

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

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

PROJECT AGREEMENT
(Rural Development Project)

between

ASIAN DEVELOPMENT BANK

and

[MICROFINANCE INSTITUTION]

DATED _____

PROJECT AGREEMENT

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

WHEREAS

(A) by a Financing Agreement dated [___] between the Republic of Tajikistan (the “Beneficiary”) and ADB, ADB has agreed to make to the Beneficiary a loan in various currencies equivalent to Five Million Nine Hundred Twenty Thousand Special Drawing Rights (SDR 5,920,000) (equivalent to \$8,800,000) and a grant of Eight Million Three Hundred Thousand Dollars (\$8,300,000) on the terms and conditions set forth in the Financing Agreement, but only on condition that a portion of the proceeds of the Loan be made available to the MFI and that the MFI agrees to undertake certain obligations towards ADB as set forth in this Project Agreement;

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

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Provision of Sub-borrower Loans

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

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

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

- (i) the Sub-borrower shall carry out the Subproject with due diligence and efficiency and in accordance with sound financial, engineering, environmental, agricultural and business practices, including maintenance of adequate accounts and records;
- (ii) the Subsidiary Loan Proceeds shall be used only for procurement of Goods and Works under procedures that are appropriate under the circumstances, undertaken in accordance with established commercial practices, acceptable to ADB, and which comply with the provisions of ADB's Anticorruption Policy;
- (iii) the Goods and Works to be financed out of the Subsidiary Loan Proceeds shall be used exclusively in the carrying out of the Subproject and ADB and the MFI shall each have the right to inspect such Goods and Works, the Sub-borrower, the Subproject and any relevant records and documents;
- (iv) the Sub-borrower shall not contract child labor in any of the Subprojects or activities financed from the Subsidiary Loan Proceeds;

- (v) ADB and the MFI shall each be entitled to obtain all such information as each shall reasonably request relating to the Sub-borrower Loan, the Goods and Works financed out of the Subsidiary Loan Proceeds, the Subproject, the Sub-borrower and other related matters; and
- (vi) The MFI shall be entitled to suspend or terminate further access by the Sub-borrower to the use of the Subsidiary Loan Proceeds upon failure by the Sub-borrower to perform its obligations under the Sub-borrower Loan Agreement.

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

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

ARTICLE III

Particular Covenants

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

(b) In the carrying out of the Project and in the conduct of its business, the MFI shall (a) apply the Subsidiary Loan Proceeds to the financing of expenditures for the

Project in accordance with the provisions of the Financing Agreement and this Project Agreement, (b) perform all obligations set forth in the Financing Agreement, to the extent that they are applicable to the MFI, and all obligations set forth in this Project Agreement, and (c) ensure that all Goods and Works financed out of the Subsidiary Loan Proceeds are used exclusively in the carrying out of the Project.

Section 3.02. Except as ADB may otherwise agree, all Goods and Works to be financed out of the Subsidiary Loan Proceeds shall be procured in accordance with the provisions of Schedule 4 to the Financing Agreement.

Section 3.03. (a) The MFI shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Subsidiary Loan and the expenditure of the Subsidiary Loan Proceeds; (ii) the Goods, Works, and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the Sub-borrowers, the Subprojects and the Sub-borrower Loans; (v) the administration, operations and financial condition of the MFI; and (vi) any other matters relating to the purposes of the Subsidiary Loan.

(b) Without limiting the generality of the foregoing, the MFI shall furnish to ADB quarterly reports on the execution of the Project and on the use of the Subsidiary Loan Proceeds, including, without limitation, information on loan disbursements disaggregated by gender. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

Section 3.04. (a) The MFI shall (i) maintain separate accounts for the Project, including separate accounts for each Sub-borrower Loan made to a Sub-borrower, in each case, in accordance with the requirements of the National Bank of Tajikistan; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, funds flow statements and related statements) audited annually, in accordance with international financial auditing and accounting standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Subsidiary Loan Proceeds and compliance with the financial covenants of the Financing Agreement) all in the English language. The MFI shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The MFI shall maintain its financial status in accordance with the requirements of the National Bank of Tajikistan.

(c) The MFI shall enable ADB, upon ADB's request, to discuss the MFI's financial statements and its financial affairs from time to time with the MFI's auditors, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the MFI unless the MFI shall otherwise agree.

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

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

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

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

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

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

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

Section 3.10. The MFI shall comply with ADB's *Anticorruption Policy (1998)*. The MFI agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, the MFI shall ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants and other service providers as they relate to the Project.

ARTICLE IV

Effective Date; Termination

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

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

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

ARTICLE V

Miscellaneous

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2301.

For the MFI

[
Facsimile Number:
[]].

Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of the MFI may be taken or executed by its [President/Managing Director or otherwise authorized representative] or by such other person or persons as [he/she] shall so designate in writing notified to ADB.

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

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

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By _____

[FULL NAME OF MFI]

By _____
Authorized Representative