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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

تقرير رئيس الصندوق

بشأن قرض ومنحة مقترح تقديمهما إلى

جمهورية قيرغيزستان من أجل

مشروع إعادة التشجير والاتجار بالكربون في إطار

مشروع تنمية النظام الإيكولوجي في تيان شان

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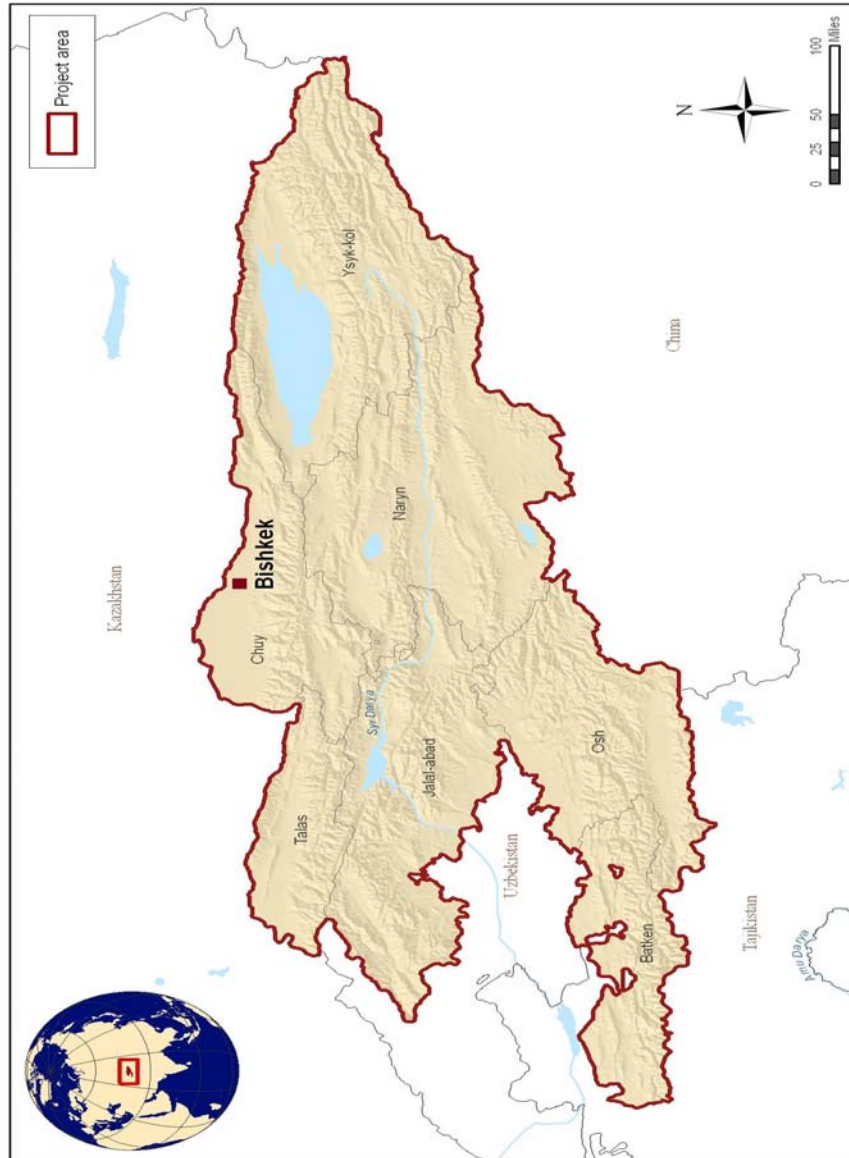
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Negotiated financing agreement:

"Forestry and Carbon Trading Project under the Tien Shan Ecosystem Development Project "

(Negotiations concluded on 10 November 2009)

Loan Number: [_____]

Grant Number: [_____]

Project Title: Forestry and Carbon Trading Project (the "Project"), under the Tien Shan Ecosystem Development Project

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Kyrgyz Republic (the "Borrower/Recipient")

(each a "Party" and both of them collectively the "Parties")

WHEREAS:

- A. The International Bank for Reconstruction and Development (hereinafter referred to as the "World Bank") acting as an implementing agency of the Global Environment Facility (hereinafter referred to as "GEF"), has agreed to provide a grant to the Borrower/Recipient in the amount of one million United States dollars (USD 1 000 000) (hereinafter referred to as "GEF Grant Agreement") to assist in co-financing the Strengthening Biodiversity Conservation in Protected Areas and Productive Landscapes Component and the Project Management Component, respectively Parts A and C of the Tien Shan Ecosystem Development Project to be implemented in the Borrower/Recipient's territory on terms and conditions set forth in the GEF Grant Agreement between World Bank, acting as the implementing agency of the Global Environment Facility, and the Borrower/Recipient;
- B. the Japanese Policy and Human Resources Development (herein after referred to as "PHRD") has agreed to provide a grant in the approximate amount of six hundred twenty six thousand one hundred and twenty United States dollars (USD 626 120) to finance the Tien Shan Ecosystem and Development Project preparation and implementation;
- C. the Borrower/Recipient has requested a Loan and a Grant from the Fund for purposes of financing the Forestry and Carbon Trading Component, Part B of the Tien Shan Ecosystem Development project (the "Project") described in Schedule I to this Financing Agreement.

NOW THEREFORE the parties agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions identified in Section E

paragraph 3 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is SDR 2 550 000.
The amount of the Grant is SDR 2 550 000.
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of the principal amount of the Loan shall be payable on each 15 May and 15 November commencing on 15 May 2020. Service charge shall likewise be payable on each 15 May and 15 November.
6. There shall be two Project Accounts in Bank(s) proposed by the Borrower/Recipient and accepted by the World Bank and the Fund, for Project operations for the benefit of the State Agency for Environmental Protection and Forestry and the Community Development and Investment Agency respectively. Such accounts shall collectively be referred to as "Project Accounts".
7. The Borrower/Recipient shall provide counterpart financing for the Project in the amount required to ensure full and adequate implementation thereof.

Section C

1. The Lead Project Agency shall be the Borrower/Recipient's State Agency for Environmental Protection and Forestry (SAEPF).
2. The following is designated as an additional Project Party: the Community Development and Investment Agency (ARIS).
3. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Loan and Grant shall be administered and the Project supervised by the World Bank as the Cooperating Institution.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - a) The GEF Grant Agreement has failed to enter into full force and effect within 180 days of the Date of entry into force of this Agreement, and substitute funds are not available to the Borrower/Recipient on terms and conditions acceptable to the Fund;
 - b) the right of the Borrower/Recipient to withdraw the proceeds of the GEF Grant has been suspended, cancelled or terminated, in whole or in part, or any event has occurred which, with notice of the passage of time, could result in any of the foregoing; and
 - c) the provisions of Kyrgyz Law N. 257 of 31 July, 2009 preventing full implementation of the Project are still effective at 31 August, 2010.

2. The following are designated as additional general conditions precedent to withdrawal:
 - a) A Project Operational Manual (POM), substantially in the form approved by the World Bank and the Fund shall have been adopted by the Lead Project Agency and a copy thereof shall have been provided by the Lead Project Agency to the World Bank and the Fund;
 - b) the Project Accounts shall have been opened pursuant to Section B, paragraph 6 hereto;
 - c) the Memorandum of Co-operation between SAEPF and ARIS, referred to under paragraph 2, Part II of Schedule 1 hereto, shall have been duly executed, and a copy thereof shall have been provided by the Lead Project Agency to the World Bank and the Fund;
 - d) the provisions of Kyrgyz Law N. 257 of 31 July, 2009 shall have been amended to the satisfaction of the World Bank and/or of the Fund, to permit full implementation of the Project.

3. The following provisions of the General Conditions shall not apply to this Agreement:
 - a) Section 7.05 (Procurement): all goods, works and consultants services required for the Project and to be financed out of the proceeds of the financing shall be procured in accordance with the requirements set forth or referred to in:
 - (i) Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004 and revised in October 2006 ("Procurement Guidelines"), in the case of goods and works, and Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the World Bank in May 2004 and revised in October 2006 ("Consultant Guidelines") in the case of consultants' services;
 - (ii) the provisions of Section III of the GEF Grant Agreement, as the same shall be elaborated in the Procurement Plan prepared and updated from time to time by the Borrower/Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines ("Procurement Plan"); and
 - (iii) in accordance with Schedule 2 Section III of the GEF Grant Agreement.
 - b) Section 9.03 (Audit of Accounts): the Borrower/Recipient, through SAEPF, shall have consolidated financial statements for the Project audited in accordance with the relevant provisions of the Standard Conditions for Grants made by the World Bank out of Various Funds (dated 1 July, 2008 as amended from time to time) (hereinafter "Standard Conditions"). Each such audit of the financial statements shall cover the period of one (1) fiscal year of the Borrower/Recipient. The audited financial statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

4. This Agreement is subject to ratification by the Borrower/Recipient.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

For the Borrower/Recipient:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

Minister for Finance
Ministry of Finance,
58 Erkindik Blvd.
Bishkek City, 720040,
Kyrgyz Republic

Telex: 245-156 NUR KH
Facsimile: (996-312) 661645

This agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund
[insert name and title]

For the Borrower/Recipient
[insert name and title]

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit rural poor communities throughout the territory of the Borrower/Recipient (the "Project Area").

2. *Goal.* The goal of the Project is to contribute to poverty reduction by increasing local people's access to forest benefits, employment generation and revenue from carbon trading.

3. *Objectives.* The objectives of the Project include: (a) assisting the Borrower/Recipient in improving ecosystem management and sustainable forestry in the Tien Shan Region of the Borrower/Recipient's territory (hereinafter "Tien Shan Region"); (b) contributing to: (i) improved ecosystem management and rural poverty reduction; and (ii) climate mitigation by sequestering carbon dioxide in forests in the territory of the Borrower/Recipient.

4. *Parts.* (a) The Tien Shan Ecosystem Development Project shall consist of the following parts: (i) Part A: Strengthening Biodiversity Conservation in Protected Areas and Productivity Landscapes; (ii) Part B: Forestry and Carbon Trading; and (iii) Part C: Project Management.

(b) The Fund shall assist the Borrower/Recipient in financing Parts B and C of the Tien Shan Ecosystem Development Project only.

4.1. Part A: Strengthening Biodiversity Conservation in Protected Areas and Productive Landscapes

Strengthening biodiversity conservation in the Tien Shan Region by building the Borrower/Recipient's management capacity in protected areas through:

- a) provision of technical assistance and support to the Borrower/Recipient for strengthening the management of selected Protected Areas, including the preparation of Protected Area management plans, as well as provision of technical assistance for improving biodiversity monitoring and transboundary management; and provision of equipment and carrying out renovations, upgrades and restorative works to reduce threats to biodiversity in and around Protected Areas; and
- b) promoting public awareness of biodiversity conservation as well as promoting sustainable tourism in the Tien Shan Region.

4.2. Part B: Forestry and Carbon Trading

- a) carrying out of afforestation and reforestation activities in the selected sites to (i) mitigate climate change; (ii) develop a carbon trading mechanism; (iii) recreate habitat for biodiversity; and (iv) generate local benefits, including fruits, nuts, forage, fuel, construction wood and other non-timber forest products, as well as environmental benefits.
- b) provision of technical assistance for validation and monitoring of carbon sequestration as well as for improving the management and condition of existing walnut fruit forest; and
- c) provision of capacity building and technical support for improved coordination between the Borrower/Recipient's agencies and the population for natural resources management.

4.3. Part C: Project Management

Provision of support for overall management and coordination of the Project, including the preparation and consultations on work plan, the carrying out of fiduciary and safeguard responsibilities as well as the carrying out of procurement, financial reporting and accounting activities.

II. Implementation Arrangements

Institutional arrangements

1. SAEPF shall be responsible for overall implementation of the Project and for procurement, financial management, disbursement, monitoring and reporting for the entire Project. To that end, the Borrower/Recipient shall maintain SAEPF with adequate staff and resources, in a manner satisfactory to the World Bank.
2. A detailed description of Project activities to be carried out respectively by the Lead Project Agency and ARIS shall be specified in a Memorandum of Co-operation to be entered into by SAEPF and ARIS, acceptable to the World and the Fund, as may be amended only with the prior consent of the World Bank and the Fund.

Project Monitoring, Reporting and Evaluation

3. Project Reports; Completion Report
 - a) The Borrower/Recipient, through SAEPF, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) calendar days after the end of the period covered by such report.
 - b) The Borrower/Recipient, through SAEPF, shall prepare the Completion Report in accordance with the provisions of the World Bank's Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date. In order to assist the Borrower/Recipient in preparing the Completion Report, the Borrower/Recipient, through SAEPF, shall employ consultants whose qualifications, experience and terms of reference are acceptable to the World Bank and the Fund.
4. Financial Management and Financial Reports
 - a) The Borrower/Recipient, through SAEPF, shall ensure that a financial management system is maintained in accordance with the relevant provisions of the Standard Conditions.
 - b) The Borrower/Recipient, through SAEPF, shall ensure that interim unaudited consolidated financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) calendar days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and Grant and the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category		Loan Amount Allocated (SDR)	Grant Amount Allocated (SDR)	% of Eligible Expenditures to be Financed
I.	Civil Works/equipment and goods	121 000	121 000	100% net of taxes and other contributions or 88% of total expenditures
II.	International and National Technical assistance/Training	289 000	289 000	100% net of other contributions
III.	Investment Forestation Activities	1 708 000	1 708 000	100% net of taxes and beneficiaries' contributions
IV.	Recurrent costs	177 000	177 000	100% net of taxes and other contributions or 88% of total expenditures
V.	Unallocated	255 000	255 000	
TOTAL		2 550 000	2 550 000	

(b) The terms used in the Table above are defined as follows:

"Investment Forestation Activities" means eligible expenditures for small-scale business projects to ensure forestation sustainability.

"Other Contributions" means contributions by financiers of the Project other than the Fund and the Borrower/Recipient.

"Recurrent Costs" means eligible expenditures for operations and maintenance, social payments, allowances and other Project operating costs.

"Small-scale Business Projects" means forestation and forest management activities by State Owned Forest Enterprises (Lezkhozes), Public Private Partnerships and micro-project groups.

Schedule 3

Special Covenants

1. The Borrower/Recipient shall ensure that all disbursements under the Financing shall be made in accordance with the *Disbursement Handbook for World Bank Clients (2006, as amended from time to time)*.
2. The Borrower/Recipient shall ensure that no less than 45% of land made available for Project implementation is allocated to communities, whilst the remaining land is allocated to Public-Private Partnerships in which communities may take part.
3. The Borrower/Recipient shall ensure that livelihoods restoration in the form of access to alternative pastures, or improvement thereof, is facilitated in the event of conflicts arising as a result of the informal or occasional use of marginal pastures by the Project.
4. The Borrower/Recipient, through SAEPF, shall: (a) carry out the Project in accordance with the provisions of the Project Operational Manual, the Borrower/Recipient's Environmental and Social Assessment, the Borrower/Recipient's Environmental and Social Management Plan as may be updated from time to time in agreement with the World Bank, and the Borrower/Recipient's Access Restriction Policy and Process Framework satisfactory to the World Bank, and shall not amend, suspend, abrogate, repeal or waive any provisions of the Project Operational Manual, the Environmental and Social Assessment, the Environmental and Social Management Plan, the Protected Area Management Plan and the Access Restriction Policy and Process Framework, without prior approval of the World Bank; and (b) include adequate information on the implementation of the Environmental and Social Management Plan and the Access Restriction Policy and Process Framework in the Project Reports referred to in paragraph 3 (a), Part II of Schedule 1 to this Agreement.
5. The Borrower/Recipient, through SAEPF: (a) shall ensure that all measures identified and described in the Environmental and Social Assessment, the Environmental and Social Management Plan, the Protected Area Management Plan and the Access Restriction Policy and Process Framework are taken in a timely manner; and (b) shall not carry out any forestation works under the Project on the sites which are under lease or informal use for grazing livestock unless an agreement for alternative sites has been reached with the users of grazing, satisfactory to the World Bank.
6. Prior to the commencement of works under the Project, the Borrower/Recipient, through SAEPF, shall prepare and implement an appropriate Resettlement Action Plan for compensation or resettlement, in accordance with the Access Restriction Policy and Process Framework, to be in form and substance satisfactory to the World Bank.
7. The Borrower/Recipient shall ensure that the Project is carried out in accordance with the provisions of the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 ("Anti-Corruption Guidelines"). For the purposes of this Agreement, a finding of corruption pursuant to the provisions of "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" shall be deemed a finding of corruption under the "IFAD Policy on Preventing Fraud and Corruption in its activities and operations".

Key reference documents

World Bank Project Appraisal Document
Poverty Targeting

Project Design Documents for CDM
Environmental and Social Assessment

Logical framework

Narrative summary	Performance indicators	Means of verification	Risks
Development goal			
Contribute to improved ecosystem management and rural poverty reduction	(i) Improved household asset ownership by gender (ii) Reduced prevalence of child malnutrition by gender (iii) VER sold	National surveys & statistics WB and/or UNDP data	External economic shocks Natural hazards
Project purpose			
Help restore forest ecosystems and reduce anthropogenic pressure on nature forest resources; register with CDM	(i) 13,950 ha of new forests established and maintained, with 6,280 ha for rural communities via ARIS (ii) CDM approval (iii) Use of Collaborative Forest Management continued and expanded by the project	Project monitoring, impact surveys, case studies, participatory M&E, CDM verification	Inadequate public awareness campaign Inadequate community commitment and participation
Expected outcomes			
(i) Diversify local livelihoods strategies, especially those of the poor, by increased availability of forest products (ii) Increase the long-term financial sustainability of rural communities and SAEPF (iii) Demonstrate feasibility of carbon finance from forestry (iv) Effective project management	(i) Fruits, nuts and fire wood available for local communities including: 100,000 tons of apple; 1.3 million cubic meter of poplar round wood harvested during 2018-27 (ii) Employment generated (iii) Gross carbon revenue: USD0.34 million by 2014 and USD01.23 million in 2017 (iv) PDD verified by CDM (v) Project implementation timely and well-coordinated	Project monitoring reports; periodic surveys; independent validations and verifications; supervisions, audits, PCR	Conflicts with interests of herders currently using marginal land for grazing Elite capture of decision-making process & benefits Inequitable distribution of benefits and revenues among stakeholders

