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LOAN NUMBER 3513-TAJ(SF)

GRANT NUMBER 0530-TAJ(SF)

FINANCING AGREEMENT  
(Special Operations)

(Investment Climate Reforms Program – Subprogram 2)

between

REPUBLIC OF TAJIKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 24.07.2017

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TAJ 47099

**FINANCING AGREEMENT  
(Special Operations)**

FINANCING AGREEMENT dated 24.01.2017 between REPUBLIC OF TAJIKISTAN ("Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Beneficiary a development policy letter dated 28 November 2016 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Financing Agreement, designed to develop the Beneficiary's investment climate ("Program");

(B) the Program comprises the second subprogram of a programmatic approach, as described in paragraph 1 of Schedule 1 to this Financing Agreement ("Programmatic Approach"), and the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Program;

(C) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions set forth herein; and

(D) ADB and the Beneficiary have agreed to implement the designation of all loans from ADB's Special Funds resources as concessional loans from ADB's ordinary capital resources loans with effect from 1 January 2017, which is implemented through the amendment of applicable legal agreements as set forth in an amendment letter dated 3 October 2016, including this Financing Agreement. Accordingly, this Financing Agreement shall be read together with the amendment letter;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations and Grant Regulations; Definitions**

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

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

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

(c) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Financing Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Beneficiary.

(d) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(e) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Financing Agreement.

(f) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

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

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

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

(c) Section 2.01(15) is deleted and the following is substituted therefor:

15. The term "Program" means the program for which ADB has agreed to make the Grant, as described in the Financing Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Beneficiary.

(d) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(e) Section 2.01(17) is deleted and the following is substituted therefor:

17. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Financing Agreement.

(f) The term "Project Executing Agency" wherever it appears in the Grant Regulations shall be substituted by the term "Program Executing Agency".

Section 1.03. Wherever used in this Financing Agreement, the several terms defined in the Loan Regulations and the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Financing Agreement have the following meanings:

(a) "Counterpart Funds" means the local currency generated from the proceeds of the Loan and the Grant under the Program and referred to in paragraph 4 of Schedule 4 to this Financing Agreement;

(b) "CWFA" means the Committee for Women and Family Affairs of the Beneficiary;

(c) "Deposit Account" means the account referred to in paragraph 3(a) of Schedule 3 to this Financing Agreement;

(d) "EOP" means the Executive Office of the President of the Beneficiary or any successor thereto;

(e) "ESF" means the Entrepreneurship Support Fund of the Beneficiary;

(f) "Government" means the government of the Beneficiary or any successor thereto;

(g) "Implementing Agencies" means SCISPM, MEWR, MOF, MOJ, NBT, ESF, Tajikstandard, the Tax Committee, and CWFA or any successor to any of the foregoing acceptable to ADB, as described in paragraph 1 of Schedule 4 to this Financing Agreement;

(h) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(i) "MEWR" means the Ministry of Energy and Water Resources of the Beneficiary or any successor thereto;

(j) "MOF" means the Ministry of Finance of the Beneficiary or any successor thereto;

(k) "MOJ" means the Ministry of Justice of the Beneficiary or any successor thereto;

(l) "NBT" means the National Bank of Tajikistan, the central bank of the Beneficiary, or any successor thereto;

(m) "Policy Matrix" means the matrix of policy actions as agreed between the Beneficiary and ADB and attached to the Policy Letter;

(n) "Program Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations means SCISPM or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

(o) "SCISPM" means the State Committee on Investments and State Property Management of the Beneficiary or any successor thereto;

(p) "Tajikstandard" means the Agency for Standardization, Metrology, Certification and Trade Inspection of the Beneficiary or any successor thereto;

(q) "Tax Committee" means the Tax Committee of the Beneficiary or any successor thereto; and

(r) "TJS" means the lawful currency of the Beneficiary.

## ARTICLE II

### The Loan and the Grant

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

- (a) a loan in various currencies equivalent to twenty-two million four hundred thirty-three thousand Special Drawing Rights (SDR22,433,000) ("Loan"); and
- (b) a grant in the amount of nineteen million two hundred forty thousand Dollars (\$19,240,000) ("Grant").

Section 2.02. (a) The Beneficiary shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.04. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

## ARTICLE III

### Use of Proceeds of the Loan and the Grant

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

Section 3.02. The proceeds of the Loan and the Grant shall be withdrawn from the Loan Account and the Grant Account in accordance with the provisions of Schedule 3 to this Financing Agreement, as such Schedule 3 may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2017, and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2017 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Program, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and the Grant and to record the progress of the Program.

(b) The Beneficiary shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. As part of the reports and information referred to in Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01(e) of the Grant Regulations, respectively: (a) the Government has completed, to the satisfaction of ADB, asset quality reviews of the 5 largest banks (AgroinvestBank, Amonat, Eskhata, Orient, and TojiksodirotBank); and (b) the Government has adopted, to the satisfaction of ADB, a fiscal strategy that will credibly reduce the budget deficit, including the public investment program, to 2.5 percent of Gross Domestic Product in 2017 and assure that the budget deficit in 2018 and 2019 is consistent with debt sustainability.

Section 5.02. A date 60 days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

## ARTICLE VI

### Miscellaneous

Section 6.01. The Minister of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

#### For the Beneficiary

Ministry of Finance  
3, Akademikov Rajabovikh Avenue  
734025 Dushanbe City  
Tajikistan

#### Facsimile Numbers:

(992) 372 213-329  
(992) 372 216-237

#### For ADB

Asian Development Bank  
6, ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

#### Facsimile Numbers:

(632) 636-2444  
(632) 636-2424.

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 as of the day and year first above written and to be delivered at the principal office of ADB.

REPUBLIC OF TAJIKISTAN

By   
\_\_\_\_\_  
ABDUSALOM K. QURBONIYON  
Minister  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
CHANG CHING YU  
Country Director  
Tajikistan Resident Mission



**SCHEDULE 1****Description of the Program**

1. The principal objective of the Programmatic Approach is the increased capability and opportunities of businesses in the Beneficiary to set up and expand higher value added production. The Programmatic Approach comprises 3 subprograms and the Program is the second subprogram. In particular, the Program supports (a) the reduction of the cost of doing business, (b) the strengthening of protection for businesses, and (c) the increase of business innovation and productivity.
2. The Program is described in more detail in the Policy Letter.
3. The Program is expected to be completed by 30 June 2017.

## SCHEDULE 2

### Amortization Schedule

#### (Investment Climate Reforms Program – Subprogram 2)

| <u>Payment Due Date</u> | <u>Payment of Principal</u><br>(expressed in Special Drawing Rights)* |
|-------------------------|-----------------------------------------------------------------------|
| 15 December 2024        | 701,031                                                               |
| 15 June 2025            | 701,031                                                               |
| 15 December 2025        | 701,031                                                               |
| 15 June 2026            | 701,031                                                               |
| 15 December 2026        | 701,031                                                               |
| 15 June 2027            | 701,031                                                               |
| 15 December 2027        | 701,031                                                               |
| 15 June 2028            | 701,031                                                               |
| 15 December 2028        | 701,031                                                               |
| 15 June 2029            | 701,031                                                               |
| 15 December 2029        | 701,031                                                               |
| 15 June 2030            | 701,031                                                               |
| 15 December 2030        | 701,031                                                               |
| 15 June 2031            | 701,031                                                               |
| 15 December 2031        | 701,031                                                               |
| 15 June 2032            | 701,031                                                               |
| 15 December 2032        | 701,031                                                               |
| 15 June 2033            | 701,031                                                               |
| 15 December 2033        | 701,031                                                               |
| 15 June 2034            | 701,031                                                               |
| 15 December 2034        | 701,031                                                               |
| 15 June 2035            | 701,031                                                               |
| 15 December 2035        | 701,031                                                               |
| 15 June 2036            | 701,031                                                               |
| 15 December 2036        | 701,031                                                               |
| 15 June 2037            | 701,031                                                               |
| 15 December 2037        | 701,031                                                               |
| 15 June 2038            | 701,031                                                               |
| 15 December 2038        | 701,031                                                               |
| 15 June 2039            | 701,031                                                               |
| 15 December 2039        | 701,031                                                               |
| 15 June 2040            | <u>701,039</u>                                                        |
| <b>Total</b>            | <b>22,433,000</b>                                                     |

\*The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Withdrawal of Loan and Grant Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan and Grant proceeds from the Loan Account and the Grant Account.
2. An application for withdrawal from the Loan Account and the Grant Account shall be submitted to ADB by the Beneficiary and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account and the Grant Account, the Beneficiary shall nominate an account (Deposit Account) at the NBT into which all withdrawals from the Loan Account and the Grant Account, respectively, shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.  
  
(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Beneficiary shall have the separate accounts and records in respect of the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, certified copies of such audited separate accounts and records in respect of the Deposit Account, in the English language, shall be furnished to ADB.
4. No withdrawal shall be made from the Loan Account or the Grant Account unless ADB is satisfied that the Beneficiary has met the policy actions for the release of the tranche specified in Attachment 2 to this Schedule.

**Negative List**

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Beneficiary:

**Table: Ineligible Items**

| Chapter | Heading | Description of Items                                                                                                                          |
|---------|---------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| 112     |         | Alcoholic beverages                                                                                                                           |
| 121     |         | Tobacco, unmanufactured; tobacco refuse                                                                                                       |
| 122     |         | Tobacco, manufactured (whether or not containing tobacco substitute)                                                                          |
| 525     |         | Radioactive and associated materials                                                                                                          |
| 667     |         | Pearls, precious and semiprecious stones, unworked or worked                                                                                  |
| 718     | 718.7   | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors                                           |
| 728     | 728.43  | Tobacco processing machinery                                                                                                                  |
| 897     | 897.3   | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971     |         | Gold, nonmonetary (excluding gold ore and concentrates)                                                                                       |

Source: United Nations.

- (ii) expenditures in the currency of the Beneficiary or for goods supplied from the territory of the Beneficiary;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Beneficiary or international agreements to which the Beneficiary is a party; and
- (vii) expenditures on account of any payment prohibited by the Beneficiary in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

**Policy Actions**

1. The Government shall reduce and consolidate the number of bodies with inspection functions.
2. To reduce the tax burden on businesses, (a) the Government shall obtain the Parliament approval of the reduction of the coefficient for calculation of profit tax from 1.1 to 1.0 of last year's profits; (b) the Tax Committee shall issue an internal order establishing disciplinary measures for staff that request advance tax payments from businesses not permitted in the Tax Code; and (c) the Government shall implement a nation-wide communication campaign to increase awareness of taxpayers' rights regarding advance tax payments.
3. The Tax Committee shall accept electronic declarations (without asking the corresponding paper declaration) from at least 30,000 taxpayers (of which 30% are women owned businesses) through its website using a login/mobile password authentication system.
4. The Government shall (a) further reduce the number of goods subject to outdated (mandatory) technical regulations by removing those that do not meet international standards, and (b) disclose the updated list of technical regulations.
5. The Government shall submit to the Parliament for approval the introduction of mandatory Regulatory Impact Analysis (RIA) in the rule-making process, including (a) preparation and disclosure of forward regulatory plans and RIA for all normative acts with potential impact on businesses adopted by the Parliament, Government, ministries, the NBT, and other public bodies at the central government level; (b) a system of electronic registries of forward regulatory plans, RIAs, and adopted normative acts; (c) the mandate for a RIA oversight body or unit; and (d) a single publication source for all normative acts adopted at the central government level that gives legal force to electronic version of normative acts.
6. The Government shall establish a web portal with universal, free of charge access to the database of normative acts (forward regulatory plans, RIA reports, draft normative acts, and adopted normative acts).
7. The Government shall disclose all incentives provided to investors to the general public.
8. The Government shall publish an electronic report with gender-disaggregated statistics of business ownership for 2011-2015.
9. The Government shall (a) carry out public consultations in the course of development of a new tariff policy for electricity that is in line with good international practice and eliminate cross customer subsidies; (b) adopt and make effective this new tariff policy for electricity and decide on gradual tariff adjustment to cost recovery levels, (c) increase allocation in the 2017 state budget for subsidies to low income consumers to mitigate the impact of tariff increases (a total of at least TJS80 million).
10. The National Accreditation Center shall become fully independent from Tajikstandard and shall receive funding from the state budget.

11. The Government shall improve the ESF's long term results framework and internal control function, including the disclosure of the 2015 audited financial statements and the appointment of independent members of the supervisory board.

12. The Government shall transfer at least TJS210 million (in assets or cash) to a microcredit refinancing fund duly established and operating in accordance with its Charter, which sets forth a governance structure aligned with international best practice, that has all necessary licenses to operate, including a license from the NBT to finance rural development.

13. The Government shall allocate grants to at least 80 businesswomen for cofinancing of investments (TJS2 million in 2016).

## SCHEDULE 4

### Program Implementation and Other Matters

#### Implementation Arrangements

1. The SCISPM shall be the Program Executing Agency. The SCISPM, the MEWR, the MOF, the MOJ, the NBT, the ESF, Tajikstandard, the Tax Committee, and the CWFA shall be the Program's Implementing Agencies. The EOP and the MOF shall oversee the implementation of the Program.

#### Policy Actions and Dialogue

2. The Beneficiary shall ensure that all policy actions adopted under the Program, as set out in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Programmatic Approach.

3. The Beneficiary shall keep ADB informed of policy discussions with other multilateral or bilateral aid agencies that have implications for the implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Beneficiary shall take into account ADB's views before finalizing and implementing any such proposals.

#### Use of Counterpart Funds

4. The Beneficiary shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

#### Governance and Anticorruption

5. The Beneficiary, the Program Executing Agency and the Implementing Agencies shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for the satisfactory completion of such investigation.

#### Monitoring and Review

6. The Beneficiary and ADB shall carry out a review of the Program, particularly with respect to the outcome and output indicators and follow-up actions for the Program. The Beneficiary and ADB agreed that the processing of Subprogram 3 of ICRP will be contingent upon approval by the International Monetary Fund of its program for the Beneficiary.

#### Charter of Microcredit Refinancing Fund

7. The Beneficiary shall ensure that no changes to the approved Charter of the Microcredit Refinancing Fund are made without prior consultation with ADB.