
LOAN NO. _____-PRC

FINANCING AGREEMENT

(Shaanxi Qinling Biodiversity Conservation and Demonstration Project)

Between

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

and

ASIAN DEVELOPMENT BANK

DATED _____

FINANCING AGREEMENT

FINANCING AGREEMENT dated _____ between THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA (hereinafter called the Government) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Government and ADB have agreed to enter into a loan agreement (the Loan Agreement) for financing the Shaanxi Qinling Biodiversity Conservation and Demonstration Project (hereinafter called the Project), which is described in Schedule 1 to the Loan Agreement;

(B) the Global Environment Facility (hereinafter called GEF) has approved a grant (hereinafter called the GEF Grant) in an amount of five million Dollars (\$5,000,000) to finance a portion of the Project relating to demonstrating conservation of biodiversity and project management as described in Schedule 1 to this Financing Agreement;

(C) the Shaanxi Provincial Government (hereinafter called SPG) agrees to be responsible to implement various activities of the GEF Grant financed components of the Project;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. The several terms defined in the Loan Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) the term "Dollars" or the sign "\$" means dollars in the currency of the United States of America;

(b) "GEF Grant Account" means the account opened or to be opened by ADB on its books to which the amount of the GEF Grant has been or will be credited;

(c) "GEF Grant Account Closing Date" means the closing date of the GEF Grant Account referred to in Section 2.08 of this Financing Agreement; and

(d) "Project facilities" means the facilities constructed and operated and equipment supplied with the financing of the GEF Grant.

ARTICLE II

Administration and Use of the GEF Grant

Section 2.01. (a) ADB shall administer the GEF Grant in an amount equivalent to five million Dollars (\$5,000,000), including (i) an amount of \$280,000 for project preparation, (ii) an amount of \$4,270,000 for implementation of the Project, and (iii) an amount of \$455,000 as management fee to be charged by ADB for administration of the GEF Grant.

(b) The proceeds of the GEF Grant shall be disbursed to the imprest account established and maintained by SPG through Shaanxi Provincial Finance Department in accordance with paragraph 5 of Schedule 2 to this Financing Agreement

Section 2.02. The Government shall cause SPG to ensure that the proceeds of the GEF Grant are applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 2.03. The Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the GEF Grant and the allocation of amounts of the GEF Grant among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of the Schedule 2 to this Financing Agreement, as such Schedule may be amended from time to time by agreement between the Government and ADB.

Section 2.04. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Government and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.05. Except as ADB may otherwise agree, the Government shall cause SPG to ensure that all Goods, Works and consulting services financed out of the proceeds of the GEF Grant are used exclusively in the carrying out of the GEF Grant financed components of the Project.

Section 2.06. Disbursements from the GEF Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and 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, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 2.07. Subject to any conditions or restrictions specified in this Financing Agreement, ADB shall make disbursements from the GEF Grant Account for purposes of the GEF Grant financed components of the Project described in Schedule 1 to this Financing Agreement upon application by SPG in such form and supported by such documents as ADB shall reasonably request.

Section 2.08. Notwithstanding any other provision of this Financing Agreement, ADB is not obliged to make any disbursement from the GEF Grant Account, except to the extent that ADB has received the GEF Grant funds. Except as ADB may otherwise agree, the GEF Grant Account shall be closed on 31 October 2015, or such other date as may from time to time agreed between ADB and the Government.

Section 2.09. In the carrying out of the Project and operation of the Project facilities, the Government shall perform, or cause to be performed, all obligations set forth in Article IV of the Loan Agreement, Schedule 5 to the Loan Agreement and the Schedule to the Project Agreement.

Section 2.10. The Government shall cause SPG to maintain separate records and accounts in respect of the GEF Grant funds received from ADB, and have such records and accounts appropriately audited. The reports of such auditors shall be furnished to ADB as soon as available, but in any event not later than six (6) months after the completion of said audit. Within six (6) months after the closing of the GEF Grant Account the Government shall cause SPG to submit to ADB the audited financial statement on the GEF Grant.

ARTICLE III

Suspension; Cancellation

Section 3.01. If any of the following events shall have occurred at any time after the date of this Financing Agreement and be continuing, ADB may by notice to the Government or SPG suspend in whole or in part the right of SPG to apply for disbursements from the GEF Grant Account:

- (a) The Government or SPG shall have failed to perform any of its obligations under this Financing Agreement.
- (b) The loan provided by ADB under the Loan Agreement shall have become liable for suspension or cancellation.

The right of SPG to apply for disbursements from the GEF Grant Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have, in the reasonable opinion of ADB, ceased to exist or until ADB shall have notified the Government or SPG that the right to make withdrawals has been restored in whole or in part, whichever is the earlier.

Section 3.02. If (i) the right of SPG to apply for disbursements from the GEF Grant Account shall have been suspended with respect to any amount of the GEF

Grant for a continuous period of 30 days, or (ii) at any time ADB determines, after consultation with SPG, that any amount of the GEF Grant will not be required for the purposes of the Project, ADB may by notice to SPG terminate the right of SPG to apply for disbursements with respect to such amount. Upon giving of such notice, such amount of the GEF Grant shall be cancelled.

Section 3.03. Notwithstanding any cancellation or suspension, all the provisions of this Financing Agreement shall continue in full force and effect except as in this Article specifically provided.

ARTICLE IV

Effectiveness

Section 4.01. This Financing Agreement shall become effective upon fulfillment of the condition that the Loan Agreement shall have been duly executed and delivered, and shall have become effective.

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.

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

By _____

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1**Description of the GEF Grant Financed Components of the Project**

1. The objective of the components of the Project financed by the GEF Grant is to strengthen the conservation of biodiversity in the Project area and QM.
2. The components to be financed by the GEF Grant include the following:
 - a) *Demonstrating conservation of biodiversity*
 - (i) preparation of a habitat and natural forest management plan;
 - (ii) ecological research grants to develop the data sets and to test silviculture systems for habitat restoration;
 - (iii) technical assistance in conservation forestry to support the habitat restoration programs; and
 - (iv) programs for endangered species recovery, including filed survey contracts, species recovery management plan, and initial implementation of recovery implementation programs.
 - b) *Project Management*
 - (i) legal reform studies;
 - (ii) landscape conservation planning;
 - (iii) field conservation monitoring;
 - (iv) technical assistance for species and monitoring expertise;
 - (v) monitoring baseline research contracts;
 - (vi) job exchange opportunities for technical conservation staff; and
 - (vii) a replication, awareness and dissemination program.
3. Implementation of the above components is expected to be completed by 30 April 2015.

SCHEDULE 2

Allocation and Disbursement of GEF Grant Proceeds

General

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

Allocation of GEF Grant Financing

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

Reallocation

3. Notwithstanding the allocation of GEF Grant proceeds set forth in the Table,

(a) if the amount of the GEF Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Government or SPG reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the GEF Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures; and

(b) if the amount of the GEF Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Government or SPG, reallocate such excess amount to any other Category.

Imprest Account: Statement of Expenditures

4. Except as ADB may otherwise agree, SPG shall establish immediately after effectiveness of this Financing Agreement an imprest account at a bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with the ADB's "Loan Disbursement Handbook" dated January 2007, as amended from time to time, and detailed arrangements agreed upon between the Government and ADB. The initial amount to be deposited into the imprest account shall be based on an estimated amount required for implementation of the GEF Grant financed components of the Project for the next six months, subject to, however, that such an amount shall not exceed the equivalent of 20 percent of the total amount of the GEF Grant fund.

5. The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Project and to liquidate advances provided into the GEF Grant imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The SOE procedure shall apply to expenditures not exceeding \$50,000 per individual payment.

TABLE

**ALLOCATION AND DISBURSEMENT OF GEF GRANT PROCEEDS
(Shaanxi Qinling Biodiversity Conservation and Demonstration Project)**

CATEGORY		AMOUNT ALLOCATED (\$)	GEF FINANCING
Number	Item	Category	Percentage and Basis for Withdrawal from the Grant Account
1	Civil works	929,200	100% of total expenditures*
2	Equipment	109,800	100% of total expenditures*
3	Survey, Design, and Monitoring	1,116,120	100% of total expenditures*
4	Planning and Institutional Strengthening	662,700	100% of total expenditures*
5	Training and Communication	625,300	100% of total expenditures*
6	Consulting Services	643,580	100% of total expenditures*
7	Dissemination	133,300	100% of total expenditures*
8	Project Preparation Grant	280,000	100% of amounts due
9	Management Fees	500,000	100% of amounts due
	Total	5,000,000	

* Excluding any local taxes and duties

SCHEDULE 3

Execution of the GEF Grant Financed Components

Project Executing Agency

1. SPG shall, through PMO, be responsible for implementation of GEF Grant financed components of the Project.
2. The Government shall cause SPG to adopt the following approach in using the GEF Grant funds:
 - (i) wider participation in conservation planning and decision making;
 - (ii) demonstration of new management systems related to landscape-wide planning;
 - (iii) development of species management plans in the QM;
 - (iv) adoption of new technologies, including monitoring and information systems;
 - (v) use of analog forestry models; and
 - (vi) development of ecologically defined habitat restoration programs.

Financial Management Arrangements, Accounting, Auditing and Reporting

3. (a) The Government shall cause through SPG the IA to, (i) maintain separate accounts for the GEF Grant financed components of the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related 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; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) 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 GEF Grant proceeds and compliance with the covenants of the Financing Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. SPG 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 Government shall cause SPG to enable ADB, upon ADB's request, to discuss SPG's financial statements and its financial affairs from time to time with the auditors appointed by SPG pursuant to paragraph 3(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 SPG unless SPG shall otherwise agree.

Anticorruption

4. The Government shall ensure that SPG, shall, and shall cause the IA to, comply with ADB's *Anticorruption Policy* (1998, as amended to date). SPG agrees that consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the GEF Grant financed components of the Project. In particular, SPG shall ensure that all contracts financed by ADB in connection with the GEF Grant financed components of the Project include provisions specifying the right of ADB to audit and examine

the records and accounts of SPG, the IA, and all contractors, suppliers, consultants, and other service providers as they relate to the GEF Grant financed components of the Project.

5. The Government shall ensure that SPG shall, and shall cause the IA to, ensure (a) engaging an international consultant and national consultant to advise and assist in the procurement of Goods and Works, and the engagement of other consultants; (b) introducing a dual signing system in which the Works contractor awarded the contract shall also sign an anticorruption contract with the employer; and (c) periodical inspection by the PMO of the contractor's activities related to withdrawals of the GEF Grant proceeds and settlements.