ABBREVIATIONS

ADB  –  Asian Development Bank
CFA  –  channel financing arrangement
DMC  –  developing member country
PEF  –  Poverty and Environment Fund
TA  –  technical assistance

NOTE

In this report, "$" refers to US dollars.
I. INTRODUCTION

1. The World Summit on Sustainable Development reaffirmed poverty reduction as the highest priority for sustainable development. It also highlighted the urgent need to tackle environmental degradation as a precondition for reducing poverty. This is relevant in Asia and the Pacific, where two thirds of the world’s poor subsist and where nearly one in three people lives in poverty. Environmental degradation in the region is pervasive, accelerating, and largely unabated. People’s health and productivity is suffering, natural resource-based livelihoods are being compromised, and vital ecosystem services are at risk. The poor, especially women and children, are most vulnerable to worsening environmental trends in both urban and rural areas. Not surprisingly, poor people’s own perceptions of their well being are strongly related to environmental quality in terms of access to natural resources and ecosystems services, access to safe water and sanitation, exposure to pollutants and hazardous wastes, and likelihood of natural disasters. At the same time, poor people’s limited access to finance, markets, and services, combined with inadequate policies and institutions, constrains their capacity to contribute positively to environmental quality.

2. The relationship between environmental quality and poverty is most obvious at the local level, especially in places where institutions and people are least able to cope and where resources are scarce. While increasing attention is being placed on important global environmental issues, insufficient attention is paid to environmental problems more immediately facing the poor, such as locally manifested air and water pollution, land degradation and loss of agro-biodiversity, and exposure to natural and man-made hazards. The unmet financial, technical, and knowledge needs for solving such environmental problems in Asia and the Pacific are considerable. Identification and demonstration of replicable and self-sustaining approaches for reducing poverty through environmental improvement are required to stimulate wide-scale adoption of solutions.

II. ENVIRONMENT POLICY OF THE ASIAN DEVELOPMENT BANK

3. The Environment Policy of the Asian Development Bank (ADB) was adopted in November 2002. The policy is grounded in ADB’s Poverty Reduction Strategy and Long-Term Strategic Framework, which emphasize that environmental sustainability is a prerequisite both for pro-poor economic growth and more targeted efforts to reduce poverty. The Environment Policy contains five closely related elements: (i) promoting environment and natural resource management interventions to reduce poverty directly, (ii) assisting developing member countries (DMCs) to mainstream environmental considerations in development frameworks and make economic growth more sustainable, (iii) helping maintain global and regional life support systems that underpin long-term development prospects, (iv) building partnerships to maximize the impact of ADB lending and nonlending activities, and (v) integrating safeguards across all ADB operations.

4. While all five elements of the Environment Policy support ADB’s overarching poverty reduction objective, the first policy element is concerned specifically with reversing local-level environmental degradation where it impacts most negatively on the poor. This element

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focuses on helping DMCs to (i) protect the health and productivity of the poor by improving environmental quality in urban areas; (ii) improve natural resource management and maintain the productivity of natural systems to enhance rural livelihoods; and (iii) reduce the vulnerability of poor people to natural hazards and disasters. It also emphasizes the need to identify opportunities for advancing environmental improvements and natural resource management in the context of national poverty reduction strategies and ADB’s own country strategy and programming process.

III. RATIONALE FOR ESTABLISHING THE POVERTY AND ENVIRONMENT FUND

5. In line with its Poverty Reduction Strategy and Environment Policy, ADB will assist DMCs to pursue projects and programs for environmental and natural resource management to improve poor people’s livelihoods, health, productivity, and resilience to natural disasters. This process can be strengthened by structured efforts to identify, pilot-test, and demonstrate potentially replicable approaches to solving environmental problems facing the poor. Such identification and demonstration of promising approaches, and the learning of associated lessons (i) is expected to accelerate the mainstreaming of environment within ADB’s operations, within the activities of other funding agencies, and ultimately within DMC policies and plans; and (ii) may stimulate mobilization of additional domestic and external resources, especially in areas where the perceived willingness and ability to pay for environmental improvement is currently inadequate. In the follow-up to the World Summit on Sustainable Development, several donors have expressed interest in working with ADB to purposefully address poverty-environment linkages in Asia and the Pacific. The establishment of a Poverty and Environment Fund (PEF) will provide a dedicated source of grant financing for this collaborative purpose.

IV. OBJECTIVES AND SCOPE

6. The PEF is a multi-donor umbrella facility that will promote the mainstreaming of environment objectives in ADB operations and DMC poverty reduction strategies, plans, programs, and projects. The PEF will focus on the three main poverty-environment linkages prioritized in the Environment Policy: (i) protection, conservation, and sustainable use of natural resources and ecosystem services to maintain the livelihoods of the poor; (ii) reduction of air and water pollution that directly impacts the health and productivity of poor people; and (iii) reduction of vulnerability to natural hazards and disaster prevention.

7. The PEF will provide catalytic financing for environmental pilot interventions that reduce poverty or improve the capacity of poor people to contribute to environmental management. The pilot interventions will seek to demonstrate innovative institutional arrangements, participatory approaches, or technical solutions with clear potential for successful replication, mainstreaming, and/or upscaling in one or more countries. The PEF will also finance associated activities aimed at enhancing the analytical basis for policy dialogue, raising awareness, and building capacity on poverty-environment linkages. This includes focused studies, action research, and targeted activities aimed at removing problem-specific policy, institutional, organizational, technical, and financial barriers to improved environmental management at the local level. In addition, the PEF will support dissemination of lessons learned and compilation of good practices for addressing the environmental dimensions of poverty.

8. The small-scale activities to be financed by the PEF may cover a range of interventions where environmental management plays a role in poverty reduction. Examples include interventions in the fields of community-based resource management; sustainable utilization of biological resources and biodiversity; microfinance, improved market access,
and other livelihood development projects resulting in environmental improvement; demonstration of land-use practices that sustain soil fertility or enhance soil and water conservation; interventions that bolster the role of women in natural resources management; demonstration of environmentally sound technology choices and outputs in agriculture, forestry, fisheries, and industry; tackling of indoor air pollution, waste management, and recycling; and cleaner production and emission management/monitoring among small- and medium-sized enterprises.

9. In allocating PEF resources, priority will be given to demonstrating potential opportunities for environmental improvement and poverty reduction that could become an integral component of ADB-financed projects and those of other agencies. Through appropriate linkages with ADB operations, the outcome of PEF activities will be sustained by influencing future ADB policy dialogue, and project identification, design, and implementation. PEF activities will be selected only if they are fully consistent with the relevant ADB country strategy and program and associated updates. General principles and criteria that will govern the selection of activities for PEF financing are described in the Appendix. These may be refined into operational principles and criteria in consultation with donors after the PEF is approved.

V. IMPLEMENTATION ARRANGEMENTS

10. To commence implementation, an interregional technical assistance (TA) will be submitted for Board consideration shortly after the approval of the PEF. The TA paper will elaborate the criteria and internal procedures for prioritizing activities to be financed. These will refine and operationalize the general principles and criteria presented in the Appendix. The TA, any subsequent TA projects, and any other activities to be financed by the PEF, will be designed, processed, approved, and implemented according to ADB’s procedures and guidelines.

11. The TA activities will be prepared and implemented by ADB staff in departments concerned with the assistance of consultants, under the coordination of the Regional and Sustainable Development Department. The selection of activities and countries will be (i) agreed upon between the participating donors and ADB, and these will be determined through a consultative process; and (ii) described in annual work programs, which will be agreed upon between the participating donors and ADB. Additional proposals developed during the year can be incorporated into the work program after consultation with the participating donors.

12. Within ADB, Regional and Sustainable Development Department will be responsible for coordination among departments concerned in the identification, processing, and implementation of activities financed from the PEF. Regional departments and resident missions will play a key role in the participatory design and implementation of pilot interventions, while nongovernment organizations or local government institutions may also handle execution of initiatives. The resident missions concerned will have regular consultations with local representatives of participating donors on the progress of the PEF and the possibilities for synergies with their ongoing or planned parallel activities.

13. To be consistent with the untied nature of the PEF, ADB’s Guidelines on the Use of Consultants will be applied in selection and engagement of the consultants to be financed under the PEF, and any procurement of goods and other services under the PEF will be in accordance with ADB’s Guidelines for Procurement.

14. The Regional and Sustainable Development Department will be responsible for technical and implementation matters relating to the PEF including the preparation of annual
implementation progress reports in collaboration with concerned operational departments and resident missions. The Office of Cofinancing Operations will monitor the financial performance of the PEF and will act as the focal point regarding the submission of the annual implementation progress reports and semiannual financial statements to the participating donors.

15. The PEF will complement existing poverty reduction trust funds, e.g., the Japan Fund for Poverty Reduction, the Cooperation Fund for the Formulation and Implementation of National Poverty Reduction Strategies, and the Poverty Reduction Cooperation Fund. In contrast to the other funds, the PEF will focus exclusively on environment-related interventions that lead to poverty reduction. Similarly, the PEF will not overlap with ADB efforts to access financial mechanisms of various multilateral environment treaties, since the latter are concerned specifically with generating global environmental benefits. The Office of Cofinancing Operations, together with relevant departments, will continue to play a central role in ensuring a consistent approach across the trust funds.

VI. FUNDING ARRANGEMENTS

16. The Government of Norway (Norway) and the Government of Sweden (Sweden) have proposed to make initial contributions of NKr17 million and SKr10 million, respectively, to the PEF for a combined total of approximately $3.6 million equivalent, to be provided for an initial period of 3 years commencing in mid-2003. At their discretion, Norway and Sweden may provide additional resources to the PEF. Their contributions will be remitted when ADB and Norway and Sweden sign the channel financing arrangements (CFAs) for the PEF.

17. Contributions to the PEF will be made under the terms of the CFAs between the individual donors and ADB. Any new CFAs established for purposes of the PEF will be approved by ADB’s Management and sent to ADB’s Board of Directors for information. Following establishment of the PEF and initial contributions from the original donors, ADB will continue to actively pursue contributions from other donors through similar CFAs or parallel or joint financing of relevant activities.

18. Contributions from participating donors under the PEF will be deposited into a United States dollar interest-bearing account to be specified by ADB. Interest earned on such amount will be used for the PEF except in cases where it is specifically prohibited by the participating donors. The resources of the PEF may be freely exchanged by ADB into other currencies as required for meeting disbursements. Any fees, including the service charge for administering the PEF in accordance with the following paragraph and charges relating to the purchase of such other currencies, will be paid out of the PEF.

19. The PEF will be held by ADB on behalf of the participating donors and will be administered separately from ADB’s own resources. For administering the PEF, ADB will be paid a service charge in accordance with ADB’s policy on service charges for administration of grant cofinancing from bilateral sources. ADB may use part of the PEF (and any interest thereon) to cover the service charge.

20. ADB will maintain records and accounts in accordance with its normal procedures to show expenditures financed by the PEF. ADB will provide the participating donors with periodic reports on the use of the PEF and the activities financed thereunder. The reports will be made available to ADB’s Board of Directors. ADB and the participating donors will periodically review the administration and operation of the PEF.

ADB. 2000. Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources. Manila.
21. ADB will contribute to the program of activities to be financed from the PEF in the form of (i) services provided by ADB headquarters and resident mission staff for project design, preparation, implementation, oversight, and accounting; and (ii) office, secretarial, and other equipment support.

22. Contributions from participating donors will finance activities under the PEF in accordance with the indicative annual work programs agreed upon between ADB and the donors.

VII. RECOMMENDATION

23. It is recommended that the Board approve (i) the establishment of the proposed Poverty and Environment Fund and its administration with the provisions set forth in this paper; and (ii) ADB entering into the channel financing arrangement with the Government of Norway and the Government of Sweden in relation to their grant contribution to the Fund, substantially in the form of the draft attached hereto.
The following general principles and criteria will apply to the Poverty and Environment Fund (PEF) implementation.

(i) The PEF will be open to all developing member countries of the Asian Development Bank (ADB).
(ii) PEF-financed activities should be fully in line with and supportive of national poverty reduction strategies and with ADB’s country strategy and program.
(iii) PEF-financed activities should be designed to support shared poverty objectives in the existing and pipeline activities of other partners, to enhance effectiveness, avoid duplication, and accelerate learning.
(iv) PEF-financed activities should be genuinely additional, should not substitute for activities that would otherwise be financed by ADB, and should pay special attention to environment-related actions with expected poverty impacts that would not have been otherwise addressed.
(v) PEF-financed activities should make maximum use of local indigenous expertise and civil society participation to secure local ownership of and commitment to the actions to be supported by the fund.
(vi) In accordance with ADB’s Gender Strategy, PEF-financed activities should give particular emphasis to gender equity issues and the need for gender analysis as relates to land tenure, business development, and employment as well as reducing the burden of environmental costs often borne by women and other vulnerable groups.
(vii) The PEF-funded activities should play a catalytic role, with emphasis on innovation, pilot testing, dissemination of lessons, potential replication, mainstreaming, or upscaling of activities.
(viii) The PEF should support government decisions that provide a setting that allows funds to flow directly to project proponents, so that community-based organizations, nongovernment organizations, and local governments can execute pilot projects.
(ix) The PEF should strive for the private sector to be an active partner in planning, execution, and operation.
(x) Priority will be given to activities that can be appropriately integrated in ADB programs and projects.
AGREEMENT

between the

GOVERNMENT OF NORWAY

and the

ASIAN DEVELOPMENT BANK

in regard to a Grant to the

POVERTY AND ENVIRONMENT FUND
Agreement between the Government of Norway (hereinafter referred to as the Government), as represented by the Minister of Foreign Affairs (hereinafter referred to as the Minister), and the Asian Development Bank (hereinafter referred to as ADB).

WHEREAS, the Government wishes to provide a grant in the area of poverty and environment in Asia and the Pacific;

WHEREAS, the Government wishes to facilitate closer working relationships, policy dialogue and collaborative programming with ADB;

WHEREAS, the Government has indicated its intention to make available to ADB a grant (hereinafter referred to as the Grant) for the Poverty and Environment Fund established in accordance with the arrangements described in the ADB Board Paper attached hereto as Annex 1 (hereinafter referred to as the Fund) for the purpose of financing all or part of the program of activities described in Article 3 of this Agreement (hereinafter referred to as the Program), and has requested ADB to manage the Grant;

WHEREAS, the Government and ADB wish to conclude the present Agreement for the purpose of setting out the terms and conditions concerning the provision and the management of the Grant for the Program;

NOW THEREFORE, the Government and ADB have reached the following Agreement:

Article 1: Responsible Authorities

1.01 The Government designates the Minister as the Party responsible for the implementation of its obligations under this Agreement.

1.02 ADB designates the Office of Cofinancing Operations as the Unit responsible for the implementation of ADB’s obligations under this Agreement pertaining to general communications and financial matters, and the Environment and Social Safeguard Division of the Regional and Sustainable Development Department as the Unit responsible for the implementation of ADB’s obligations under this Agreement pertaining to the implementation of the Program and related technical matters, or such other unit as ADB may specify.

Article 2: Amount of Grant

2.01 The Government, through the Minister, will provide a grant for the Fund. The Government will provide, on an untied grant basis, a grant in the amount of 17 million Norwegian kroner (Nkr 17,000,000) in accordance with Article 6.01 of this Agreement. Such amount, together with any additional amounts the Government may provide from time to time for the purpose of the Program, will constitute the Grant.
Article 3: The Program

3.01 The Program will consist of activities, which fall within the scope of ADB’s Environment Policy (2002) and the Poverty Reduction Strategy (1999). It will support activities that will accelerate the mainstreaming of environment objectives in ADB operations and Developing Member Countries’ (DMCs) poverty reduction strategies, plans, programs and projects. The activities eligible for funding under the Program are fully described in the Board paper.

3.02 Within this context, the Grant will fund technical assistance projects (hereinafter referred to as the Projects) in the fields of: (i) protection, conservation, and sustainable use of natural resources and ecosystem services to maintain the livelihoods of the poor; (ii) reduction of air and water pollution that directly impacts the health and productivity of poor people; (iii) reduction of vulnerability to natural hazards and disaster prevention; and (iv) other activities which may be agreed upon between the Minister and ADB.

Article 4: Recipients of the Grant

4.01 The recipients of the Grant (hereinafter referred to as the Recipients) will be ADB’s DMCs and institutions operating in such countries. All borrowing DMCs are eligible for assistance under the Program.

Article 5: Implementation of the Program

5.01 The identification, preparation, appraisal and supervision of the Projects which the Minister finances pursuant to this Agreement will be the sole responsibility of ADB, and will be carried out by ADB in accordance with ADB’s policies and procedures.

5.02 ADB will have the responsibility of selecting, processing, obtaining the necessary approvals from ADB’s Management or Board for, and subject to this Agreement, establishing the terms and conditions of, Projects. Projects to be financed under the Program will be approved pursuant to the same procedures utilized for authorizing the use of resources administered by ADB.

5.03 ADB will be responsible for the selection and engagement of consultants, negotiation and conclusion of contracts, procurement of equipment, and supervision of Projects to be financed out of the proceeds of the Grant, and disbursements in connection therewith. The selection and engagement of consultants will follow ADB’s Guidelines on the Use of Consultants, as amended from time to time, and the procurement of goods and services will be in accordance with ADB’s Guidelines for Procurement, as amended from time to time. Norwegian consultants should be given the same opportunities to compete for contracts as consultants from other countries.

Article 6: Contributions of the Grant

6.01 The Minister will deposit the Grant of NKr 17 million equivalent in a US dollar interest bearing account specified by ADB (hereinafter called the ADB account), in accordance with the following schedule or as mutually agreed between the Minister and ADB:

Upon signing of this Arrangement, NKr 7 million
On 1 May 2004, NKr 5 million
On 1 May 2005, NKr 5 million

6.02 ADB will make withdrawals from the ADB account as necessary to meet expenditures on Projects under the Program as agreed between the Minister and ADB. If other currencies are required for payment to meet any eligible expenditure, ADB may purchase the required currencies with the proceeds of the Grant. Any fees and charges relating to such purchase will be paid out of the Grant.

6.03 For the purposes of this Agreement, the funds referred to in Article 6.01 above will be held, administered and invested at the discretion of ADB. Pending disbursements, ADB may invest and reinvest the proceeds of the Grant, and any income earned in respect of such investment and reinvestment, as well as any interest earned in respect of the ADB account, will be credited to the ADB account and used for the purposes of the Program.

6.04 Contributions due from the Minister are conditional upon appropriation by the Parliament of Norway for the fiscal year in which the contributions are made.

Article 7: Approval of Projects

7.01 ADB will inform the Minister of all Projects to be financed under the Program, including their objectives, scope, beneficiaries, estimated costs and financing plan, executing agency, and implementation schedule.

7.02 Maximum funding that may be authorized by ADB without the prior written authorization of the Minister under this Agreement will be limited to US$250,000 per Project. Funding in excess of this amount will require the prior written authorization of the Minister; provided that, in the absence of receipt of any information from the Minister regarding its concurrence or objection to the proposed financing of a Project under the Program within thirty-one (31) calendar days from the date of submission of Project details under Article 7.01 of this Agreement, financing of the proposed Project with proceeds from the Grant will be deemed to have been approved by the Minister.

Article 8: Administration Fee

8.01 ADB may use part of the Grant (together with any income and interest earned thereon pursuant to Article 6.03 of this Agreement) to cover ADB’s fee for the administration of the Grant, equal to five percent (5%) of the amounts disbursed under the Grant.

Article 9: Reports and Audits

9.01 ADB will have responsibility for the supervision and control of operations financed under the Grant in accordance with its standard procedures, but ADB will keep the Minister informed with respect to the implementation of each Project as part of ADB’s normal procedures for reporting on the status of Projects.

9.02 ADB will, in accordance with its usual procedures: (i) furnish the Minister with such reports and information as the Minister may reasonably request concerning the progress of the Program; and (ii) inform the Minister promptly of any condition which
interferes, or threatens to interfere, with the performance by ADB of its obligations under this Agreement.

9.03 ADB will maintain records and accounts in accordance with its normal procedures, to show contributions, interest income and expenditures financed by the Grant.

9.04 ADB will make available to the Minister such documents and records concerning the Program as the Minister may reasonably require in connection with any audit of Program accounts conducted and financed by the Minister. Any expenses incurred by ADB in relation to any external audit required by the Minister will be borne by the Minister.

9.05 This Agreement will not be assigned by either party without the prior consent of the other party.

9.06 Projects funded under this Agreement will be only for the benefit of ADB and its DMCs in accordance with the objectives agreed to between the Minister and ADB from time to time pursuant to Article 3 of this Agreement.

9.07 ADB will exercise the same care in the discharge of its functions under this Agreement as it exercises with respect to the administration and management of its own affairs.

**Article 10: Consultations and Review of Program**

10.01 The Minister and ADB will hold consultations each year after this Agreement enters into force to review the operation of the Program and the results being achieved, with a view to confirming or revising the future scope of activities. ADB will be responsible for such consultations and shall provide the Minister with draft programme/agenda at least 30 days in advance of any consultation. The initial consultation shall be held during the period October-December 2003.

10.02 The Minister and ADB will consult in particular whenever either party proposes to: (i) modify materially any agreement entered into for the implementation of this Agreement; or (ii) suspend or terminate, in whole or in part, disbursements under this Agreement. ADB will inform the Minister whenever ADB identifies a major change of scope in relation to any activities financed out of the proceeds of the Grant. Based on such information ADB and the Minister will consult with each other.

10.03 The Minister will maintain the prerogative to monitor, review and evaluate the Program activities, with the support of ADB.
Article 11: Replenishment

11.01 This Agreement may be extended by mutual written agreement of both parties to cover any additional funds which the Government may from time to time make available for the purpose of the Program.

Article 12: Termination of ADB’s Responsibility

12.01 This Agreement will enter into force on the date it is signed by both parties.

12.02 If it appears to either party that the cooperation envisaged by this Agreement can no longer appropriately or effectively be carried out, the Agreement may be terminated by one party giving ninety (90) days written notice to the other party. In the event of termination, ADB will have no claim against the Government by reason of such termination other than payment of expenses actually incurred in good faith under this Agreement up to the date of such termination, less any sums previously paid on account thereof; provided that such termination will not affect any agreements entered into between ADB and DMCs, consultants, other persons or third parties prior to ADB’s receipt or giving of notice of such termination, and ADB will be entitled to continue to make disbursements and receive further advances from the Minister in respect of such agreements as if this Agreement had not been so terminated. Unless otherwise agreed in writing by the parties, funds provided by the Government under this Agreement prior to its termination will, after the termination of this Agreement, continue to be governed by the terms of this Agreement. Any unutilized funds will be returned by ADB to the Minister.

Article 13: Environmental Protection

13.01 All Projects and activities funded under this Agreement will be subject to and comply with ADB’s policies and procedures related to environmental protection and environmental assessment (ADB Environmental Policy, 2002).

Article 14: Anti-Corruption

14.01 No offer, gift or payment, consideration or benefit of any kind, which constitutes an illegal or corrupt practice, has been or will be made to anyone, either directly or indirectly, as an inducement or reward, for the award or execution of this Agreement. Occurrence of any such practice will be grounds for terminating this Agreement and/or taking any other corrective action as required.

Article 15: Addresses

15.01 Unless otherwise specified in writing to the other party, correspondence relating to the implementation of this Agreement will be addressed to the following:

(a) For the Government:
Ministry of Foreign Affairs
P.O. Box 8114 Dep.
0251 Oslo
Norway
Article 16: Amendments

16.01 Any amendments and modifications to this Agreement will be made by mutual consent and in writing.

Article 17: Settlement of Disputes

17.01 The Government and ADB will seek amicably to settle any differences and disputes arising out of or in connection with the implementation of this Agreement.

Signed:

For THE GOVERNMENT OF NORWAY  For ASIAN DEVELOPMENT BANK

Name: AGE B. GRUTLE  Name: TADAO CHINO
Title: Director General  Title: President
Department of Multilateral Affairs  Ministry of Foreign Affairs
AGREEMENT

Between

GOVERNMENT OF SWEDEN

and

ASIAN DEVELOPMENT BANK

in regard to a Grant to the

POVERTY AND ENVIRONMENT FUND
Appendix 3

Agreement between the Government of Sweden (hereinafter referred to as the Government), as represented by the Swedish International Development Cooperation Agency (hereinafter referred to as Sida), and the Asian Development Bank (hereinafter referred to as ADB).

WHEREAS, the Government wishes to provide a grant in the area of poverty and environment in Asia and the Pacific;

WHEREAS, the Government wishes to facilitate closer working relationships, policy dialogue and collaborative programming with ADB;

WHEREAS, the Government has indicated its intention to make available to ADB a grant (hereinafter referred to as the Grant) for the Poverty and Environment Fund established in accordance with the arrangements described in the ADB Board Paper attached hereto as Annex 1 (hereinafter referred to as the Fund) for the purpose of financing all or part of the program of activities described in Article 3 of this Agreement (hereinafter referred to as the Program), and has requested ADB to manage the Grant;

WHEREAS, the Government and ADB wish to conclude the present Agreement for the purpose of setting out the terms and conditions concerning the provision and the management of the Grant for the Program;

NOW THEREFORE, the Government and ADB have reached the following Agreement:

Article 1: Responsible Authorities

1.01 The Government designates Sida as the Party responsible for the implementation of its obligations under this Agreement.

1.02 ADB designates the Office of Cofinancing Operations as the Unit responsible for the implementation of ADB’s obligations under this Agreement pertaining to general communications and financial matters, and the Environment and Social Safeguard Division of the Regional and Sustainable Development Department as the Unit responsible for the implementation of ADB’s obligations under this Agreement pertaining to the implementation of the Program and related technical matters, or such other unit as ADB may specify.

Article 2: Amount of Grant

The Government, through Sida, will provide a grant for the Fund. The Government will provide, on an untied grant basis, a grant in the amount of Ten Million Swedish Krona (SEK 10,000,000) in accordance with Article 6.01 of this Agreement. Such amount, together with any additional amounts the Government may provide from time to time for the purpose of the Program, will constitute the Grant.

Article 3. The Program

3.01 The Program will consist of activities, which fall within the scope of ADB’s Environment Policy (2002) and the Poverty Reduction Strategy (1999). It will support activities that will accelerate the mainstreaming of environment objectives in ADB.
operations and Developing Member Countries’ (DMCs) poverty reduction strategies, plans, programs and projects. The activities eligible for funding under the Program are fully described in the Board paper.

3.02 Within this context, the Grant will fund technical assistance projects (hereinafter referred to as the Projects) in the fields of: (i) protection, conservation, and sustainable use of natural resources and ecosystem services to maintain the livelihoods of the poor; (ii) reduction of air and water pollution that directly impacts the health and productivity of poor people; (iii) reduction of vulnerability to natural hazards and disaster prevention; and (iv) other activities which may be agreed upon between the Sida and ADB.

Article 4: Recipients of the Grant

The recipients of the Grant (hereinafter referred to as the Recipients) will be ADB’s DMCs and institutions operating in such countries. All borrowing DMCs are eligible for assistance under the Program.

Article 5: Implementation of the Program

5.01 The identification, preparation, appraisal and supervision of the Projects which Sida finances pursuant to this Agreement will be the sole responsibility of ADB, and will be carried out by ADB in accordance with ADB’s policies and procedures.

5.02 ADB will have the responsibility of selecting, processing, obtaining the necessary approvals from ADB’s Management or Board for, and subject to this Agreement, establishing the terms and conditions of, Projects. Projects to be financed under the Program will be approved pursuant to the same procedures utilized for authorizing the use of resources administered by ADB.

5.03 ADB will be responsible for the selection and engagement of consultants, negotiation and conclusion of contracts, procurement of equipment, and supervision of Projects to be financed out of the proceeds of the Grant, and disbursements in connection therewith. The selection and engagement of consultants will follow ADB’s Guidelines on the Use of Consultants, as amended from time to time and the procurement of goods and services will be in accordance with ADB’s Guidelines for Procurement, as amended from time to time. Swedish consultants should be given the same opportunities to compete for contracts as consultants from other countries.

Article 6: Contributions of the Grant

6.01 Sida will deposit, at the written request by ADB at each disbursement, the Grant of SEK 10,000,000 equivalent in a US dollar interest bearing account specified by ADB (hereinafter called the ADB account) during the period from the date this Agreement has been signed by both parties to June 30, 2005, in accordance with the following schedule or as mutually agreed between the Sida and ADB:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Upon signing of this agreement</td>
<td>SEK 5,000,000</td>
</tr>
<tr>
<td>On May 1, 2004</td>
<td>SEK 5,000,000</td>
</tr>
</tbody>
</table>

6.02 ADB will make withdrawals from the ADB account as necessary to meet expenditures on Projects under the Program as agreed between Sida and ADB. If other
currencies are required for payment to meet any eligible expenditure, ADB may purchase the required currencies with the proceeds of the Grant. Any fees and charges relating to such purchase will be paid out of the Grant.

6.03 For the purposes of this Agreement, the funds referred to in Article 6.01 above will be held, administered and invested at the discretion of ADB. Pending disbursements, ADB may invest and reinvest the proceeds of the Grant, and any income earned in respect of such investment and reinvestment, will be credited to the ADB account and used for the purposes of the Program and/or for costs related to any agreed external audit as described in Article 9.04. Interest earned shall be accounted for separately. On October 1, 2005 at the latest, the ADB will refund to Sida any interest income net of charges, and agreed audit costs.

6.04 Contributions due from Sida are conditional upon appropriation by the Parliament of Sweden for the fiscal year in which the contributions are made.

Article 7: Approval of Projects

7.01 ADB will inform Sida of all Projects to be financed under the Program, including their objectives, scope, beneficiaries, estimated costs and financing plan, executing agency, and implementation schedule.

7.02 Maximum funding that may be authorized by ADB without the prior written authorization of Sida under this Agreement will be limited to US$ 250,000 per Project. Funding in excess of this amount will require the prior written authorization of Sida; provided that, in the absence of receipt of any information from Sida regarding its concurrence or objection to the proposed financing of a Project under the Program within thirty-one (31) calendar days from the date of submission of Project details under Article 7.01 of this Agreement, financing of the proposed Project with proceeds from the Grant will be deemed to have been approved by Sida.

Article 8: Administration Fee

ADB may use part of the Grant (together with any income and interest earned thereon pursuant to Article 6.03 of this Agreement) to cover ADB’s fee for the administration of the Grant, equal to five percent (5%) of the amounts disbursed under the Grant.

Article 9: Reports and Audits

9.01 ADB will have responsibility for the supervision and control of operations financed under the Grant in accordance with its standard procedures, but ADB will keep Sida informed with respect to the implementation of each Project as part of ADB’s normal procedures for reporting on the status of Projects.

9.02 ADB will, in accordance with its usual procedures: (i) furnish Sida with such reports and information as Sida may reasonably request concerning the progress of the Program; and (ii) inform Sida promptly of any condition which interferes, or threatens to interfere, with the performance by ADB of its obligations under this Agreement.
9.03 ADB will maintain records and accounts in accordance with its normal procedures, to show contributions, interest income and expenditures financed by the Grant.

9.04 ADB will make available to Sida such documents and records concerning the Program as Sida may reasonably require in connection with any audit of Program accounts conducted and financed by Sida. Any expenses incurred by ADB in relation to any external audit required by Sida will be borne by Sida.

9.05 This Agreement will not be assigned by either party without the prior consent of the other party.

9.06 Projects funded under this Agreement will be only for the benefit of ADB and its DMCs in accordance with the objectives agreed to between Sida and ADB from time to time pursuant to Article 3 of this Agreement.

9.07 ADB will exercise the same care in the discharge of its functions under this Agreement as it exercises with respect to the administration and management of its own affairs.

**Article 10: Consultations and Review of Program**

10.01 Sida and ADB will hold consultations each year after this Agreement enters into force to review the operation of the Program and the results being achieved, with a view to confirming or revising the future scope of activities. ADB will be responsible for such consultations and shall provide Sida with draft programme/agenda at least 30 days in advance of any consultation. The initial consultation shall be held during the period October - December 2003. Sida may authorise a regionally based Sida -representative to take part in the above mentioned consultations and will inform ADB on such a decision.

10.02 Sida and ADB will consult in particular whenever either party proposes to: (i) modify materially any agreement entered into for the implementation of this Agreement; or (ii) suspend or terminate, in whole or in part, disbursements under this Agreement. ADB will inform Sida whenever ADB identifies a major change of scope in relation to any activities financed out of the proceeds of the Grant. Based on such information ADB and Sida will consult with each other.

10.03 Sida will maintain the prerogative to monitor, review and evaluate the Program activities, with the support of ADB.

**Article 11: Replenishment**

This Agreement may be extended by mutual written agreement of both parties to cover any additional funds, which the Government may from time to time make available for the purpose of the Program.

**Article 12: Termination of ADB’s Responsibility**

12.01 This Agreement will enter into force on the date it is signed by both parties.
12.02 If it appears to either party that the cooperation envisaged by this Agreement can no longer appropriately or effectively be carried out, the Agreement may be terminated by one party giving ninety (90) days written notice to the other party. In the event of termination, ADB will have no claim against the Government by reason of such termination other than payment of expenses actually incurred in good faith under this Agreement up to the date of such termination, less any sums previously paid on account thereof; provided that such termination will not affect any agreements entered into between ADB and DMCs, consultants, other persons or third parties prior to ADB’s receipt or giving of notice of such termination, and ADB will be entitled to continue to make disbursements and receive further advances from Sida in respect of such agreements as if this Agreement had not been so terminated. Unless otherwise agreed in writing by the parties, funds provided by the Government under this Agreement prior to its termination will, after the termination of this Agreement, continue to be governed by the terms of this Agreement. Any unutilized funds will be returned by ADB to Sida.

**Article 13: Environmental Protection**

All Projects and activities funded under this Agreement will be subject to and comply with ADB’s policies and procedures related to environmental protection and environmental assessment (ADB Environmental Policy, 2002).

**Article 14: Anti-Corruption**

No offer, gift or payment, consideration or benefit of any kind, which constitutes an illegal or corrupt practice, has been or will be made to anyone, either directly or indirectly, as an inducement or reward, for the award or execution of this Agreement. Occurrence of any such practice will be grounds for terminating this Agreement and/or taking any other corrective action as required.

**Article 15: Addresses**

Unless otherwise specified in writing to the other party, correspondence relating to the implementation of this Agreement will be addressed to the following:

(a) For the Government:

Sida  
Department for Natural Resources and the Environment  
SE- 105 25 Stockholm  
Sweden  
Facsimile Number: +46 (0)8 698 5653  
Attention: Mr. Jerker Thunberg, Director
(b) For the ADB:

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

(i) General Communications and Financial Matters:

Facsimile Numbers: (63-2) 636-2456 (Direct)
                  (63-2) 636-2444 (Central)
Attention: Office of Cofinancing Operations

(ii) Implementation and Technical Matters:

Facsimile Numbers: (63-2) 636-2381 (Direct)
                  (63-2) 636-2444 (Central)
Attention: Environment and Social Safeguard Division
           Regional and Sustainable Development Department

Article 16: Amendments

Any amendments and modifications to this Agreement will be made by mutual consent
and in writing.

Article 17: Settlement of Disputes

The Government and ADB will seek amicably to settle any differences and disputes
arising out of or in connection with the implementation of this Agreement.

Signed:

For GOVERNMENT OF SWEDEN For ASIAN DEVELOPMENT BANK

_________________________   ___________________
Name: Jerker Thunberg    Name: TADAO CHINO
Title: Director     Title: President
Department for Natural Resources and
the Environment