cooperative as a result of any illegal action or inactivity of government bodies and other agencies or their officials that breached the rights of a cooperative, or as a result of such bodies' or their officials inadequate implementation of their duties established by legislation of the Kyrgyz Republic with respect to the cooperatives, such agencies or bodies shall indemnify the losses. Disputes on indemnification of such damages shall be settled by court or arbitral tribunal of relevant jurisdiction.

## CHAPTER II ESTABLISHMENT OF A COOPERATIVE

#### Article 12. Procedure for Establishment of a Cooperative

1. For the purpose of establishing a cooperative, individuals and (or) legal entities wishing to establish a cooperative shall form an organizational committee which is obligated to:

- 1) prepare a draft charter of the cooperative;
- 2) accept applications for membership in the cooperative which must reflect the consent to participate in the economic or other activity of the cooperative and to comply with the requirements of charter of the cooperative;
- 3) prepare and hold a general organizational meeting of the cooperative members.

2. The founders may establish the size of entrance membership fees for the purpose of covering the organizational costs of formation of a cooperative and must report on their use at a general meeting of members of the cooperative.

3. The founders' meeting of a cooperative members shall:

- 1) adopt a decision on admission to the cooperative;
- 2) make the list of cooperative members with indication of the last name, first name and patronymic, date of birth, and addresses (for individuals), or official name and legal address (for legal entities), the amount of share contribution accepted from every person, signatures of cooperative members;

3) approve the charter of the cooperative developed in accordance with the Civil Code of the Kyrgyz Republic and this Law;

4) elect the governing bodies of the cooperative.

Cooperative shall carry out its activity on the basis of the charter.

4. The charter of a cooperative must include in addition to data specified in point 4 of Art. 87 of the Civil Code of the Kyrgyz Republic the following information including:

- 1) the firm name;
- 2) the location of the cooperative;
- 3) the purpose and purposes of the cooperative activities;
- 4) the period for which the cooperative is established, if known;
- 5) the procedure and conditions for joining the cooperative, grounds and procedure for withdrawal from cooperative;
- 6) the conditions on amount, composition and procedure of payment of share contributions by cooperative members;
- 7) a description of all types of contributions (shares) if more than one type of shares is authorized and the number of shares of each type as well as the corresponding rights and privileges of each type.
- 8) a statement that only members have voting rights based on one vote per member principle;
- 9) procedure for revenue and loss distribution in the cooperative;
- 10) the composition, and powers of governing bodies of cooperative, and the procedure for their decision-making, including that on issues which require unanimous consent or a qualified majority vote;
- 11) rights and duties of cooperative members and associate members;
- 12) the conditions of formation and use of funds of the cooperative;
- 13) liabilities of the cooperative members, including those in the event of a member's failure to contribute obligatory shares);
- 14) deadlines and terms of payment of the value of share contributions to a cooperative member upon the member's withdrawal from a cooperative;
- 15) obligation to use services of the cooperative in the amount provided by agreements;
- 16) requirements to the assortment and quality of products produced by the person joining the cooperative;
- 17) procedure and conditions of reorganization and liquidation of the cooperative.

Charter of a cooperative may contain other provisions regarding its activities not in conflict with legislation of the Kyrgyz Republic.

5. A name of a cooperative shall refer to its principal activity and shall contain the words "cooperative" or "agricultural cooperative".

#### Article 13. State Registration of a Cooperative

1. State registration of a cooperative shall be performed in the respective justice agencies of the rayon in the procedure established by legislation of the Kyrgyz Republic on Registration of Legal Entities.

2. A cooperative shall be considered established as a legal entity from the moment of its state registration.

3. A denial of state registration of a cooperative may be issued only in case of violation of the procedure established by legislation of the Kyrgyz Republic for the creation of a cooperative or for the noncompliance of its foundation documents with legislation of the Kyrgyz Republic.

Denial of state registration, violations of the period or procedure of registration, as well as evasion of registration may be appealed in court in the procedure established by law.

### CHAPTER III MEMBERSHIP IN A COOPERATIVE

#### Article 14. Members of a Cooperative

1. Members of a cooperative may be individuals who have reached the age of 16 years and legal entities who recognize the charter of the cooperative, have paid share contribution established by the charter of the cooperative and participate in its activity.

2. A legal entity which is a member of a cooperative must be represented in this cooperative by an individual authorized by a properly formalized power of attorney. The representative shall have one vote in the cooperative.

3. Individuals and legal entities may be members of several cooperatives simultaneously.

4. Cooperative members shall have the rights and obligations envisaged by this Law, as well as by the charter of the cooperative, in particular:

1) cooperative members shall have the right to:

- unite on the voluntary basis into cooperative and voluntarily withdraw from it subject to return of the value of share contribution in the procedure and within the period established by the charter of the cooperative;

- receive share of income subject to distribution among members;

- participate in management of the cooperative, elect and be elected to governing and supervising bodies of the cooperative, make recommendations regarding improvement of activities of the cooperative;

- enjoy privileges and benefits provided by the charter of the cooperative for the cooperative members;

- bequeath his share contribution;

- have access to financial documentation of the cooperative, its income statement; verify documentation, etc.

2) Cooperative members shall:

- contribute entrance fees and share contributions in the amount and subject to the procedures provided by the charter of the cooperative;

- comply with legislation of the Kyrgyz Republic, charter and other internal normative and legal acts of the cooperative;

- implement their duties in a cooperative related to participation in its activities in accordance with provisions of its Charter.

Rights of cooperative members shall be protected subject to the procedures established by legislation of the Kyrgyz Republic and the charter of the cooperative.

#### Article 15. Associated Membership of a Cooperative

1. Associated membership shall be allowed in cooperatives in accordance with their charters.

2. Associated members of cooperatives may be individuals and legal entities regardless of the organizational and legal form and type of ownership who have made share contributions to the cooperative on which they receive dividends, but have no right to vote, except cases provided by this Law.

3. Members of a cooperative may transform their membership in a cooperative into associated membership.

4. The amount of share contribution of associated members of a cooperative and the terms of payment of dividends thereon shall be determined in the agreement approved by the general meeting entered by the cooperative and associated member in accordance with the charter of cooperative.

5. An associated member of a cooperative shall have no right of vote in the cooperative except in cases of amendments (additions) to the charter if they affect his membership in the cooperative.

6. In case of liquidation of a cooperative, associated members of the cooperative shall have the right to payment of the value of their share contributions and to payment of declared but not paid dividends before payment of the value of the share contributions is made to cooperative members.

7. Unless otherwise provided by the charter of the cooperative, at the discretion of the Board, if funds are available, the cooperative shall have the right within one year after notice to associated members to pay in full or in part the value of their share contributions, as well as pay them declared but unpaid dividends.

8. Associated members may withdraw from a cooperative. The value of share contributions shall be paid in accordance with the charter of the cooperative and agreements entered into with such associated members.

#### Article 16. Admission of Members into a Cooperative

1. Individuals or legal entities who express their desire to join a cooperative after its state registration and who comply with the requirements set forth in Article 14 of this Law, must submit an application to the management of the cooperative with a request for admission into the cooperative.

2. The applicant shall be deemed admitted into a cooperative as of the date of approval of the respective decision of the management of the cooperative by the general meeting of the cooperative members, unless otherwise provided by the charter of cooperative.

3. A membership book shall be given to a member of the cooperative, where the following shall be stated:

- 1) type of membership (principal or associated);
- 2) the size of obligatory share and the period of its payment;
- 3) the size and amount of additional shares and term of their payment;
- 4) the form of share contribution (money or property);
- 5) the size of cooperative payments, including those credited to the share contribution, and the dates of such credits;
- 6) the size of payment of value of share contributions and dates of such payments;
- 7) the size of paid dividends, and dates of their disbursement.

4. The procedure to create documents for admission of members to the cooperative, for termination of membership, or for expulsion of members from the cooperative, and other conditions addressing membership questions shall be set forth in the charter or other internal normative and legal acts of the cooperative.

#### Article 17. Procedure for Termination of Membership in Cooperative

1. Membership in cooperative shall be terminated in the following instances:

- 1) voluntary withdrawal from cooperative;
- 2) death of a cooperative member;
- 3) expulsion from cooperative;
- 4) liquidation of a peasant farm (farming enterprise), or a legal entity which are members of cooperative;
- 5) failure of the cooperative to perform its obligations.

2. Each cooperative member shall have the right to terminate his membership in the cooperative in the procedure established by this Law and the charter of the cooperative.

3. A member of a cooperative may, at his discretion, withdraw from cooperative by filing a petition in writing to the management of the cooperative, no later than two weeks prior to his withdrawal.

4. Transfer of a share contribution to an individual other than member of the cooperative, shall be allowed only subject to the consent of the cooperative. In such event, cooperative members shall enjoy the priority right to buy such share contribution.

5. In instances of a cooperative member's death, his heirs may be expelled from the cooperative, unless they expressed their intention to stay in the cooperative within two months.

6. The heirs of the deceased cooperative member, not admitted to the cooperative shall be paid the value of the share contribution of the deceased cooperative member or shall receive back the land plot contributed previously as the share contribution to the cooperative for use.

#### Article 18. Expulsion from Cooperative

1. A cooperative member may be expelled from the cooperative, based on the grounds provided in the cooperative charter, in the instances where:

- 1) the member fails to perform obligations provided in the cooperative's charter;
- 2) the member, by failure to comply with his duties provided by the cooperative charter, inflicted a damage to a cooperative;

2. The cooperative may provide in the charter for additional grounds, which do not contradict this Law, which may apply to expel the member from the cooperative.

3. The management of the cooperative shall preliminarily consider the issue of expulsion of cooperative members, such decision shall be subject to approval by the general meeting of cooperative members.

Members of the cooperative's Board and of the management may be expelled from the cooperative only subject to the decision of the general meeting of the cooperative members.

4. The cooperative member must be informed by the cooperative management on the grounds for raising the issue of his expulsion at the general meeting, and must be invited to the general meeting.

5. The Management Board must inform the person expelled of the decision on expulsion in writing within the shortest term possible. The membership in the cooperative shall be terminated as of the moment of approval of the decision on expulsion from the cooperative by the general meeting of cooperative members.

6. An expelled person may appeal from the decision of the management and of the general meeting in court in the procedure established by legislation of the Kyrgyz Republic.

7. The share contribution shall be repaid to the expelled member of the cooperative in compliance with the same procedure, and within the same period, as in case of withdrawal from the cooperative.

#### Article 19. Repayment of a Share to a Withdrawing Member

1. A member who withdraws from a cooperative in cases envisaged by Art. 17 (1) and Art. 18 of this Law must be paid the value of his share contribution or must be given property corresponding to his share contribution, as well as other payments due to him in the amounts, periods and on the conditions set forth in charter of the cooperative, but not later than within three months following the end of a fiscal year.

2. A mandatory or additional share or part thereof made from the account of the distributed income of the cooperative shall be paid to the member of the cooperative upon his withdrawal from the cooperative according to the procedure, provided by this Law, unless otherwise provided by the charter of the cooperative.

3. In making settlements with a withdrawing member, the cooperative may deduct any debts of this person to the cooperative from the payments due to him.

4. A share contribution shall be repaid to a withdrawing cooperative member in accordance with the procedure established by the charter. In accordance with the charter of the cooperative, on the basis of a decision of a general meeting of cooperative members, with the consent of the withdrawing member, payment of the share contribution may be provided in kind.

The right to the land plot shall be contributed to the share fund of the cooperative with the condition to return the same land plot while withdrawal from the cooperative based on the agreement.

5. In case of returning to the person withdrawing from the cooperative the right to a land plot provided as a share contribution, the value of the right to the land plot shall be determined in accordance with legislation regulating land relationships.

### CHAPTER IV MANAGEMENT BODIES OF A COOPERATIVE

#### Article 20. Structure of Management Bodies of a Cooperative

1. A cooperative shall be managed by the general meeting of cooperative members, the Board (established in the cooperative on the obligatory basis, in the instances when the number of member of the cooperative is no less than 50), and executive body (collegiate body management, and/or single person body - chairperson of the cooperative).

The charter of the cooperative where the number of members does not exceed 50, may provide for implementation of activity without formation of the Board, and in such case his powers are transferred to the general meeting of cooperative members.

2. The powers, structure of the management bodies, procedure for election (appointment) and removal of members of management, Chairman of the Cooperative, members of the Board, and the procedure for calling and holding general meetings of cooperative members shall be established in accordance with this Law and the charter of the cooperative.

#### Article 21. Powers of General Meeting of Members of a Cooperative

1. The general meeting of cooperative members is the highest management body of the cooperative and has authority to resolve any issues concerning the cooperative's activity, including abrogation or approval of decisions of management or the Board.

2. The exclusive powers of the general meeting of cooperative members include:

- 1) approving charter of the cooperative and introduction of amendments thereto;
- 2) electing and recalling members of the Board of the cooperative, considering reports on their performance, and terminating their powers;
- 3) forming and dismissing executive body of the cooperative;
- 4) electing audit committee (auditor) of the cooperative;
- 5) approving programs of the cooperative's development, annual reports and accounting balance sheets, distributing revenues and considering issues connected with losses incurred by the cooperative;
- 6) determining composition, amount, and procedure for share contributions and other payments to be made by cooperative members;
- 7) approving amounts of and procedure for extending any loans to the cooperative members;
- 8) considering alienation of immovable property of the cooperative the value of which exceeds that established by the charter of the cooperative;



9) forming funds of the cooperative, determining types and amounts of funds of the cooperative and the procedures for their formation;

10) reorganization and liquidation of the cooperative;

11) cooperative's entering and withdrawing from other cooperatives, economic partnerships and companies, unions, and associations;

12) establishment and liquidation of branches and representation offices of the cooperative;

13) other issues specified by the cooperative's charter but not contradicting this Law.

3. Admittance and expulsion of cooperative members shall be within the exclusive power of the general meeting of cooperative members, unless otherwise provided by the charter of the cooperative.

4. General meeting of cooperative members shall be deemed authorized if attended by no less than 2/3 of the cooperative members.

5. Decisions on issues within the exclusive power of a general meeting of cooperative members shall be adopted by a simple majority vote of the members attending a general meeting, unless otherwise set forth in this Law or in the charter of the cooperative.

6. Decisions on the issues stated in Subparagraphs 1, 8, and 10 of Paragraph 2 of this Article shall be taken by 2/3 majority vote of members attending a general meeting of the cooperative or their legal representatives with the right to vote.

7. Each cooperative member, regardless of the amount of his share, has the right of one vote in making decisions by a general meeting of a cooperative.

8. A regular general meeting of a cooperative shall be called by the management of the cooperative and must be held at least once per year within the period established by the charter of the cooperative or its other internal normative and legal acts, but no later than within three months after the expiration of the financial year.

9. Special general meetings of members of a cooperative may be called:

- by the Management (Chairperson) of the cooperative on its/his own initiative;

- by decision of the Board;

- upon request of the Audit Committee (auditor) of the cooperative;

- and upon request of no less than 10 % of the total number of members of the cooperative.

10. The management (chairperson) of the cooperative must call an extraordinary general meeting of cooperative members by the decision of the Board of the cooperative, at the demand of the auditing committee (auditor) of the cooperative, or at the demand of the cooperative members, within twenty days after such demand was submitted, or after such decision was made by the general meeting of the Board of the cooperative.

Otherwise, the Board of the cooperative, the auditing committee (auditor), of the cooperative, or cooperative members who presented such requirement, may call the general meeting of the cooperative members independently.

11. Notice on any issue presented for review delegated to the exclusive jurisdiction of a general meeting of members of a cooperative must be sent to all cooperative members who have the right to vote on the issue, not later than 15 days prior to the date of the general meeting. If this requirement is violated, the decision of the general meeting of members of the cooperative shall be deemed unauthorized.

12. Each cooperative member shall have the right to attend a meeting personally or through a representative with a power of attorney written as required by legislation.

13. Issues which, in accordance with this Law or the Charter of a cooperative, are within the exclusive power of the general meeting of cooperative members, may not be resolved by any other bodies of the cooperative.

14. A decision of the general meeting of cooperative members taken in violation of provisions of the existing legislation of the Kyrgyz Republic and the charter of the cooperative, may be appealed in court subject to the procedures set forth in legislation of the Kyrgyz Republic.

## Article 22. Board of a Cooperative

1. Unless otherwise provided by the charter of a cooperative, the Board of a cooperative shall be composed of not less than three persons elected from among members of the cooperative by the general meeting of cooperative members. The procedure of the Board's decision-making and term of its powers shall be set forth in the charter of the cooperative or other internal normative and legal acts of the cooperative.

2. Powers of members of the Board may be terminated by the decision of the general meeting before expiration of the term for which the members have been elected. To adopt such decision, no less than 2/3 of the cooperative members attending the general meeting must vote for such decision.

3. The Board shall exercise control over the activity of the cooperative's executive body.

4. Meetings of the Board shall be held when necessary, but not less than once a month, and are deemed authorized if attended by not less than 2/3 of its members, unless otherwise provided by the Charter of the cooperative or internal normative and legal acts of the cooperative.

5. Decisions at a meeting of the Board are adopted by a majority vote, except for the cases provided by Subparagraph 3 of Paragraph 6 of this Article.

Decisions on the issues specified in Subparagraph 3 of Paragraph 6 of this Article shall be taken by not less than 2/3 majority vote of members of the Board present at the meeting.

6. Unless otherwise provided by the charter, within the exclusive powers of the Board shall be consideration of and decision-making on the following issues:

1) approval of results of monetary evaluation of share contributions made in the form of property or property rights subject to provisions of Paragraph 4 of Article 28 herein;

2) providing opinions on applications for admittance into and withdrawal from the cooperative;

3) approval of transactions which entail alienation or encumbrance of property of the cooperative (i.e. pledge (mortgage), lease, trust management, etc.) in case the value of such property exceeds the amount set forth in the charter of the cooperative, unless otherwise provided by charter of the cooperative.

7. Members of the Board of a cooperative shall not be allowed to receive any compensation for performance of their duties in the cooperative unless otherwise provided by the charter. Any expenses not envisaged in the budget incurred by them while implementing their powers shall be reimbursed upon a decision of a general meeting.

8. A member of the Board of the cooperative may not be a member of the management or of the auditing committee.

#### Article 23. Powers of Board of a Cooperative

1. The Board may demand that the executive bodies report on their performance, review any documents of the cooperative, verify the status of the cooperative's cash and securities, conduct an inventory, and execute other powers defined in the charter or in the internal normative and legal acts of the cooperative.

2. The Board of a cooperative must verify balance sheet and annual report of the cooperative, provide opinion regarding proposals on distribution of annual revenues of the cooperative or measures to cover an annual deficit.

The Board of a cooperative must report to the general meeting on the results of its reviews prior to approval of the balance sheet.

3. The charter and other internal normative legal acts of a cooperative may provide for other powers of members of the Board of the cooperative.

4. Members of the Board may not assign their powers to other persons.

5. In case of bringing an action against members of management, interests of the cooperative may be represented by the person authorized by the general meeting of cooperative members.

6. In case of bringing an action against members of the Board, interests of the cooperative may be represented by the persons authorized for this by the general meeting of cooperative members.

7. If formation or revocation of executive bodies of the cooperative is delegated to the Board of the cooperative by the charter, the Board may suspend the powers of any or all members of management of the cooperative and to assume performance of their duties.

Where formation and revocation of executive bodies of the cooperative is delegated by the charter of the cooperative to the general meeting of cooperative members, the Board of the cooperative may suspend the powers of members of the management of the cooperative, and assume performance of their duties for a period of time pending the decision of the general meeting of the members of the cooperative which must be called within a shortest possible period.

8. Losses incurred by a cooperative due to the Board members' failure to perform or adequately perform their duties, involvement of the Board members in illegal transactions, or violation of the charter and legislation of the Kyrgyz Republic by the Board members, shall be covered by such members in the court procedure.

Provisions pertaining to the liability of the Board shall apply subject to legislation of the Kyrgyz Republic.

#### Article 24. Executive Bodies of Cooperative

1. Management (and/or chairperson) of a cooperative is the executive body of the cooperative which implements day-to-day administration of its activities and represents the cooperative in its economic and other relations.

Management (and/or chairperson) reports to the Board of the cooperative and general meeting of cooperative members, unless otherwise provided by the charter.

2. Executive bodies shall be formed and withdrawn by the general meeting of cooperative members, unless such powers are delegated by the charter of the cooperative to the Board. The number of members of the management of the cooperative should not be less than three.

3. Members of management of the cooperative may be at any time excused from performance of their duties by the general meeting of the cooperative members, or by the Board, with consideration of requirements of point two of this Article.

4. The management shall be headed by the chairperson of the cooperative's management.

5. The charter of the cooperative may provide for election (appointment) of the chairperson of the cooperative as a sole executive body, and establish his/her duties, instead of election (appointment) of the management of the cooperative

6. Not only the members of the cooperative may be the chairperson and members of the management.

7. Issues of operational management of the cooperative's activity, the procedure of election (appointment) and removal of management and/or its chairperson, changes in the composition of management, its powers, the terms of service, and liability and obligations of members or the chairperson of the management shall be determined by the charter and by internal normative and legal acts of the cooperative.

#### Article 25. Liability of Members of Management of Cooperative

1. Members of the management of the cooperative must act in the interests of the cooperative, in good faith and reasonably. They must take measures to ensure the confidentiality of information which constitutes official and commercial secret of the cooperative, which became known to them in connection with implementation of their powers.

2. Losses inflicted to the cooperative as a consequence of bad faith performance of their duties by the members of the cooperative management, and conclusion of a transaction which resulted in unjust enrichment of the cooperative members, and in the instances of violation of the legislation of the Kyrgyz Republic and the charter of the cooperative by them, must be indemnified to the cooperative in the court procedure. In these cases persons who caused harm shall bear liability envisaged by legislation of the Kyrgyz Republic.

#### Article 26. Audit of the Cooperative's Activity

1. To exercise control over financial and business activities of the cooperative, the general meeting of the cooperative shall elect the audit committee composed of no less than three cooperative members, or an auditor, if the number of the cooperative members is less than 20. Members of the audit committee (auditor) of the cooperative may not be members of the Board and of the executive bodies of the cooperative.

Persons having not repealed (or not canceled) in the established procedure criminal record for misappropriation, bribery and other mercenary crimes may not be in the audit committee, and be appointed on other positions connected with material liability.

2. The audit committee (auditor) shall carry out an audit review of the financial and economic activity of the cooperative for the purposes of preventing possible violations which entail damaging the interests of cooperative members, making harm to the cooperatives' activity, or its bankruptcy.

3. An audit committee (auditor) of the cooperative shall review the financial status of the cooperative based on the results of the cooperative's activity within the fiscal year, and shall review financial and economic activity of the cooperative by the instruction of the general meeting of the cooperative members, the Board, or by the demand of no less than ten per cent of the cooperative members, and on its own initiative.

4. Members of the audit committee (auditor) may demand from officials of the cooperative provision of documents necessary for the audit.

5. The audit committee (auditor) shall make a written conclusion on the results of its audit review and send it to management of the cooperative and to the Board of the cooperative.

6. The results of an audit review of the cooperative's activity must be discussed within seven days at a joint meeting of management and the Board of the cooperative and then addressed at the regular general meeting of cooperative members.

7. If in the opinion of the audit committee (auditor), the members of the cooperative were not fully informed of its opinion stated in its conclusions, the audit committee (auditor) shall have the right to call a general meeting of members to address this issue.

8. The executive bodies of the cooperative may engage external auditors to exercise the review of financial and economic reports of the cooperative, from the number of individuals who have the right to implement such activity.

The auditors shall carry out the audit of the financial and economic activity of the cooperatives also by the decision of the Board of the cooperative, or by the demand of no less than 10 per cent of the cooperative members.

### CHAPTER V PROPERTY OF A COOPERATIVE

#### Article 27. Sources of Formation of Property of a Cooperative

1. The property of a cooperative may be formed from its own and borrowed assets.
2. A cooperative shall form its own assets from:

- 1) share contributions of cooperative members made subject to its charter;
  - 2) revenues from its own activity;
  - 3) earnings from depositing its assets in banks, investing in securities, etc.;
  - 4) property received as a gift from individuals or legal entities;
  - 5) borrowings; and
  - 6) other sources not prohibited by legislation of the Kyrgyz Republic.
3. A cooperative is the owner of property transferred to it as a share contribution of its members, Art. 8 and Art.19 (4) of this Law) and also of property manufactured and acquired by the cooperative in the course of its activity.
4. The charter of a cooperative may provide that a certain portion of the property of the cooperative may constitute the indivisible fund of the cooperative. The indivisible fund may be used for the purposes set forth in the charter of the cooperative. Decision on formation of the indivisible fund shall be taken by a unanimous consent of the cooperative members, unless otherwise provided by charter of the cooperative.
5. Property comprising the indivisible fund of a cooperative may not be included in the shares of the cooperative members. Cooperative members may not be liable for their personal debts with this property.
6. A cooperative must form a reserve fund. Amount of the reserve fund and procedure for its formation and use shall be set forth by the charter of a cooperative. Allocations to the reserve fund of a cooperative shall be made until the fund reaches the size set forth in the charter of the cooperative.

#### Article 28. Share Contributions of Cooperative Members

1. Property owned by a cooperative, except property which constitutes indivisible assets, shall be divided into a monetary value for share contributions (shares) of cooperative members in accordance with the charter of the cooperative.

The composition and procedure of determining the amount of the share of a cooperative member is established by the charter of the cooperative.

2. The amount of the share capital of a cooperative and the obligatory share shall be established at the general meeting of cooperative members as defined in the cooperative charter. Obligatory shares in cooperative shall be established in equal amounts, unless otherwise provided by the charter of the cooperative.

3. Cooperative members may contribute additional shares, the size and terms of which shall be set forth in the charter of the cooperative.

4. Share contributions shall be accounted for by a cooperative in terms of their value. Evaluation of the share contribution shall be performed in accordance with legislation of the Kyrgyz Republic and the charter of the cooperative.

In case of contribution of property or other property rights by a person joining the cooperative, management shall produce a monetary evaluation of such share contributions which must be approved by a general meeting of members. The general meeting of members may approve a method of monetary valuation of the transferred property and charge management with the task to conduct a monetary evaluation of this property based on this method.

Disputed issues on the evaluation of land plots, land and property shares, and other property shall be addressed at a general meeting of members, unless otherwise provided in the charter of the cooperative. Based on a decision of a general meeting of members of the cooperative, the monetary evaluation of share contributions may be subjected to an independent expert audit or approved by an independent expert.

5. The portion of an appraised value of a share contribution in excess of the amount of the mandatory contribution shall be transferred to the additional share of the member with the cooperative member's consent.

6. A cooperative member must make at least 10 % of the obligatory share contribution before state registration and the remaining part of the obligatory share within one year after state registration of the cooperative.

7. The size of share capital of a cooperative may be increased or decreased by a decision of a general meeting of members with introduction of the appropriate amendments in the cooperative's charter and state registration of the indicated amendments according to the procedure established by law.

8. The size of the share capital shall be increased by introducing additional shares or by increasing the share contributions from cooperative payments.

9. Creditors of a cooperative must be informed of a decrease of share capital within one month of entry into force of the indicated amendments. Claims of creditors made to the cooperative within six months of publication of an announcement of the indicated decrease of share capital must be satisfied.

#### Article 29. Distribution of Profit of a Cooperative

1. A procedure of distribution of cooperative income must be approved at a general meeting of members of the cooperative within three months of expiration of the fiscal year.

2. Income of a cooperative determined based on the balance sheet shall be distributed in the following way:

- 1) to the reserve fund and other funds established by the cooperative's charter;
  - 2) to pay due dividends on additional shares of members and shares of associated members of the cooperative, in the amount defined in the Charter of the cooperative;
  - 3) for cooperative payments.
3. Cooperative payments shall be distributed in accordance with the charter of a cooperative.

#### Article 30. Property Liability of a Cooperative

1. A cooperative shall be liable on its obligations with all its property belonging to it on the right of ownership and shall not be liable for the obligations of its members.

2. Cooperative members shall not be liable on the cooperative's obligations, and shall bear risk of losses, associated with the activity of the cooperative, within the limits of value of the mandatory share contributions made.

3. Cooperative members who did not make their mandatory share contributions in full, shall bear joint and several liability on the obligations thereof, within the limits of value of non-contributed part of the mandatory contribution (share) of each cooperative member.

4. Losses caused to the cooperative through the fault of a member of such a cooperative shall be indemnified subject to the procedures set forth in the legislation of the Kyrgyz Republic and the charter of the cooperative.

5. Where the property and funds of the cooperative is insufficient to satisfy the claims of the creditors the general meeting of cooperative members may provide for additional contributions of cooperative members. The sizes of additional contributions shall be defined in proportion to the obligatory share or in the other procedure established by the charter of the cooperative.

Decision on this issue shall be adopted by the qualified majority of not less than 2/3 of votes of all cooperative members, unless otherwise established by the charter of the cooperative.

6. Execution against a share contribution of a cooperative member for his personal debts shall be allowed only upon insufficiency of other property to repay such debts in the procedure and term established by legislation of the Kyrgyz Republic and the charter of the cooperative.

#### Article 31. Contractual Obligations

The relationships of the cooperative and its members connected with implementation of economic activity shall be built on the contractual basis in accordance with the requirements of legislation of the Kyrgyz Republic and the charter of the cooperative.

#### Article 32. Documentation and Accounting of a Cooperative

1. A cooperative must properly keep accounting books and minutes of general meetings of the cooperative members, management and the Board of the cooperative. The cooperative must keep personal accounts of its members with indication of their full names, surnames and patronymics, places of residence, passport data, personal signatures and amounts of share contributions (for individuals), official names, location, bank account numbers, etc. (for legal entities) At any time, a cooperative member or his representative with a properly drafted power of attorney may review documents and accounting books of a cooperative.

2. A cooperative shall bear liability established by legislation of the Kyrgyz Republic for the authenticity of the information contained in the annual report and accounting balance sheet and for the authenticity of information submitted to state bodies and cooperative members and published in official newspapers.

#### Article 33. Taxation of Cooperatives

Taxation of all types of cooperatives shall be effected in accordance with tax legislation of the Kyrgyz Republic.

#### Article 34. Labor in a Cooperative

Labor relations of hired employees and a cooperative shall be governed by labor legislation of the Kyrgyz Republic.

#### Article 35. Reorganization and Liquidation of a Cooperative

Reorganization (merger, annexation, division, separation, transformation) and liquidation of a cooperative shall be carried out subject to provisions of legislation of the Kyrgyz Republic.

## Article 36. Effectuation of This Law

1. This Law shall be effectuated from the moment of its official publication.
2. From the moment of effectuation of this Law following shall be deemed repealed:
  - the Law of the Kyrgyz Republic "On Cooperation in the Republic of Kyrgyzstan" of December 12, 1991 # 647-XII (Vedomosti of the Supreme Council of the Republic of Kyrgyzstan' 1991 # 22, p. 660);
  - the Law of the Republic of Kyrgyzstan "On Introduction of Changes in the Law of the Republic of Kyrgyzstan "On Cooperation in the Republic of Kyrgyzstan" of June 29, 1994 # 920 - XII (Svobodnye Gory # 100 of August 11, 1992);
  - the Law of the Kyrgyz Republic "On Introduction of Amendments into the Law of the Republic of Kyrgyzstan "On Cooperation in the Republic of Kyrgyzstan" of January 11, 1994 # 1365-XII (Vedomosti of the Jogorku Kenesh of the Kyrgyz Republic 1994, # 3, p. 80);
  - the Resolution of the Supreme Council of the Republic of Kyrgyzstan "On the Procedure of Effectuation of the Law of the Republic of Kyrgyzstan "On Cooperation in the Republic of Kyrgyzstan" of December 12, 1991 # 648-XII).
- The Resolution of the Jogorku Kenesh of the Kyrgyz Republic "On the Procedure of Effectuation of the Law of the Kyrgyz Republic "On Introduction of Additions to the Law of the Republic of Kyrgyzstan "On Cooperation in the Kyrgyz Republic" of January 11, 1994 # 1366-XII.
3. The Government of the Kyrgyz Republic within three months shall harmonize its decisions with this Law.
4. Any legal entity established in the form of a cooperative not complying with the requirements of this Law shall within one year from the day of effectuation of this Law bring its founding documents into compliance with this Law.

The President of the Kyrgyz Republic A.Akaev

Adopted by the Legislative Chamber of  
Jogorku Kenesh of the Kyrgyz Republic May 10, 1999