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LOAN NUMBER 2245/2246(SF)-UZB

GRANT NUMBER 0080-UZB

FINANCING AGREEMENT

(Land Improvement Project)

between

GOVERNMENT OF THE REPUBLIC OF UZBEKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 21 August 2008

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LAL: UZB 37536

## FINANCING AGREEMENT

FINANCING AGREEMENT dated 21 August 2008 between THE GOVERNMENT OF THE REPUBLIC OF UZBEKISTAN (hereinafter called the Government) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

### WHEREAS

(A) the Republic of Uzbekistan and ADB have entered into two loan agreements (the Loan Agreement (OCR) and the Loan Agreement (SF), both dated 27 September 2007 (hereinafter called the Loan Agreements)) for financing the Land Improvement Project (hereinafter called the Project), which is described in Schedule 1 to the Loan Agreements;

(B) the Global Environment Facility (hereinafter called GEF) has approved a grant (hereinafter called the GEF Grant) in an amount of three million dollars (\$3,000,000) to finance a portion of the Project relating to barrier removal and capacity building as described in Schedule 1 to this Financing Agreement;

(C) ADB has agreed to act as Executing Agency for the GEF Grant in accordance with a Memorandum of Agreement between ADB and the International Bank for Reconstruction and Development (hereinafter called IBRD) and upon the terms and conditions hereinafter set forth; and

(D) the Ministry of Agriculture and Water Resources (hereinafter called MAWR) of the Government 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 Agreements have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers February 2007, as amended from time to time;

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

(c) “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;

(d) “GEF Grant Account Closing Date” means the closing date of the GEF Grant Account referred to in Section 2.08 of this Financing Agreement;

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

(f) “Memorandum of Agreement” means the Memorandum of Agreement between ADB and IBRD referred to under Preamble (C) of this Financing Agreement;

(g) “MAWR” means the Ministry of Agriculture and Water Resources of the Government;

(h) “MOF” means the Ministry of Finance of the Government;

(i) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;

(j) “Project Executing Agency” means MAWR; and

(k) “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 three million dollars (\$3,000,000). ADB shall provide the GEF Grant to the Government on a grant basis without charging the Government any fees or any other charges in respect of the GEF Grant.

(b) The proceeds of the GEF Grant shall be disbursed to the imprest account established and maintained by MAWR in accordance with paragraph 4 of Schedule 2 to this Financing Agreement, and the fund of the GEF Grant shall be allocated to finance eligible expenditures relating to the activities carried out under the Project.

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

Section 2.03. The Goods and 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 and 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 and consulting services to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the provisions of Schedule 3 to this Financing Agreement. ADB may refuse to finance a contract where Goods 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 all Goods and consulting services financed out of the proceeds of the GEF Grant to be 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 and consulting services shall be made only on account of expenditures relating to

- (a) Goods 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, and
- (b) Goods 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 the Government 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 March 2013 and no disbursement can be made from the GEF Grant Account Closing Date.

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 Agreements and Schedule 5 to the Loan Agreements.

Section 2.10. The Government shall 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 nine (9) months after the completion of said audit. Within nine (9) months after the closing of the GEF Grant Account the Government shall 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 suspend in whole or in part the right of the Government to apply for disbursements from the GEF Grant Account:

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

The right of the Government 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 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 the Government 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 thirty (30) days, or (ii) at any time ADB determines, after consultation with the Government, that any amount of the GEF Grant will not be required for the purposes of the Project, or (iii) by the closing date for withdrawals from the Loan Account an amount of the GEF Grant shall remain undischursed from the GEF Grant Account, ADB may by notice to the Government terminate the right of the Government 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 Agreement shall become effective upon fulfillment of the condition that the Memorandum of Agreement between ADB and IBRD shall have been duly executed and delivered and shall have entered into force.

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 REPUBLIC OF UZBEKISTAN

By  \_\_\_\_\_  
RUSTAM AZIMOV  
First Deputy Prime Minister  
Minister of Finance  
Authorized Representative

ASIAN DEVELOPMENT BANK

By  \_\_\_\_\_  
HONG WEI  
Country Director  
Uzbekistan Resident Mission

## SCHEDULE 1

### Description of the GEF Grant Financed Components of the Project

1. The objectives of the Project financed by the GEF Grant are to (i) contribute to creating a regulatory regime that enhances incentives for land management in which national and global environmental considerations have a place, (ii) field test and introduce methods of reusing return irrigation water for productivity and environmental gains, (iii) build the capacity of the agriculture sector of the Republic of Uzbekistan for environmental analysis and management, and (iv) provide for a structured monitoring and evaluation of the Project's global environmental and other impacts to increase the replicability of its most positive elements.

2. The GEF-financed activities will be integrated with four of the five of the LIP components as follows:

I. Sub-component A: Strengthening of the incentive structure for environmental benefits of SLM

To deepen the reform measures that encourage sustainable land management and through it, the realization of (also) national and global environmental benefits. The GEF financed activities will

(1) develop measures providing incentives for a sustainable use of marginal waters and marginal lands;

(2) review the potential for creating special operating and incentive regimes for sub-areas where land rehabilitation offers high environmental benefits;

(3) develop proposals for legislative and regulatory support for the conservation of agro-biodiversity, and for protection of ecosystems and landscapes; and

(4) investigate the potential of "payment for environmental services" (PES) as a policy mechanism, encouraging the adoption of conservation agriculture in Uzbekistan and other countries in Central Asia.

II. Sub-component B: Management of marginal water for livelihood and environmental benefits

The GEF financed activities will test new technical and management approaches to managing marginal water (return irrigation water contaminated by salts and other pollutants) in an area of great economic, cultural, and environmental values along the Great Silk Road in the Zeravshan and Kashkadarya River basins. With the GEF financing, the component will:

- (1) introduce and test salinity mitigation management through the application of drainage and flood runoff regulations, and introduce drainage water reuse schemes and other environmental feasible interventions;
- (2) introduce and test salinity mitigation management using elements of conservation agriculture;
- (3) conserve and improve wetlands and desert ecosystems around irrigated oases and selected desert depressions as a prototype for SLM in these and similar areas;
- (4) demonstrate the scope for synergy among biodiversity conservation, carbon sequestration, and land productivity enhancement; and
- (5) disseminate the results and lessons of the pilot activities.

III. Sub-component C: Capacity building for environmental analysis and management in the agricultural sector

The GEF financed activities will:

- (1) strengthen and mainstream the environmental analysis and risk assessment of land rehabilitation projects and conservation agriculture into MAWR and related institutions; and
- (2) develop the methodology of valuing ecosystem conservation in Uzbekistan for local and regional dissemination.

IV. Sub-component D: Learning and dissemination for improved environmental outcomes

The GEF financing will:

- (1) scale these activities up to a level where they can effectively support the delivery of national and global environmental benefits and make it possible for the relevant institutions to play an active part in the global exchange of experience;
- (2) enlarge the pool of stakeholders involved in training and dissemination of the globally most relevant lessons of conservation agriculture;
- (3) provides support for community based planning and rural awareness program with (also) agro-cultural heritage and gender perspectives; and
- (4) promotes public/private study tours to learn from the experience of conservation agriculture.

V. Sub-component E: Monitoring and evaluation of Project environmental impacts

The GEF financed activities will provide for a more comprehensive Project management in which a common set of indicators will be used to monitor and evaluate such variables as the nature and status of land degradation, carbon sequestration; biodiversity; on- and off-site environmental impacts, biodrain siltation, salinization, pollution and eutrophication; and socio-economic-factors. The GEF financed activities will

- (1) develop a system for monitoring of the Project's environmental impacts;
- (2) develop a proposal for a unified salinity management database in Uzbekistan; and
- (3) mainstream the most suitable international practices of participatory monitoring of environmental impacts.

3. Implementation of the above components is expected to be completed by 30 September 2012.

## SCHEDULE 2

### Allocation and Disbursement of GEF Grant Proceeds

#### General

1. The table attached to this Schedule sets forth the Categories of Goods, consulting 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, by notice to the Government, 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, by notice to the Government, reallocate such excess amount to any other Category.

#### Imprest Account; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Government shall establish immediately after the signing 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 ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time, and detailed arrangements agreed upon between the Government and ADB. The currency of the imprest account shall be dollars. The initial amount to be deposited into the 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 GEF Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures of the Project and to liquidate advances provided into the imprest account not to exceed \$100,000 per individual payment, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB.

**Allocation and Disbursement of GEF Grant Proceeds  
( \$ )**

<b>Category</b>	<b>Amount</b>
A. Machinery and Equipment (GIS Software and Equipment)	50,000
B. Training/Capacity Building	290,000
C. Consulting Services	887,000
D. Studies/ Demonstrations/Knowledge Products	
Demonstration Projects	1,320,000
Knowledge Products	171,000
E. Travel	207,000
F. Office Expenses	75,000
<b>Total Expenditures</b>	<b>3,000,000</b>

### SCHEDULE 3

#### Procurement of Goods and Consulting Services

**A. General**

1. All Goods and consulting services to be financed out of the proceeds of the GEF 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**

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

Shopping
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**C. Selection of Consulting Services**

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

**D. Industrial or Intellectual Property Rights**

5. (a) The Government shall ensure that all Goods 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 Government shall ensure that all contracts for the procurement of Goods 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.

6. The Government 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.

**SCHEDULE 4****Execution of the GEF Grant Financed Components**

1 . MAWR shall be the Project Executing Agency. A high-level Project Steering Committee, which has been established, shall meet quarterly to provide policy guidance. The Deputy Minister of MAWR, who has been designated as Project Director, shall be responsible for Project implementation. A Project Management Office, which has been established within MAWR, shall manage Project activities and liaise with ADB. Project Implementation Units, which have been established, shall handle Project implementation in the three Project provinces, and liaise with local administrations and beneficiaries. The GEF Grant-financed activities under this Financing Agreement shall be implemented by the same Project Management Office and Project Implementation Units created for the implementation of the loans as required in paragraphs 3 and 4 of Schedule 5 to the Loan Agreements. The Project Management Office shall provide, on a periodic basis, reports on the implementation of the GEF Grant-financed components to the Chairman of the National Coordination Council (based in Uzbekistan) for the Central Asian Countries Initiative for Land Management (CACILM), given CACILM's objective of combating land degradation and improving rural livelihoods.