
LOAN NUMBER 2314-KGZ (SF)

GRANT NUMBER 0073 - KGZ (SF)

FINANCING AGREEMENT
(Special Operations)

(Southern Agriculture Area Development Project)

between

KYRGYZ REPUBLIC

and

ASIAN DEVELOPMENT BANK

DATED 31 May 2007

FAS:KGZ 31196

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 31 May 2007 between the KYRGYZ REPUBLIC (the "Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement; and

(B) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions hereinafter set forth and, in relation to Components 1B and 2B of the Project, upon the terms and conditions set forth in the Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Recipient", wherever it appears in the Grant Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “Agribusiness Sub-borrower” means an agribusiness enterprise to which a Finance Institution has made or proposes to make a Sub-borrower Loan;

(b) “Anticorruption Policy” means ADB’s *Anticorruption Policy (1998)*, as amended to date;

(c) “AO” means an Aiyl Okmotus, a village government body representing one or more villages in a Project Raion;

(d) “Central PMU” means the Project Management Unit located in Osh Oblast, as more fully described in paragraph 3 of Schedule 5 to this Financing Agreement;

(e) “Community Participation Plan” means the plan that governs the manner in which communities in the Project Area will engage in decision making and otherwise participate in the Project, as prepared by the Beneficiary;

(f) “Component 1B” means the provision of the dedicated credit line to farmers in the Project Area, as more fully described in Schedule 1 to this Financing Agreement;

(g) “Component 2B” means the provision of the dedicated credit line to agribusinesses in the Project Area, as more fully described in Schedule 1 to this Agreement;

(h) “Cooperative” means a group of farmers organized to pursue a common objective;

(i) “Consulting Guidelines” means ADB’s “Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” dated April 2006, as amended from time to time;

(j) “DWR” means the Department of Water Resources of the Beneficiary;

(k) “EMP” means the Environmental Mitigation and Monitoring Plan for the Project prepared by the Beneficiary in relation to the Project;

(l) “Farmer Sub-borrower” means an individual farmer to which a Finance Institution has made or proposes to make a Sub-borrower Loan;

(m) “Financial Institution” means an institution meeting the agreed selection criteria for the Project, as more fully described in paragraph 17 of Schedule 5 to this Financing Agreement;

(n) “Gender Action Plan” means the plan that governs the manner in which females in the Project Area will participate in the Project, as prepared by the Beneficiary;

(o) “Goods” means the equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commission, training, and initial maintenance, but excluding consulting services;

(p) “IEE” means the Initial Environment Examination prepared by the Beneficiary in relation to the Project;

(q) “ISF” means the irrigation service fee established and charged by a WUA for on-farm irrigation requirements;

(r) “KGS” means Som, the lawful currency of the Kyrgyz Republic;

(s) “MAWRPI” means the Ministry of Agriculture, Water Resources, and Processing Industry of the Beneficiary;

(t) “MOF” means the Ministry of Finance of the Beneficiary;

(u) “NBKR” means the National Bank of the Kyrgyz Republic;

(v) “Orchard Improvement Plan” has the meaning specified in paragraph 25 of Schedule 5 to this Financing Agreement;

(w) “Pastureland Management Plan” has the meaning specified in paragraph 22 of Schedule 5 to this Financing Agreement;

(x) “PMU” means any of the Central PMU or the Regional PMUs;

(y) “PPMS” means the Project Performance Management System to be established in accordance with paragraph 40 of Schedule 5 to this Financing Agreement;

(z) “Procurement Guidelines” means ADB’s “Procurement Guidelines” dated April 2006, as amended from time to time;

(aa) “Procurement Plan” means the procurement plan for the Project dated 18 December 2006 and agreed between the Beneficiary and ADB, as updated from time to time in accordance with the Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(bb) “Project Agreement” means the agreement to be entered into between ADB and a Financial Institution in relation to any Subsidiary Loan, substantially in the form and substance of Appendix 1 hereto;

(cc) “Project Area” means the area governed by the AOs;

(dd) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means MAWRPI, which is responsible for the carrying out of the Project;

(ee) “Project facilities” means the infrastructure, equipment and related facilities to be constructed, rehabilitated and provided under the Project;

(ff) “Project Oblast” means any of Batken Oblast, Jalalabad Oblast, or Osh Oblast;

(gg) “Project Steering Committee” means the committee established for the Project under the ADB financed Project Preparatory Technical Assistance for the Project, PPTA 4438, and chaired by MAWRPI and comprised of representatives of the Project Oblasts; MOF; SCEPF; the Office of the Government; the National Council of the Central Asian Countries Initiative for Land Management; non-government and private sector representatives, in each case, acceptable to ADB; the Project coordinator; the Project manager; and ADB;

(hh) “Project Raion” means any of Batken, Kadamjay or Leylek Raion in Batken Oblast; Bazaar Korgon, Nooken or Suzak Raion in Jalalabad Oblast; or Aravan, Kara Suu or Uzgen Raion in Osh Oblast;

(ii) “Regional PMU” means the Project Management Unit located in either Batken Oblast or Jalalabad Oblast, as more fully described in paragraph 4 of Schedule 5 to this Financing Agreement;

(jj) “Resettlement Plan” has the meaning specified in paragraph 31 of Schedule 5 to this Financing Agreement;

(kk) “Revenue Sharing Agreement” has the meaning specified in paragraph 21 of Schedule 5 to this Financing Agreement;

(ll) “SCEPF” means the State Committee for Environmental Protection and Forestry of the Beneficiary;

(mm) “Site Specific EMP” has the meaning specified in paragraph 27 of Schedule 5 to this Financing Agreement;

(nn) “Sub-borrower” means an Agribusiness Sub-borrower or a Farmer Sub-borrower to which a Financial Institution makes a Sub-borrower Loan;

(oo) “Sub-borrower Loan” means a loan made or proposed to be made by a Financial Institution to a Sub-borrower for the purpose of any Subproject, in accordance with the terms and conditions of a Sub-borrower Loan Agreement;

(pp) “Sub-borrower Loan Agreement” means the agreement pursuant to which a Financial Institution agrees to lend to a Sub-borrower a portion of the Subsidiary Loan proceeds;

(qq) “Subproject” means any farming or agribusiness project or activity to be carried out utilizing the proceeds of a Sub-borrower Loan;

(rr) “Subsidiary Loan” means any loan, made from the proceeds of the Loan, made to a Financial Institution in accordance with the terms and conditions of a Subsidiary Loan Agreement;

(ss) “Subsidiary Loan Agreement” means the agreement to be entered into between the Beneficiary and a Financial Institution for each Subsidiary Loan made to a Financial Institution, in form and substance acceptable to ADB;

(tt) “Subsidiary Loan Proceeds” has the meaning specified in Section 3.02;

(uu) “Tender Committee” means the committee of the Project Steering Committee responsible for reviewing and evaluating all procurement proposals for consulting services, Works and Goods, as chaired by MAWRPI and comprised of members of the MOF, SCEPF, the national procurement agency, the PMU manager, the PMU procurement specialist, representatives of each Project Oblast, and others as deemed necessary by the chair;

(vv) “Works” means construction or civil works to be financed out of the proceeds of the Loan and the Grant, but excluding consulting services;

(ww) “WUA” means a Water User Association, a non-commercial association of farmers responsible for the operation and maintenance of on-farm drainage and irrigation infrastructure within a defined irrigation area in rural areas, as established in accordance with the WUA Law;

(xx) “WUA Infrastructure” means any on-farm drainage and/or irrigation infrastructure operated and managed by a WUA;

(yy) “WUA Law” means the Law on Unions (Associations) of Water Users of the Kyrgyz Republic (27 March 2002); and

(zz) “WUA Support Unit” means a support unit established at the raion level that supports the establishment, training and development of a WUA.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

(a) a loan in various currencies equivalent to Nine Million Nine Hundred Twenty Five Thousand Special Drawing Rights (SDR 9,925,000) (the “Loan”); and

(b) a grant in the amount of Five Million Dollars (\$5,000,000) (the “Grant”).

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3A to this Agreement for purposes of financing the Project expenditures under the Project; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of Schedule 3B to this Agreement for purposes of financing

the Project expenditures under the Project, other than expenditures for Components 1B and 2B of the Project.

Section 2.03. (a) The Beneficiary shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 January and 15 July in each year.

Section 2.05. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.06. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be Dollars.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. The Beneficiary shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. (a) The Beneficiary shall relend a portion of the Loan proceeds, equivalent to Two Million Six Hundred Forty Six Thousand Seven Hundred Forty Five Special Drawing Rights (SDR2,646,745), to Financial Institutions under Components 1B and 2B of the Project (Subsidiary Loan Proceeds). The Beneficiary shall make available such Subsidiary Loan Proceeds, in KGS or Dollars, as applicable, to qualified Financial Institutions pursuant to Subsidiary Loan Agreements upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, if Subsidiary Loan Proceeds are relent to a Financial Institution in KGS, the terms for relending to Financial Institutions the Subsidiary Loan Proceeds shall include interest at a variable rate based on the average inflation rate of the past year as announced by the National Statistics Committee and the projected inflation rate for the ongoing year as announced by the NBKR. This rate will be reviewed semi-annually. In addition, a fixed margin of 1% shall be added for administration costs and a variable margin of no less than 1% shall be added to cover foreign exchange risks of the Beneficiary. Except as ADB may otherwise agree, if Subsidiary Loan Proceeds are relent to a Financial Institution in Dollars, the terms for relending to Financial Institutions

the Subsidiary Loan Proceeds shall include interest at a variable rate equal to 6-month LIBOR for Dollars and a minimum margin of 1% to cover administration and related costs of the Beneficiary. This rate, formula and actual margin shall be reviewed jointly with MOF and Financial Institutions semi-annually as necessary. For Subsidiary Loan Proceeds relend to financial institutions in either KGS or Dollars, the repayment period shall be 15 years, including a grace period of three years. Following repayment of the Subsidiary Loan Proceeds by any Financial Institution, the Beneficiary shall relend the funds to eligible Financial Institutions under similar terms.

(c) The Beneficiary shall cause each Financial Institution to (i) apply the proceeds of the Loan provided under any Subsidiary Loan Agreement to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement and the Project Agreement, (ii) onlend the proceeds of the Subsidiary Loan to eligible Sub-borrowers in accordance with the terms of the Subsidiary Loan Agreement and related Project Agreement, and (iii) enter into a Project Agreement with ADB relating to the Subsidiary Loan provided to such Financial Institution under a Subsidiary Loan Agreement.

Section 3.03. The Goods, Works, and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such Goods, Works, and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and Schedule 3B may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.04. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.05. (a) Withdrawals from the Loan Account, other than withdrawals required for purposes of Component 1B or Component 2B, and the Grant Account in respect of Goods, Works, and consulting services, shall be made only on account of expenditures relating to Goods and Works which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement.

(b) Withdrawals from the Loan Account and the Grant Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to goods and services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2013 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for the Loan and Grant imprest accounts and statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Beneficiary shall enable ADB, upon ADB's request, to discuss the Beneficiary's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Beneficiary pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Beneficiary unless the Beneficiary shall otherwise agree.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

Section 4.04. The Beneficiary shall take all action which shall be necessary on its part to enable each Financial Institution to perform their respective obligations under any Project Agreement and shall not take any action or permit any action to be taken which would interfere with the performance of such obligations.

Section 4.05. (a) The Beneficiary shall exercise its rights under the Subsidiary Loan Agreement in such a manner so as to protect the interests of the Beneficiary and ADB and to accomplish the purposes of Components 1B and 2B of the Project.

(b) No rights or obligations under any Subsidiary Loan Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Beneficiary to make withdrawals from the Loan Account, to be used as Subsidiary Loan Proceeds under Component 1B or Component 2B, for the purposes of Section 8.01(m) of the Loan Regulations: any Financial Institution shall have failed to perform its obligations under a Subsidiary Loan Agreement to which it is a party or under the related Project Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity of the loan for the purposes of Section 8.07(d) of the Loan Regulations: any event specified in Section 5.01 of this Financing Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01 (e) of the Grant Regulations, respectively:

- (a) the Central PMU shall have been established in Osh Oblast; and
- (b) the Central PMU shall be staffed with a full time Project manager, financial manager and procurement specialist, in each case, acceptable to ADB.

Section 6.02. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

Ministry of Finance
58, Erkindik Boulevard
Bishkek, 720040
Kyrgyz Republic

Facsimile Number:

312-66-16-45

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

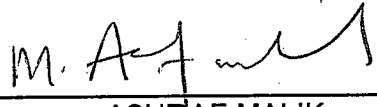
(632) 636-2444
(632) 636-2301.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

KYRGYZ REPUBLIC

By 
AKYLBEK USENBEKOVICH JAPAROV
Minister
Ministry of Finance

ASIAN DEVELOPMENT BANK

By 
ASHRAF MALIK
Country Director
Kyrgyz Resident Mission

SCHEDULE 1

Description of the Project

1. The impact of the Project will be the adoption of improved agricultural, orchard and pasture management techniques on a region wide basis in the Project Area. The outcome of the Project will be a sustainable increase in land productivity and profitability in the Project Area.

2. The Project consists of the following five components:

a. Component 1 – Farm Development. Component 1 will (A) support agricultural and legal advisory services by improving the capacity and technical scope of service providers, increasing the quality and outreach of advisory services, and facilitating access to existing legal services, and (B) increase farmers' access to credit through the provision of a credit line (Component 1B). In particular, Component 1 will:

- i. assess the situation for potential development opportunities and partner organizations in each Project AO and prepare a plan of Project interventions for each such AO;
- ii. develop high quality training materials to improve the technical skills of advisory staff and their capacity to advise farmers;
- iii. implement farmer field schools, through suitable national organizations, to increase the field experience of skilled trainers in various crops;
- iv. expand the outreach of village advisory services to cover a greater number of AOs and farmers in the Project Area in order to improve farmers' skills and diversify incomes;
- v. facilitate farmers' access to legal advisory services to improve farmers' understanding of their legal rights, improve contract enforcement and create greater confidence in legal contracts; and
- vi. provide a credit line to assist farmers in implementing their investment plans through the provision of working capital and investment finance.

b. Component 2 – Agribusiness Development and Marketing. Component 2 will (A) increase and improve contractual arrangements between farmers and agribusinesses for input supply, machinery services and wholesale and processing enterprises; improve agribusiness performance; increase public investment in physical market infrastructure, and (B) increase the availability of and agribusiness' access to appropriate financing facilities through the provision of a credit line (Component 2(B)). In particular, Component 2 will:

- i. support domestic and export marketing by supporting farmers in identifying, negotiating and concluding equitable contracts with relevant counterparties;
- ii. provide farmers with knowledge and information necessary for planning their production for sale to the marketplace; and
- iii. provide advisory services to agribusinesses to develop viable enterprises to serve the target farm areas;

- iv. rehabilitate existing or construct new cooling and storage facilities; and
 - v. provide a credit line to agribusinesses to be used for investment finance or working capital requirements.
- c. Component 3 – Irrigation and Drainage. Component 3 will further develop WUAs and rehabilitate WUA infrastructure. In particular, Component 3 will:
- i. support the development of WUAs in the Project Area; and
 - ii. rehabilitate WUA Infrastructure for selected WUAs in the Project Area.
- d. Component 4 – Land Improvement. Component 4 will support a holistic and participatory approach to the sustainable use of pasture lands and the improvement of orchard management in the Project Area. In particular, Component 4 will:
- i. design and implement pasture land interventions;
 - ii. mobilize community participation in pastureland planning and management;
 - iii. develop an effective monitoring system for pasture land use; and
 - iv. improve orchard management by developing improvement plans, addressing local restrictions, improving leasing arrangements, restocking orchards and training farmers.
- e. Component 5 – Project Management. Component 5 will establish a Central PMU and two Regional PMUs to implement, monitor and manage the Project. In particular, Component 5 will, through the PMUs:
- i. contract existing institutions to build sustainable institutional implementation capacity;
 - ii. work collaboratively with other development partners to avoid duplication and minimize Project management costs; and
 - iii. employ consulting services on an as needed basis.
3. The Project is expected to be completed by 30 June 2013.

SCHEDULE 2**Amortization Schedule
(Southern Agriculture Area Development Project)**

| <u>Date Payment Due</u> | <u>Payment of Principal</u> (expressed in Special Drawing Rights)* |
|-------------------------|--|
| 15 July 2015 | 206,771.00 |
| 15 January 2016 | 206,771.00 |
| 15 July 2016 | 206,771.00 |
| 15 January 2017 | 206,771.00 |
| 15 July 2017 | 206,771.00 |
| 15 January 2018 | 206,771.00 |
| 15 July 2018 | 206,771.00 |
| 15 January 2019 | 206,771.00 |
| 15 July 2019 | 206,771.00 |
| 15 January 2020 | 206,771.00 |
| 15 July 2020 | 206,771.00 |
| 15 January 2021 | 206,771.00 |
| 15 July 2021 | 206,771.00 |
| 15 January 2022 | 206,771.00 |
| 15 July 2022 | 206,771.00 |
| 15 January 2023 | 206,771.00 |
| 15 July 2023 | 206,771.00 |
| 15 January 2024 | 206,771.00 |
| 15 July 2024 | 206,771.00 |
| 15 January 2025 | 206,771.00 |
| 15 July 2025 | 206,771.00 |
| 15 January 2026 | 206,771.00 |
| 15 July 2026 | 206,771.00 |
| 15 January 2027 | 206,771.00 |
| 15 July 2027 | 206,771.00 |
| 15 January 2028 | 206,771.00 |
| 15 July 2028 | 206,771.00 |
| 15 January 2029 | 206,771.00 |
| 15 July 2029 | 206,771.00 |
| 15 January 2030 | 206,771.00 |
| 15 July 2030 | 206,771.00 |
| 15 January 2031 | 206,771.00 |
| 15 July 2031 | 206,771.00 |
| 15 January 2032 | 206,771.00 |
| 15 July 2032 | 206,771.00 |
| 15 January 2033 | 206,771.00 |
| 15 July 2033 | 206,771.00 |
| 15 January 2034 | 206,771.00 |
| 15 July 2034 | 206,771.00 |
| 15 January 2035 | 206,771.00 |

| | | |
|------------|------|----------------------------|
| 15 July | 2035 | 206,771.00 |
| 15 January | 2036 | 206,771.00 |
| 15 July | 2036 | 206,771.00 |
| 15 January | 2037 | 206,771.00 |
| 15 July | 2037 | 206,771.00 |
| 15 January | 2038 | 206,771.00 |
| 15 July | 2038 | 206,771.00 |
| 15 January | 2039 | <u>206,763.00</u> |
| TOTAL | | <u>9,925,000.00</u> |

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3A

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 8 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB (Loan Imprest Account). The Loan Imprest Account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Beneficiary and ADB. The currency of the Loan Imprest Account shall be Dollars. The initial amount to be deposited into the Loan Imprest Account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures required for the PMU and for Goods and Works procured in accordance with National Competitive Bidding procedures and to liquidate advances provided into the Loan Imprest Account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

Conditions of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Loan Account under Component 1B or Component 2B for the benefit of any Financial Institution until:

(a) a Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered by the MOF (on behalf of the Beneficiary), and such Financial Institution and shall have become legally binding upon the parties in accordance with its terms, subject only to the effectiveness of this Financing Agreement;

(b) a Project Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of ADB and such Financial Institution and shall have become legally binding upon the Financial Institution in accordance with its terms, subject only to the effectiveness of this Financing Agreement; and

(c) ADB shall have received a legal opinion, in English and satisfactory to ADB, providing that (i) the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the MOF and such Financial Institution, and is legally binding upon the parties in accordance with its terms, subject only to the effectiveness of this Financing Agreement and (ii) the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, such Financial Institution, and is legally binding upon the Financial Institution in accordance with its terms, subject only to the effectiveness of this Financing Agreement.

TABLE

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Southern Agriculture Area Development Project) | | | | |
|---|---|---------------------------------|--------------------|--|
| CATEGORY | | | | ADB FINANCING |
| Number | Item | Amount Allocated SDR | | Percentage and Basis for Withdrawal from the Loan Account |
| | | Category | Subcategory | |
| 1 | Civil Works | 4,103,000 | | 72 percent of total expenditure |
| 2 | Vehicles | 132,000 | | 78 percent of total expenditure |
| 3 | Equipment | 463,000 | | 78 percent of total expenditure |
| 4 | Materials and Services | 132,000 | | 44 percent of total expenditure |
| 5 | Training | 569,000 | | 28 percent of total expenditure |
| 6 | Credit Line | 2,647,000 | | 100 percent of total expenditure |
| 7 | Recurrent Costs | 503,000 | | |
| 7A | Operation and Maintenance of PMU Vehicles | | 106,000 | 74 percent of total expenditure |
| 7B | PMU Other Operation and Maintenance | | 390,000 | 40 percent of total expenditure |
| 7C | PMU Travel and Per Diem | | 7,000 | 7 percent of total expenditure |
| 8 | Interest Charge | 344,000 | | 100 percent of amount due |
| 9 | Unallocated | 1,032,000 | | |
| | Total | 9,925,000 | | |

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB (Grant Imprest Account). The Grant Imprest Account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and

detailed arrangements agreed upon between the Beneficiary and ADB. The currency of the Grant Imprest Account shall be Dollars. The initial amount to be deposited into the Grant Imprest Account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures required for the PMU and for Goods and Works procured in accordance with National Competitive Bidding procedures and to liquidate advances provided into the Grant Imprest Account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the aggregate Loan and Grant equivalent of \$50,000.

Retroactive Financing

6. Withdrawals from the Grant Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Financing Agreement, in connection with engaging consultants as required for Project implementation, including, without limitation, a Project manager, financial manager, and procurement specialist, and to establish the Central PMU, subject to a maximum amount equivalent to \$50,000.

TABLE

| ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Southern Agriculture Area Development Project) | | | | |
|--|--|--------------------------------|--------------------|---|
| CATEGORY | | | | ADB FINANCING |
| Number | Item | Amount Allocated \$ | | Percentage and Basis for Withdrawal from the Grant Account |
| | | Category | Subcategory | |
| 1 | Civil Works | 670,000 | | 8 percent of total expenditure |
| 2 | Materials and Services | 50,000 | | 23 percent of total expenditure |
| 3 | Training | 850,000 | | 28 percent of total expenditure |
| 4 | Consulting Services | 2,870,000 | | 79 percent of total expenditure |
| 5 | Recurrent Costs – PMU Travel and Per Diems | 130,000 | | 88 percent of total expenditure |
| 6 | Unallocated | 430,000 | | |
| | Total | 5,000,000 | | |

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan and Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

| |
|-----------------------------------|
| International Competitive Bidding |
| National Competitive Bidding |
| Limited International Bidding |
| Shopping |

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Beneficiary may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Beneficiary may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. No procurement may be undertaken under National Competitive Bidding (NCB) procedures unless ADB and the Beneficiary have agreed in writing to any necessary modifications or clarifications to the Beneficiary's NCB procedures for purposes of this Project to ensure consistency with ADB's Procurement Guidelines. Any such modifications or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Financing Agreement.
6. Community Participation in Procurement. The Beneficiary may use community participation in procurement for Works contracts for rehabilitation of the WUA Infrastructure in accordance with the agreed procedures set out in the Procurement Plan.

C. Procurement for Goods and Works Financed under Sub-borrower Loan Agreements

7. For procurement of Goods and Works to be financed by a Sub-borrower Loan, the Beneficiary shall cause each Financial Institution to require that the procurement

procedures of each Sub-borrower (a) are appropriate under the circumstances, (b) are in accordance with established commercial practices, acceptable to ADB, and (c) comply with the provisions of ADB's Anticorruption Policy.

D. Selection of Consulting Services

8. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Beneficiary shall apply quality- and cost-based selection for selecting and engaging consulting services.

E. Industrial or Intellectual Property Rights

9. (a) The Beneficiary shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

10. The Beneficiary shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

F. ADB's Review of Procurement Decisions

11. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Beneficiary and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Project Implementation and Other Matters

Implementation Arrangements

1. The Project Steering Committee shall be responsible for (a) guiding the overall policy and strategic direction of the Project; (b) reviewing and evaluating Project performance; (c) reviewing audited Project accounts; (d) selecting consultants through the Tender Committee; and (e) facilitating coordination of Project activities with activities taking place under other donor financed projects in the Project Area. The Project Steering Committee shall meet at least twice during the initial four months after the Effective Date, and on a semi-annual basis thereafter. The Project Steering Committee shall be maintained until Project completion.

2. MAWRPI, as the Project Executing Agency, shall be responsible for overall Project implementation. MAWRPI shall be responsible for (a) disbursing loan and grant proceeds and keeping accurate and duplicate records and accounts of such disbursements, (b) submitting to ADB progress and related reports prepared by the PMU, (c) ensuring timely submissions of audited accounts for the Project to ADB, and (d) serving as the focal point for ADB's project review missions and coordinating communication and interaction among MAWRPI, Project Oblasts, contracted service providers and ADB. MAWRPI shall appoint a Project coordinator to oversee the Project. The Project coordinator shall report to the Minister of MAWRPI and the Project Steering Committee on major issues affecting the Project.

3. The Central PMU shall be responsible for the day-to-day coordination and overall implementation of the Project and, in particular, for selecting, engaging, contracting and monitoring the various contract service providers engaged under the Project. The Central PMU shall (a) ensure the Project is implemented in accordance with the design specifications; (b) ensure effective interagency coordination; (c) ensure compliance with environmental and other social safeguard requirements; (d) maintain appropriate accounts, including detailed reports on withdrawal applications and disbursements; (e) manage the procurement process in accordance with ADB's requirements; (f) manage and monitor all contracts and contract service providers and work closely with such service providers to ensure methodologies, approaches and appropriate management systems; (g) prepare quarterly and other required progress reports, in form and substance acceptable to ADB; (h) develop an effective monitoring and evaluation system; and (i) develop appropriate public relations procedures. The Beneficiary shall ensure that the PMUs have adequate office space and facilities as required for Project implementation. The PMUs shall be maintained until Project completion.

4. Within one year of the Effective Date, each of the Regional PMUs shall be established.

Counterpart Financing and Financial Support

5. The Beneficiary shall (a) make available all counterpart funds required for the Project and (b) on an annual basis for each fiscal year, make adequate budgetary allocations as required to (i) support timely and effective Project implementation, (ii) implement the mitigation measures and monitoring requirements of the IEE and EMP for the Project, including those mitigation measures and monitoring requirements arising from the implementation of the environmental assessment and review procedures contained in the

IEE, (iii) commencing in January 2007, fund the operating costs of the WUA Support Units in the Project Area as required to maintain such WUA Support Units as financially sustainable entities, (iv) implement each of the Gender Action Plan and the Community Participation Plan, and (v) address land degradation in the pasture lands in accordance with the terms of the Pasture Land Management Plan.

6. The Beneficiary (a) shall not reduce the allotted annual budget allocations to any AO in the Project Area, and shall ensure that the allotted annual budget allocations to any AO in the Project Area are not reduced, in either case, as a result of any such AO being provided with Grant financing from the Project, and (b) shall ensure that the annual budget allocations to each AO in the Project Area are not less than the budget allocations from the previous fiscal year.

Farm Development

7. The Beneficiary shall ensure that the Financial Institutions on-lend the portion of the Loan proceeds allocated for the purpose of establishing credit lines at qualified Financial Institutions to be used for working capital and investments by farmers in the Project Area (a) only to eligible Farmer Sub-borrowers who have business plans, commercially viable subproject proposals, adequate collateral and financial rates of return, and demonstrated payment capacity and (b) pursuant to Sub-borrower Loan Agreements with such Farmer Sub-borrowers upon terms and conditions acceptable to ADB. Subject to the procedures agreed with ADB, the Financial Institutions will have full authority to select Farmer Sub-borrowers, approve Sub-borrower Loans, and determine lending terms.

8. ADB shall approve (a) the first five Sub-borrower Loans to be provided to Farmer Sub-borrowers by any Financial Institution and (b) any individual Sub-borrower Loan exceeding \$20,000 equivalent. Thereafter, each such Financial Institution shall approve all Sub-borrower Loans to Farmer Sub-borrowers in the amount of \$20,000 or less. The Beneficiary, through the Financial Institutions, shall ensure that (a) each Sub-borrower Loan proposal provides sufficient evidence of its eligibility under the agreed criteria and is prepared in accordance with the detail and quality required to enable ADB or the Financial Institution, as appropriate, to assess the viability and suitability of such Sub-borrower Loan and related Subproject and (b) all relevant documents forming the basis for the selection and inclusion of each Sub-borrower Loan are made available to ADB upon request.

9. ADB and each Financial Institution shall jointly review the on-lending arrangements from such Financial Institution to the Farmer Sub-borrowers on a regular basis as required to ensure compliance with the terms and conditions of the applicable Subsidiary Loan Agreements and Project Agreements. Based on the results of these reviews, the on-lending arrangements under the Sub-borrower Loan Agreements may be adjusted as required.

Agribusiness Development and Marketing

10. Where cooling and storage facilities are owned by an AO, prior to rehabilitating any such facilities or constructing new facilities on existing facility locations under the Project, the relevant AO shall obtain from a qualified private sector operator (a) cash flow projections for the facilities upon rehabilitation, (b) an investment appraisal demonstrating the financial viability and sustainability of the investment, and (c) a legally binding commitment to (i) operate and manage the cooling and storage facility upon rehabilitation and (ii) lease the facility from the AO for a period of at least five years, with the option to purchase the facility

upon the completion of the lease term (Lease (Buy-Back) Arrangement). Lease (Buy-Back) Arrangements shall be entered into with the MOF on commercial terms and shall include lease payments in an amount sufficient to cover the commercial value of the rehabilitated facility. Where an eligible cooling and storage facility is owned and operated by an inoperative Cooperative, such Cooperative shall first transfer ownership of the relevant cooling and storage facility to the AO before any such cooling and storage facility would be eligible to participate in the Project. The cost of rehabilitating or constructing new cooling and storage facilities shall not exceed \$125,000 equivalent per facility.

11. Where a cooling and storage facility owned by a Cooperative is deemed eligible for rehabilitation under the Project, the Cooperative shall enter into a repayment agreement with the MOF pursuant to which the Cooperative shall (a) repay the commercial value of the rehabilitated facility over a period of seven years, with a two year grace period and (b) pay interest at the inflation rate for the previous calendar year as determined by the National Statistics Committee of the Kyrgyz Republic.

12. In order to encourage the provision of agribusiness advisory services on a cost recovery basis, the Beneficiary shall ensure that each agribusiness receiving such services pays to the service provider a portion of the advisory service costs, subject to a minimum payment of 5%. The specific amount to be paid by each agribusiness shall be determined by the PMU on a case-by-case basis, in consideration of the individual circumstances of each such agribusiness.

Agribusiness Finance

13. The Beneficiary shall ensure that the Financial Institutions on-lend the portion of the Loan proceeds allocated for the purpose of establishing credit lines at qualified Financial Institutions to be used for working capital and investments by agribusinesses in the Project Area (a) only to eligible Agribusiness Sub-borrowers who have business plans, commercially viable subproject proposals, adequate collateral and financial rates of return, and demonstrated payment capacity and (b) pursuant to Sub-borrower Loan Agreements with such Agribusiness Sub-borrowers upon terms and conditions acceptable to ADB. Subject to the procedures agreed with ADB, the Financial Institutions will have full authority to select Agribusiness Sub-borrowers, approve Sub-borrower Loans, and determine lending terms.

14. ADB shall approve (a) the first five Sub-borrower Loans to be provided to agribusiness sub-borrowers by any Financial Institution and (b) any individual Sub-borrower Loan exceeding \$20,000 equivalent. Thereafter, each such Financial Institution shall approve all Sub-borrower Loans to Agribusiness Sub-borrowers in the amount of \$20,000 or less. The Beneficiary, through the Financial Institution, shall ensure that (a) each Sub-borrower Loan proposal provides sufficient evidence of its eligibility under the agreed criteria and is prepared in accordance with the detail and quality required to enable ADB or the Financial Institution, as appropriate, to assess the viability and suitability of such Sub-borrower Loan and related Subproject and (b) all relevant documents forming the basis for the selection and inclusion of each Sub-borrower Loan are made available to ADB upon request.

15. ADB and each Financial Institution shall jointly review the on-lending arrangements from such Financial Institution to the agribusiness sub-borrowers on a regular basis as required to ensure compliance with the terms and conditions of the applicable Subsidiary Loan Agreements and Project Agreements. Based on the results of these reviews, the on-lending arrangements may be adjusted as required.

16. In the event it is determined that certain agribusinesses would benefit from equity finance, a portion of the allocated amount available for the credit line under Component 1B and/or 2B may be used for the purpose of providing equity financing to Cooperatives for investment in eligible agribusinesses on terms and conditions satisfactory to ADB.

Participating Financial Institutions

17. The Beneficiary shall ensure that only Financial Institutions meeting the following criteria shall be eligible to participate in the Project: the Financial Institution (a) is legally registered with the NBKR; (b) has its accounts audited by an international audit company; (c) adheres to NBKR's prudential standards; (d) provides to ADB a business plan, acceptable to ADB, and updates such plan on an annual basis; (e) is financially sound; (f) has adequate credit and risk management policies, operating systems and procedures; (g) is compliant with management practices; (h) has sound business objectives and strategy and/or plan; (i) has autonomy in lending and pricing decisions; (j) has adequate policies, systems and procedures to assess and monitor impacts or Subprojects; and (k) has environmental screening processes acceptable to ADB.

Irrigation and Drainage

18. The Beneficiary, through MAWRPI, shall, within six months of the Effective Date, provide ADB with a short list of WUAs that meet the selection criteria agreed with ADB. Only those WUAs meeting the following criteria shall be eligible to participate in the Project:

- (a) the WUA has been legally registered under the WUA Law and shall have a valid registration certificate in accordance with such law;
- (b) a board of directors has been appointed and administrative staff have been appointed and their salaries are current;
- (c) the WUA has devised a seven year financing plan that includes a process for increasing the on-farm ISFs for WUA members sufficient to cover operation and maintenance costs for the improved WUA Infrastructure;
- (d) the WUA has established an operation and maintenance fund and has provided proof of full payments into such fund;
- (e) all relevant on-farm irrigation and drainage systems have been legally transferred to the WUA; and
- (f) the WUA has no outstanding debt and is financially solvent.

19. The Beneficiary, through MAWRPI, shall ensure that no civil works for any WUA Infrastructure shall commence until such time as: (a) alternative options for rehabilitating WUA infrastructure have been actively discussed among the WUA, (b) a rehabilitation option for WUA Infrastructure has been selected by the WUA, and (c) the WUA responsible for such WUA Infrastructure has entered into a repayment agreement with the MOF whereby the WUA agrees to repay 25% of the costs of rehabilitating the WUA Infrastructure, upon the completion of such rehabilitation, over a period of seven years, with a four year grace period.

20. The Beneficiary shall (a) ensure that the WUA Support Units are fully integrated into DWR by year end 2007 and (b) not decrease the number of WUA Support Units existing as of October 2006 in the Project Area.

21. The Beneficiary, through MAWRPI, shall permit the WUAs in the Project Area to retain ISFs, in excess of the amount required to be paid by such WUA to DWR for water delivery services, collected by or on behalf of such WUAs, for the purpose of operating and maintaining the WUA Infrastructure.

Land Improvement

Sustainable Pasture Land Management

22. The Beneficiary, through MAWRPI, shall ensure that a series of plans for the improvement and management of pasture lands in the Project Area, acceptable to ADB, are developed and prepared so that all such plans are completed within three years of the Effective Date (each such plan, a Pasture Land Management Plan). Each Pasture Land Management Plan shall, among others, (a) identify all government agencies and their respective responsibilities in respect of the Pasture Land Management Plans, (b) include procedures for ensuring community participation in the planning process, including the establishment of appropriate mechanisms for ensuring that the interests of pasture land users are adequately represented, (c) establish systems and procedures for allocating pasture land to farmers through lease arrangements in an equitable and transparent manner, (d) establish revenue sharing and management arrangements among the oblasts, raions and AOs in the Project Area (Revenue Sharing Agreements), (e) provide procedures for using and protecting the pastures, (f) establish plans for improving pasture productivity, (g) include plans for developing, improving and meeting the infrastructure needs of such pastures, and (h) incorporate investment plans. Each Pasture Land Management Plan shall be approved by the relevant authorities in the Project Area. The Beneficiary shall ensure that each Pasture Land Management Plan is implemented in accordance with its terms.

23. The Beneficiary shall request that the AOs in the Project Area reinvest lease revenues derived as a result of the Pasture Land Management Plans in an amount sufficient to finance the operation and maintenance requirements of the pasture land infrastructure.

24. The Beneficiary shall ensure that no investments in pasture land infrastructure are made until such time as the relevant parties have entered into a Revenue Sharing Agreement and such agreement is in full force and effect.

Orchard Improvement

25. The Beneficiary, through MAWRPI, shall ensure that a series of plans for the improvement and management of orchards in the Project Area, acceptable to ADB, are developed and prepared so that all such plans are completed within three years of the Effective Date (each such plan, an Orchard Improvement Plan). Each Orchard Improvement Plan shall, among others, (a) identify all government agencies and their respective responsibilities in respect of the Orchard Improvement Plans, (b) include procedures for ensuring community participation in the planning process, (c) establish systems and procedures for allocating orchards to farmers through lease arrangements in an equitable and transparent manner, (d) include plans for improving orchards, and (e) incorporate investment plans. Each Orchard Improvement Plan shall be approved by the relevant authorities in the Project Area. The Beneficiary shall ensure that each Orchard Improvement Plan is implemented in accordance with its terms.

Environment

26. The Beneficiary shall ensure that (a) the Project is carried out in accordance with, and all Project facilities are designed, constructed, operated, maintained and monitored in compliance with, all applicable environmental laws and regulations and ADB's Environmental Policy, (b) the Project Executing Agency implements (i) the mitigation measures and monitoring requirements set forth in the IEE, including those mitigation measures and monitoring requirements arising from the implementation of the environmental assessment and review procedures contained in the IEE, and (ii) the EMP in accordance with its terms, and (c) that the mitigation measures specified in the EMP, including any Site Specific EMP, are incorporated into all civil works contracts under the Project.

27. The Beneficiary, through MAWRPI, shall ensure that the drainage and irrigation rehabilitation plan for any WUA Infrastructure to be rehabilitated under the drainage and irrigation component of the Project incorporates a site-specific environmental management and mitigation plan prepared on the basis of the guidelines set forth in the IEE (Site Specific EMP) for any WUA Infrastructure.

28. The Beneficiary shall ensure that no WUA Infrastructure is rehabilitated under the Project if (a) such infrastructure is prone to natural disasters and otherwise could not be easily protected through a modest expenditure on protective infrastructure, or (b) rehabilitation is likely to have a serious negative impact on the environment, including without limitation, result in the mobilization of heavy metals and other pollutants into the water supply and soil.

29. The Beneficiary, through MAWRPI, shall ensure that the selection, procurement, storage, application, handling and disposal of any pesticides under the Project are carried out in compliance with (a) all applicable laws and regulations, including, without limitation, the Law on Chemical Treatment and Protection of Plants (1999 (2003)) and (b) the recommendations of the United Nations Food and Agriculture Code of Conduct on the Distribution and Use of Pesticides.

30. The Beneficiary shall ensure that the quantity and quality of surface water flows across international boundaries in the Syr Darya Basin are maintained in compliance with all applicable international treaties. No WUA Infrastructure that would materially affect the quality or quantity of water flows in the Syr Darya river basin shall be financed under the Project.

Land Acquisition and Resettlement

31. If any Project activity causes land acquisition and/or resettlement impacts, the Beneficiary must inform ADB and justify the reasons for the related impacts. After concurrence from ADB, the Beneficiary shall prepare a Resettlement Plan in accordance with ADB's Involuntary Resettlement Policy (1995) (Resettlement Plan). Each Resettlement Plan must be approved by ADB prior to the implementation of any land acquisition and/or resettlement activities under the Project or the commencement of Works on any affected Project component.

32. The Beneficiary shall ensure that all affected persons (APs) under the Project are (a) given adequate opportunity to participate in resettlement planning and implementation activities and (b) compensated in accordance with the terms of the Resettlement Plan such

that, in each case, APs are at least as well off as they would have been in the absence of the Project.

33. The Beneficiary shall ensure that (a) civil works contractors' specifications include requirements to comply with, and civil works contractors are supervised so as to ensure compliance with, any Resettlement Plan, and (b) in the event there are any substantial changes in resettlement impacts, the Resettlement Plan is updated and disclosed to the APs and provided to ADB for its concurrence prior to the commencement of related civil works.

34. The Beneficiary shall ensure that the Project is implemented in accordance with (a) all applicable laws and regulations, (b) each Resettlement Plan, as applicable, and (c) ADB's Involuntary Resettlement Policy.

Labor, Gender, and Community Participation

35. The Beneficiary shall ensure that (a) provisions are stipulated in all civil works contracts that require contractors employed under the Project to incorporate applicable workplace occupational safety norms and (b) civil works contractors (i) comply with all applicable labor laws, (ii) do not employ child labor for construction and maintenance activities, and (iii) ensure that there is no differentiation in wages between men and women for work of equal value.

36. The Beneficiary shall ensure that Farmer Sub-borrowers do not employ child labor in their farming activities. To this end, the Beneficiary shall ensure that provisions are stipulated in all Sub-borrower Loan Agreements entered into between a Financial Institution and a Farmer Sub-borrower that prohibit the use of contracted child labor.

37. The Beneficiary shall ensure that (a) the Gender Action Plan and (b) the Community Participation Plan are implemented in accordance with their respective terms.

Availability of Data

38. The Beneficiary shall ensure that all reports, drawings, maps, historical data on soil and land use characteristics, amelioration requirements, infrastructure design and construction records and related information and data relevant to the Project are collected from the appropriate design and irrigation institutes and are made available to the PMU.

Anti-Corruption

39. The Beneficiary shall comply with and shall cause MAWRPI and each Financial Institution to comply with ADB's Anticorruption Policy. The Beneficiary agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and (b) to cooperate fully with and to cause MAWRPI and each Financial Institution to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, the Beneficiary shall (a) ensure that MAWRPI conducts periodic inspections on the contractors' activities related to fund withdrawals and settlements and (b) ensure that, and shall cause MAWRPI and each Financial Institution to ensure that, all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of MAWRPI and each Financial

Institution, and all contractors, suppliers, consultants and other service providers as they relate to the Project.

Project Monitoring and Review

40. The Beneficiary shall ensure that (a) MAWRPI, through the PMU, finalizes and adopts a comprehensive PPMS, acceptable to ADB, within six months of the Effective Date, based upon the PPMS indicators agreed upon between the Beneficiary and ADB, (b) the PMU develops a matrix of sub-indicators in a participatory manner, and (c) where feasible, community-based monitoring mechanisms will be developed to strengthen the participation of and decision making by communities in the Project. The PMU shall present the PPMS to the Project Steering Committee for verification. The Beneficiary shall ensure that baseline data for the agreed PPMS indicators is updated every six months.

41. The Beneficiary and ADB shall jointly undertake semi-annual reviews of the Project throughout the Project implementation period until such time as ADB is satisfied that annual reviews will be sufficient to ensure effective Project administration and implementation. Thereafter, the Beneficiary and ADB shall jointly undertake annual reviews of the Project. The semi-annual or annual reviews, as the case may be, will assess the Project's achievements and progress in implementing the Project activities and identify any difficulties or constraints being encountered in implementing the Project and to make adjustments, if necessary, for the remaining Project implementation period.

42. Within 18 months of Project implementation and during the third year of Project implementation, the Beneficiary, MAWRPI, and ADB shall jointly undertake a comprehensive review of the Project. The comprehensive review will cover the items to be addressed during the semi-annual or annual reviews, as the case may be, as well as assess the need for making changes in the Project design and/or implementation arrangements. An independent review of the special technical skills required under the Project, in particular, for WUA Infrastructure, pasture and livestock management and land improvement, shall be undertaken by the Beneficiary and ADB on an annual basis, or more often as deemed necessary by ADB.

Global Environment Facility

43. In the event the grant funding from the Global Environment Facility cannot be obtained, (a) the Beneficiary and ADB agree that (i) the following Project components and/or activities shall be reduced in scope: training and demonstrations under Component 1; infrastructure investment and training for pasture users and AOs under Component 4; and project management inputs under Component 5, and (ii) the following Project components and/or activities shall not be financed: remote sensing and geographical information system ("GIS") for pasture mapping; provision of pasture land management specialist and GIS specialist under Component 4 or (b) the Beneficiary shall make other arrangements necessary to cover the shortfall in funds, through budgetary allocations or other arrangements acceptable to ADB.