

**APPENDIX 1 TO FINANCING AGREEMENT
FORM OF PROJECT AGREEMENT**

LOAN NUMBER _____ - _____(SF)
GRANT NUMBER _____ - _____(SF)

PROJECT AGREEMENT

(Southern Agriculture Area Development Project)

between

ASIAN DEVELOPMENT BANK

and

[FINANCIAL INSTITUTION]

DATED _____

PROJECT AGREEMENT

PROJECT AGREEMENT dated _____ between ASIAN DEVELOPMENT BANK (“ADB”) and [Name of Financial Institution], a [indicate nature of organization] licensed to [describe activities and indicate regulations] (hereinafter called the “Financial Institution”).

WHEREAS

(A) by a Financing Agreement dated [_____] between the Kyrgyz Republic (the “Beneficiary”) and ADB, ADB has agreed to make to the Beneficiary a loan in various currencies equivalent to Nine Million Nine Hundred Twenty-Five Thousand Special Drawing Rights (SDR 9,925,000) (equivalent to \$15,000,000) and a grant of Five Million Dollars (\$5,000,000) on the terms and conditions set forth in the Financing Agreement, but only on condition that a portion of the proceeds of the Loan be made available to the Financial Institution and that the Financial Institution agrees to undertake certain obligations towards ADB as set forth in this Project Agreement;

(B) by a Subsidiary Loan Agreement dated [___] between the Beneficiary and the Financial Institution, the Beneficiary has agreed to make to the Financial Institution a loan in [KGS/Dollars] in the amount of [_____] on the terms and conditions set forth in the Subsidiary Loan Agreement, but only on condition that the Subsidiary Loan Proceeds be made available to Sub-borrowers and that the Financial Institution agrees to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(C) The Financial Institution, in consideration of ADB entering into the Financing Agreement with the Beneficiary, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the Financing Agreement, the Loan Regulations and the Grant Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement, (a) the term “the Project” means [Component 1B]¹ [Component 2B]² of the Project only, as described in Schedule 1 to the Financing Agreement and (b) the term “Subsidiary Loan Proceeds” means that portion of the Subsidiary Loan Proceeds provided to the Financial Institution under a Subsidiary Loan Agreement.

ARTICLE II

Provision of Sub-borrower Loans

Section 2.01. Except as ADB may otherwise agree, (a) the Subsidiary Loan Proceeds may be withdrawn from the Loan Account to finance expenditures required for the Subprojects, (b) the Subsidiary Loan Proceeds shall be used only for making Sub-borrower Loans to Sub-borrowers in respect of which such part of the Loan was withdrawn from the Loan Account, and (c) the Financial Institution shall apply the Subsidiary Loan Proceeds to the financing of expenditures on the Project in accordance with the provisions of the Financing Agreement and this Project Agreement.

¹

Use for Subloans to Farmer Sub-borrowers.

²

Use for Subloans to Agribusiness Sub-borrowers.

Section 2.02. The Financial Institution shall ensure that each Sub-borrower Loan carries interest and other repayment terms acceptable to ADB.

Section 2.03. Without limiting the generality of the foregoing provisions of Section 2.02 of this Project Agreement and in addition to any other provisions which a prudent lender would request, the Financial Institution shall require each Sub-borrower Loan Agreement to include provisions to the effect that:

- (i) the Sub-borrower shall carry out the Subproject with due diligence and efficiency and in accordance with sound financial, engineering, environmental, agricultural and business practices, including maintenance of adequate accounts and records;
- (ii) the Subsidiary Loan Proceeds shall be used only for procurement of Goods and Works under procedures that are appropriate under the circumstances, undertaken in accordance with established commercial practices, acceptable to ADB, and which comply with the provisions of ADB's Anticorruption Policy;
- (iii) the Goods and Works to be financed out of the Subsidiary Loan Proceeds shall be used exclusively in the carrying out of the Subproject and ADB and the Financial Institution shall each have the right to inspect such Goods and Works, the Sub-borrower, the Subproject and any relevant records and documents;

- (iv) the Sub-borrower shall not contract child labor in any of the Subprojects or activities financed from the Subsidiary Loan Proceeds;
- (v) ADB and the Financial Institution shall each be entitled to obtain all such information as each shall reasonably request relating to the Sub-borrower Loan, the Goods and Works financed out of the Subsidiary Loan Proceeds, the Subproject, the Sub-borrower and other related matters; and
- (vi) The Financial Institution shall be entitled to suspend or terminate further access by the Sub-borrower to the use of the Subsidiary Loan Proceeds upon failure by the Sub-borrower to perform its obligations under the Sub-borrower Loan Agreement.

Section 2.04. The Financial Institution shall promptly and effectively exercise its rights in relation to each Sub-borrower Loan in accordance with the standards of a prudent lender and in such manner as to protect its own interests in addition to that of the Beneficiary and ADB.

Section 2.05. The Financial Institution shall ensure that its environmental screening criteria, as reviewed by ADB, will be applied to all Sub-borrower Loan proposals.

ARTICLE III**Particular Covenants**

Section 3.01. (a) The Financial Institution shall, and shall cause each Sub-borrower to, carry out the Project with due diligence and efficiency, and in conformity with sound banking, administrative and financial, engineering, environmental, agricultural and business practices.

(b) In the carrying out of the Project and in the conduct of its business, the Financial Institution shall (a) apply the Subsidiary Loan Proceeds to the financing of expenditures for the Project in accordance with the provisions of the Financing Agreement and this Project Agreement, (b) perform all obligations set forth in the Financing Agreement, to the extent that they are applicable to the Financial Institution, and all obligations set forth in this Project Agreement, and (c) ensure that all Goods and Works financed out of the Subsidiary Loan Proceeds are used exclusively in the carrying out of the Project.

Section 3.02. (a) The Financial Institution shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Subsidiary Loan and the expenditure of the Subsidiary Loan Proceeds; (ii) the Goods, Works, and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the Sub-borrowers, the Subprojects and the Sub-borrower Loans; (v) the administration, operations and financial condition of the Financial Institution; and (vi) any other matters relating to the purposes of the Subsidiary Loan.

(b) Without limiting the generality of the foregoing, the Financial Institution shall furnish to ADB quarterly reports on the execution of the Project and on the use of the Subsidiary Loan Proceeds, including, without limitation, information on loan disbursements

disaggregated by gender. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

Section 3.03. (a) The Financial Institution shall (i) maintain separate accounts for the Project, including separate accounts for each Sub-borrower Loan made to a Sub-borrower, in each case, in accordance with the requirements of the National Bank of the Kyrgyz Republic; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, fund flow statements and related statements) audited annually, in accordance with international financial auditing and accounting standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, 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 Subsidiary Loan Proceeds and compliance with the financial covenants of the Financing Agreement) all in the English language. The Financial Institution shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Financial Institution shall maintain its financial status in accordance with the requirements of the NBKR.

(c) The Financial Institution shall provide to ADB, a business plan, acceptable to ADB, on an annual basis for the next succeeding financial year.

(d) The Financial Institution shall enable ADB, upon ADB's request, to discuss the Financial Institution's financial statements and its financial affairs from time to time with the Financial Institution's auditors, 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 Financial Institution unless the Financial Institution shall otherwise agree.

Section 3.04. ADB and the Financial Institution shall jointly review the on-lending arrangements to the Sub-borrowers on a regular basis as required to ensure compliance with the terms and conditions of the relevant Subsidiary Loan Agreement and this Project Agreement. Based on the results of these reviews, the terms of the Sub-borrower Loans may be adjusted as required.

Section 3.05. (a) The Financial Institution shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) The Financial Institution shall at all times conduct its business in accordance with sound banking, administrative and financial, and business practices, and under the supervision of competent and experienced management and personnel.

Section 3.06. Except as ADB may otherwise agree, The Financial Institution shall duly perform all its obligations under the Subsidiary Loan Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending,

abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 3.07. The Financial Institution shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its license or constitutive documents and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

Section 3.08. (a) ADB and the Financial Institution shall cooperate fully to ensure that the purposes of the Loan, through the Subsidiary Loan, will be accomplished. ADB and the Financial Institution shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, the Financial Institution and the Subsidiary Loan.

(b) The Financial Institution shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Loan Agreement, or the accomplishment of the purposes of the Loan, through the Subsidiary Loan Agreement.

Section 3.09. The Financial Institution shall enable ADB's representatives to inspect any Sub-borrower, any Sub-borrower Loan activity, the Goods and Works financed out of the proceeds of the Sub-borrower Loan, and any relevant records and documents.

Section 3.10. The Financial Institution shall comply with ADB's Anticorruption Policy. The Financial Institution 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 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 Financial Institution shall 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 all contractors, suppliers, consultants and other service providers as they relate to the Project.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Project Agreement shall come into force and effect on the date on which the Subsidiary Loan Agreement shall come into force and effect. ADB shall promptly notify the Financial Institution of such date.

Section 4.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Financing Agreement shall terminate in accordance with its terms.

Section 4.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Financing Agreement.

(b) The Financial Institution shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

Section 5.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project 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.

ASIAN DEVELOPMENT BANK

By _____

[FULL NAME OF FINANCIAL INSTITUTION]

By _____
Authorized Representative