

FRAMEWORK FINANCING AGREEMENT
(UZB: Water Supply and Sanitation Services Investment Program)

Parties **This Framework Financing Agreement (FFA), dated 28 August 2009 is made between the Republic of Uzbekistan (Uzbekistan) and the Asian Development Bank (ADB).**

MFF Investment Program Uzbekistan is committed to and will implement, through the Uzbekistan Agency "Uzkommunhizmat" (UCSA), the Water Supply and Sanitation Services Investment Program (Investment Program) of which the Road Map is an integral part. The Investment Program and Roadmap are described in Schedule 1 hereto.

The total cost of the Investment Program (to be implemented from 2010 to 2018) is estimated at \$375 million equivalent. The total cost of the entire investment requirements for the sector over the period of next 10 years is estimated at around \$2.9 billion equivalent.

The Investment Program will improve access to safe, reliable, and sustainable water supply and sanitation (WSS) for about 3 million residents in Uzbekistan. It will also provide targeted assistance to UCSA, local governments, Inter Regional Trunk Mains, Regional Trunk Mains, and provincial and town level vodokanals (water supply companies), focusing on strengthening financial, managerial, and technical performance.

The Investment Program will comprise the following parts:

Part I: WSS Infrastructure Improvement

1. Water Supply Development
2. Wastewater Management
3. Sanitation and Hygiene

Part II: Capacity Development and Investment Program Management

1. Institutional Strengthening and Capacity Development
2. Program Management Facility (PMF)

Multi-Tranche Financing Facility The Multitranche Financing Facility (Facility) is intended to finance activities under the Investment Program, provided that the criteria and approval procedure set out in Schedule 4 hereto, and that the understandings set out in this FFA, are complied with.

The subprojects under Part I may include rehabilitation, improvement and expansion of (i) water supply, and (ii) sewerage and sanitation, infrastructure. Under Part II, the Investment Program will provide assistance in management of the Investment Program, capacity development for project implementation, sector reforms, regulation enforcement, improved financial management and revenue mobilization, and development of efficient and accountable service providers.

This Agreement does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB

has the right to deny any financing request made by Uzbekistan, cancel the uncommitted portion of the Facility, and withdraw Uzbekistan's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this Agreement.

This Agreement does not constitute a legal obligation on the part of Uzbekistan to request any financing. Uzbekistan has the right not to request any financing under the Facility. Uzbekistan also has the right to cancel any uncommitted portion of the Facility.

Uzbekistan and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other party. The written notice will provide an explanation for the cancellation or refusal, and in the case of cancellation, specify the date on which the cancellation takes effect.

Financing Plan The financing plan for the Investment Program is summarized below.

Financing Source	Total (\$million)	Share (%) of Total
ADB Asian Development Fund	300.0	80
Government	75.0	20
Total	375.0	100

Source: Asian Development Bank estimates.

Financing Terms

ADB will provide loans to finance activities under the Investment Program, as and when the latter are ready for financing, provided, Uzbekistan is in compliance with the understandings hereunder, and the activities are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent loans. The choice of financing terms will depend on the project, capital market conditions and ADB's financing policies that are prevailing on the date of the signing of the legal agreement for such tranche. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Amount

The maximum financing amount available under the Facility is \$300 million. It will be provided in individual tranches from ADB's Special Funds Resources (ADF). In the event that financing may be provided under ADB's ordinary capital resources (OCR), any additional OCR financing will be accompanied by a corresponding reduction in ADF financing. Such that the total available amount under the Facility will not exceed \$300 million equivalent.

Availability Period

The last date on which any disbursement under any tranche may be made will be 30 June 2018. The last Periodic Financing Request (PFR) is expected to be submitted no later than 31 December 2012.

Terms and Conditions

Uzbekistan will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with the conditions set forth in this Agreement and the legal agreements for each tranche.

Execution

The Executing Agency (EA) for the Investment Program will be UCSA. The Implementing Agencies (IA) for the Investment Program will be the participating provincial governments. For the purpose of the Investment Program, "provincial government" means khokimiyat (the provincial body of executive power) under the national legislation of Uzbekistan on local state power Ref#913-XII dated 3 September 1993. The EA and IAs will execute the activities under the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, as supplemented in the legal agreements for each loan.

Periodic Financing Requests

Uzbekistan may request, and ADB may agree, to provide loans, under the Facility to finance the Investment Program and its related projects upon the submission of a PFR. Each PFR should be submitted by Uzbekistan. Uzbekistan will make available to UCSA the proceeds of the loan in accordance with the related PFR and the legal agreements for the loan.

Each individual tranche will be for an amount of no less than US\$40 million, or its equivalent. ADB will review the PFRs, and if found satisfactory, will prepare the related legal agreements.

The subprojects for which financing is requested under the PFR will be subject to the selection criteria and approval process set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards, fiduciary requirements and other documents. Uzbekistan and ADB will agree on a Facility Administration Memorandum and a schedule to initiate these activities as soon as possible after the date of this Agreement, but prior to the effective date of the legal agreements for the first loan.

Unless otherwise notified by Uzbekistan in writing, the PFR will be signed on behalf of Uzbekistan by the Ministry of Finance.

General Implementation Framework.

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto. Specific implementation details may be set out in the relevant legal agreements.

Procedures

Each tranche to be provided under the Facility will be subject to the following procedures and undertakings:

- (i) Uzbekistan will have notified ADB of a forthcoming PFR at

- (ii) least 15 days in advance of the submission of the PFR; Uzbekistan will have submitted a PFR in the format agreed with ADB;
- (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal document for a tranche; and
- (iv) Once ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information The PFR will substantially be in an agreed format, and will contain the following details:

- (i) Loan amount;
- (ii) Description of subprojects to be financed;
- (iii) Appraisal reports for all constituent subprojects including environmental assessment report, resettlement plan, if any, and a due diligence report on safeguards implementation in the previous PFR;
- (iv) Cost estimates and financing plan for the proposed loan and the subprojects;
- (v) Implementation arrangements specific to the activities;
- (vi) Confirmation of the continuing validity of, and adherence to, the provisions of this Agreement;
- (vii) Confirmation of compliance with the provisions under previous legal agreements, as appropriate; and
- (viii) Other information as may be required under the Facility Administration Memorandum as reasonably requested by ADB.

Safeguards Attached as Schedule 5 to this Agreement, are the social and environmental safeguards frameworks that will be complied with during the implementation of the Investment Program.

ADB safeguard policies in effect at the time ADB approves the provision of a financing tranche will be applied with respect to the projects financed under such tranches.

Procurement All goods and services to be financed under the Facility will be procured in accordance with ADB's Procurement Guidelines (2007, as amended from time to time).

Consulting Services All consulting services to be financed under the Facility will be procured in accordance with ADB's Guidelines on the Use of Consultants (2007, as amended from time to time).

Advance Contracting and Retroactive Financing Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting and (b) retroactive financing of eligible expenditures for up to 20% of the proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Uzbekistan acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related

project.

Disbursements

Disbursement for each tranche will be made in accordance with the conditions of disbursement in the relevant Loan Agreement and in accordance with ADB's Loan Disbursement Handbook (January, 2007, as amended from time to time).

**Monitoring,
Evaluation, and
Reporting
Arrangements**

Within 3 months of the effectiveness date of the loan agreement for each loan under the Facility, the EA will establish a Program Performance Monitoring System (PPMS) in forms and substance acceptable to ADB. The PPMS will first select a set of performance monitoring indicators relating to physical implementation and institutional reform, and capacity building milestones including those in the Design and Monitoring Framework (Schedule 2 hereto). The EA will establish baseline data for each of the selected indicators and will conduct annual surveys with the assistance of the PMF and update ADB on the progress against each indicator.

The EA will also prepare and submit consolidated quarterly progress reports in English for each loan on all aspects of project implementation within 30 days of the end of each quarter. The reports will give the details of overall implementation progress, problems encountered during the reporting period, measures taken or proposed to remedy these problems, and the proposed program of activities for the next quarter. The reports will also include a summary financial account for each implementation agency, expenditures to date, and a report on benefit monitoring. The reports will also include results of internal monitoring of implementation of the resettlement plans prepared for the relevant subprojects. The EA will submit to ADB a project completion report within 3 months of physical completion of the activities financed under each loan, and a facility completion report within 3 months of the physical completion of all activities under the Facility. Such report will describe the details of implementation, costs, monitoring and evaluation results, problems encountered and action taken, and other information that ADB may request.

ADB will field review missions as required to discuss the progress of the Investment Program under each loan, any changes in the implementation arrangements, or remedial measures that are needed to achieve the overall objectives of specific subprojects and of overall Investment Program. In addition to regular reviews, including a midterm review for each loan, a detailed midterm review of the Facility will be done 3 years after the first loan takes effect. The midterm review for each loan under the Facility will be done in accordance with the implementation period of each loan. The midterm reviews will evaluate in detail the scope of the Facility and projects, implementation arrangements, any outstanding issues, environment and resettlement as well as other safeguard issues, achievement of scheduled targets, contract management progress, and other issues, as appropriate.

Representations and Warranties Attached as Schedule 6 hereto are the undertakings provided by Uzbekistan.

REPUBLIC OF UZBEKISTAN

ASIAN DEVELOPMENT BANK

By _____ (Original Signed) _____

By _____ (Original Signed) _____

Utkir Khalmukhamedov
Director General
Uzbekistan Agency "Uzkommunhizmat"

Juan Miranda
Director General
Central and West Asia Department

- SCHEDULE 1: FACILITY CONSTITUTENTS
- SCHEDULE 2: DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY
- SCHEDULE 3: IMPLEMENTATION FRAMEWORK
- SCHEDULE 4: SELECTION CRITERIA AND APPROVAL PROCESS FOR SUBPROJECTS
- SCHEDULE 5: ENVIRONMENT AND SOCIAL SAFEGUARDS REQUIREMENTS
- SCHEDULE 6: UNDERTAKINGS

SCHEDULE 1
UZB: Water Supply and Sanitation Services Investment Program
Multitranche Financing Facility

A. Road Map

1. Vision and Objectives

1. The Government of Uzbekistan (Government) has committed to improving the quality of water supply services and coverage of water and wastewater systems to meet Millennium Development Goals and “to halve by 2015, the proportion of urban and rural population, which lacks access to safe drinking water and adequate sanitation.” These goals are ambitious but the Government has put in place progressive policies and strategies to enable the sector to improve the quality of its services. Furthermore, the Government's Poverty Reduction and Welfare Improvement Strategy identifies improving access to safe water and sanitation as a critical step to reduce poverty and improve welfare of the nation and calls for greater attention to the development of water supply systems and improved sanitation.

2. In order to achieve its vision, the Government has prioritized the improvement of water supply and sanitation (WSS) services in all towns and cities throughout the country, starting in areas of most urgent need. The Government has already invested \$291 million during 1995–2008, and the international community and IFIs have funded/financed a further \$343 million, but various studies have indicated that there is need for about \$2.9 billion of further investments. The Government has recognized that in addition to the capital investments to improve the physical plant, there is also urgent need to (i) strengthen the utilities (vodokanals) responsible for delivering the WSS services, to improve accountability, transparency and reporting; (ii) rationalize water tariffs by linking these to cost of production and delivery; and (iii) generally improve operation and maintenance with a view to sustainability, with a longer term view for private sector participation. In order to continue reforms and improvements, the Government has requested ADB to provide financing for physical investments as well as for institutional and strategy support for the urban WSS sector.

3. The objective of the proposed Multitranche Financing Facility (Facility) is to respond to this request by providing financing for Part 1—physical improvements in about 40 cities and district towns with total population of about 3 million and for Part 2—institutional strengthening and capacity building, with particular focus on addressing the inherent weaknesses in the current delivery of WSS services. The need to shift sector policies from a central economy to a service oriented approach will receive particular support through the project management facility established under the Investment program.

2. Issues and Constraints

4. Much of the country is arid and local towns and district cities rely on inter-regional trunk mains (IRTMs) for their water supply. The IRTMs are administered by UCSA and operated by the IRTM agencies, while the cities and district towns water supply and distribution systems are operated by the rayon WSS utilities (vodokanals). The water distribution systems, sewerage networks and IRTMs inherited from the former Soviet Union are now almost 20 years older and in poor physical condition and beset with chronic inefficiencies. Piped networks were constructed using low quality materials, such as mild steel, common in the former Soviet Union. Water and wastewater collection systems, and treatment plants, were designed and built to standards in the 1960's and lack modern specifications and high efficiencies. Administratively, the vodokanals have not yet modernized their operations nor adopted a business attitude to providing their services. Most of the smaller vodokanals are bankrupt, and as a result water and wastewater services have become unreliable and will continue to deteriorate unless major interventions are carried out.

5. The current Uzbekistan service standards call for 100% coverage of water supply with 24 hour per day supply and reasonable pressure to meet the targeted (2020) per capita consumption of 150 liters per day. However, while some 89% of the urban population has access to services, the service levels are quite poor; only 2–6 hours per day is common as much of the mechanical/pumping equipment is broken down. Despite the low pressure non revenue water (NRW) is estimated at over 50%. In most towns, booster/pressurization pumps, major water supply mains and service connections require replacement, with the remaining distribution systems needing leakage detection and repair programs.

6. With respect to sanitation, only 48% of the urban population is covered with piped sewage collection; most of the urban populations depend on on-site sanitation services. In the larger towns and cities that do have coverage, the collection and treatment systems are in a state of serious disrepair; major sewer are corroded and the sewage pump stations and treatment plants are non operational and in urgent need of major repairs/replacement. The Government standard calls for 80% coverage by 2020.

7. With respect to cost recovery, most vodokanals do not have sufficient income to cover their operating costs, due to poor financial management, poor quality of services, weak administration, lack of commercial focus and high operation and maintenance (O&M) cost caused by the inefficiencies and serious deterioration of the physical systems. Tariffs are reviewed by Ministry of Finance (MOF), based on water loss, electricity, and other material consumption norms. However, with the networks and equipment in their current state of deterioration, actual loss exceeds the norms; hence, tariffs are often inadequate to cover actual financial expenses of the services. To overcome this, vodokanals need to be more accountable, deliver consistently much better services, and adopt a customer-oriented approach. Increases in tariffs would then be more acceptable to consumers. Increases in quality of service, followed by increases in tariffs and cost recovery are essential to ensure proper operation of new assets.

8. The institutional arrangements in the WSS sector have changed significantly since independence in 1991. WSS service provision has been largely transferred to local governments, such as district (rayon) and provincial (oblasts) administrations. But capital works have to be approved by the MOF and the Ministry of Economy. The IRTMs and the vodokanals are responsible for the day to day O&M of the water and sanitation facilities.

B. Strategic Contexts

9. The Government has put legislation in place allowing local governments and their vodokanals flexibility to improve their service levels through various reforms; such as through the use of lease contracts and management contracts and semi privatization of vodokanals to joint stock companies. However, to date most utilities remain under state ownership. Out of 122 entities of natural monopolies, registered with State Committee of the Republic of Uzbekistan on Demopolization and Support for Competition and Entrepreneurship only 13 are registered under private status (JSC, Ltd Company, association). The main constraints to implementation of such reforms are: limited financial resources, unfamiliarity with reform ideas and practices, and lack of experience in defining and implementing such reforms. Further international assistance is needed to make these reforms effective, including advice, know how, technology and capital investment. Some forms of PPPs have been tried in the WSS sector but with limited success. Institutional support and development is required to help the Government and the vodokanals reach the point where cost recovery and levels of service are sustainable, in order to enable PPPs of various forms.

10. In its commitment to enable the development of modern business practices to the WSS sector the Government has gradually removed subsidies to vodokanals to encourage them to be

financially self sustaining organizations. To achieve these goals the Government is planning significant investments. In June 2008, a resolution of the president #890, 2008 further prioritized these investment needs and approved an investment plan with external financing of US\$709 million covering 2008–2012. The proposed ADB financing fits within the country partnership strategy and country assistance plan agreed between the Government and ADB. The MFF complements the ongoing ADB projects in the sector and the institutional support, studies and strengthening under the MFF, will also help mainstream the reforms and improvements at the vodokanal level in the ongoing projects.

C. Policy Framework

11. The Government has adopted a challenging vision to meet Millennium Development Goals of reducing poverty and extending urban water supplies to 100% of the population and rural supplies to 89 % of the population by 2010. These targets are ambitious and it is unlikely they will be fully achieved in the given timeframe. However, the targets are progressive and with ADB assistance, major progress is proposed to introduce reforms and projects to address the challenges explained above. These proposals support and align with Government policy and the Road Map focuses on delivering improved WSS to the people of Uzbekistan by:

- Undertaking institutional reorganization and strengthening operational management by either incentives based contracts, outsourcing or PPP contracts
- Preparing technical, financial and institutional studies following modern norms in preparation of subproject appraisal reports
- Making sustainable and cost effective investments in physical infrastructure

12. The reforms will be tracked through the initial subprojects in the first tranche that will benefit consumers in the participating cities and towns. The early results will be used to provide feedback for future models that could be adopted elsewhere in Uzbekistan and in subsequent tranches of the MFF. The Government recognizes that investments alone will not stem the deterioration of water supply and sanitation assets and systems. The Government will need to adjust existing laws and regulations to build accountability and incentives for the vodokanals. This will include; (i) increase in tariffs commensurate with the cost of water supply, (ii) introduction of performance based service contracts and development of public private partnership (PPP), (iii) strengthening of vodokanals technically and financially based on market principles, (iv) exempting vodokanals from rigid state mandatory norms and standard designs that are in conflict with the need for flexibility and innovation to improve management and operation, and (v) incorporate environmental protection.

13. The institutional strengthening component of the MFF will not only assist UCSA to implement the MFF but will also strengthen the IRTMs and the vodokanals to help them become autonomous, financially stable and independent on a sustainable basis. The project management facility (PMF) incorporates a number of initiatives towards this end; (i) evaluate the possibility, and advantages of, aggregating the vodokanals to gain economy of size, (ii) benchmarking studies, (iii) rationalization of consumer base with tax rolls, (iv) rationalization of staffing requirements, (v) increasing tariffs to meet full O&M costs, (vi) assist the IRTMs with development of various options for PPP, (vii) assist the vodokanals with development of options for performance based O&M contracts, and (vi) capacity building and training of staff of all related organizations.

D. Investment Program

14. The scale of rehabilitation of existing facilities plus new expansions to meet population growth over the next 10 years requires significant investment funds. Projected investments needs for years 2010–2020 are shown in the table below:

Estimated Total Investment Requirements, 2007–2020
(\$ million)

Provinces	2010–2015	2016–2020	Total 2010–2020
Karakalpakstan	151.2	105.6	256.8
Andijan	132.6	129.6	262.2
Bukhara	130.5	70.7	201.2
Djizzak	121.0	122.3	243.3
Kashkadarya	174.0	85.9	259.9
Navoi	56.4	22.2	78.6
Namangan	102.2	111.4	213.6
Samarkand	152.7	102.4	255.1
Surkhandarya	245.6	112.0	357.6
Sirdarya	147.5	54.6	202.1
Tashkent	152.3	80.1	232.4
Ferghana	98.8	39.5	138.3
Khorezm	55.2	32.9	88.1
Tashkent city	80.3	31.6	111.9
Total	1800.3	1100.8	2901.1

Source: Uzbekistan Water Supply and Waste Water System Development and Modernization Plan for 2009 – 2020, Standing Committee of the Cabinet of Ministries, 25 June 2009

15. A Resolution of the President No. 890 in June 2008 lists investment projects prepared for implementation with IFIs. The major scope of investments includes:

- Augmentation of raw water supply systems to enable the existing IRTMs to supply the increased water demands of the vodokanals they supply. This will include rehabilitation and expansion of existing well fields, construction of infiltration galleries or a combination of both, based on the most cost effective approach for each IRTM;
- Rehabilitation and expansion of existing water systems with focus on (i) improving services towards 24 hours per day for at least 90% of the urban populations with sufficient pressure to provide fire flows; (ii) provision of booster pumps, water storage reservoirs and chlorinators; (iii) reducing leakage by replacing corroded feeder mains and larger diameter water mains; (iv) replacing service connections with new metered connections; (v) provision of spare parts and consumables to ensure proper operation after construction; and (vi) capacity building and training of the vodokanals in efficient operations with consumer focus including leakage detection, management, budgeting and accounting, reporting and audits;
- Rehabilitation and expansion of existing sewerage systems to service up to 79% of the urban populations including; (i) replacement of corroded and damaged/collapsed sewage collector mains; (ii) refurbishment of pump stations; (iii) expansion of the collection system with additional street sewers and related pump stations; (iv) rehabilitation of sewage treatment plants to meet Uzbekistan standards for effluent discharge; (v) update laboratories and administration buildings to ensure proper support for the O&M of the new systems; (vi) provide spare parts and consumables to enable normal operation for 5 years after construction; and (vii) capacity building and training of the vodokanals with focus on preventative maintenance, management, budgeting and accounting and reporting.

16. In addition to the physical investments described above, Part 2 of the Facility incorporates a substantial component for institutional support and strengthening of UCSA's PPMU, the provincial level PIUs and the participating vodokanals. Part of the institutional support includes several activities to assist the Government and the vodokanals with improving their WSS services.

These include studies and evaluations for; (i) benchmarking of the WSS sector, (ii) tariff options and increases; (iii) benefits of aggregation of the smaller vodokanals to help them take advantage of economies of scale; (iv) introducing performance based contracting and operation of the vodokanals such as lease or management contracts; and (v) assisting the IRTMs with development of contracts for various options of PPP.

17. The Government, in its letter dated 4 May 2009, recommended the following priority investments for ADB consideration.

Priority Investments for 2009 – 2011 Recommended by the Government

	Project Title/Year of Financing	Requested ADB Financing (\$ million)
	2009	85
1	Modernization of Damkhodja inter-regional water supply system	65
2	Rehabilitation of Termez Wastewater Management System	20
	2010	75
3	Improvement of water supply in Djizzak Province	60
4	Rehabilitation of Karshi Wastewater Management System	15
	2011	60
4	Improvement of water supply systems in the cities of Fergana, Margilan and Namangan	40
5	Reconstruction of Wastewater Facilities in Gulistan and Yangier cities of Syrdarya Province	20
	TOTAL (2009-2011)	220

E. Financing Plan

18. Total planned ADB investment under this MFF is \$375 million, and the financing plan is as shown below.

Cost Estimates and Financing Plan (MFF) (\$ million)

Categories	Total Costs ^a	ADB		Government	
		Amount	Financing (%)	Amount	Financing (%)
Part I: Water Supply and Sanitation Infrastructure Improvement					
1. Civil Works	236.8	181.8	77	55.1	23
2. Mechanical & Equipment	104.0	85.9	83	18.1	17
3. Land and resettlement	3.6	3.6	100	-	-
Sub-total	344.5	271.3	79	73.2	21
Part II: Capacity Development and Investment Program Management					
1. Consultants	6.8	5.7	83	1.1	17
2. Training	0.4	0.4	100	-	0
3. Incremental Administration ^b	3.5	2.8	82	0.7	18
Sub-total	10.7	8.9	83	1.8	17
Interest During Implementation	19.8	19.8	100	-	-
Total	375.0	300.00	80	75.00	20

- = not available, ADB = Asian Development Bank.

Note:

^a including taxes and duties of \$61.2 million.

^b including possible bank charges.

Source: Asian Development Bank estimates.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions and Risks
<p>Impact Improved living standards, environment, and public health in urban centers of Uzbekistan</p>	<p>100% of urban population provided with safe and reliable water supply 24 hours a day by 2020</p> <p>Waterborne infections reduced by 40% by 2020</p>	<p>National statistics</p> <p>Reports of multilateral and bilateral agencies</p> <p>Sex-disaggregated baseline and follow-up socioeconomic surveys</p>	<p>Assumptions Clear and coherent government sector development vision and strategy</p> <p>Continued government commitment to sector development and reforms</p>
<p>Outcome Safe, reliable, and sustainable water supply and sanitation services and improved hygiene in project towns</p>	<p>Safe, reliable water provided to 3 million people by 2018</p> <p>Water supply available at least 20 hours a day by 2018</p> <p>System leakage reduced to less than 30% by 2018</p> <p>Water quality complies with national drinking water standards from 2018 onward</p> <p>More than 70% of wastewater in project towns collected and treated by 2018</p> <p>(x) number of rural population near the subproject towns receive bulk water supply</p> <p>Vodokanals cover O&M and depreciation costs for water supply and at least O&M costs for wastewater treatment from 2018 onward</p> <p>Collection rate of water supply and sanitation charges increased to 90% by 2018</p> <p>Public satisfaction with quality of water supply and sanitation increased from xx% to yy% (to be quantified when baseline is established through a social survey and program inception)</p> <p>All schoolchildren wash their hands with soap by 2018</p>	<p>Project performance report</p> <p>Vodokanal records, financial reports, and performance benchmarking reports</p> <p>Annual socioeconomic surveys</p> <p>Review missions</p> <p>Back-to-office report</p> <p>Project completion report</p>	<p>Assumptions Government commitment to the institutional and financial reforms made by the Project</p> <p>Increasing awareness in communities of relationship between health, hygiene and sanitation, and clean water use</p> <p>Adequate capacity and motivation of vodokanal staff to manage, operate, and maintain the new system properly</p>
<p>Outputs 1.1 Water supply and sanitation systems rehabilitated and improved</p>	<p>(a) reservoirs, (b) boreholes, (c) pumping stations, (d) km of trunk mains, and (e) km of distribution networks rehabilitated (to be quantified for each tranche when engineering design is completed and summarized when engineering designs for</p>	<p>Government document or resolution</p> <p>Project performance report</p>	<p>Assumptions Active participation by all stakeholders in strategy development</p> <p>Competent consultants and contractors</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions and Risks
<p>1.2 Management structure and capacity for WSS operation improved</p>	<p>all tranches are completed)</p> <p>(f) reservoirs, (g) boreholes, (h) pumping stations, (i) km of trunk mains, and (j) km of distribution networks constructed (to be quantified for each tranche when engineering design is completed and summarized when engineering designs for all tranches are completed)</p> <p>Water meters installed to all bulk customers and consumers in project towns</p> <p>(k) km of sewerage networks and (l) wastewater treatment plants (with total treatment capacity of (m) m³/day) rehabilitated (to be quantified for each tranche when engineering design is completed and summarized when engineering designs for all tranches are completed)</p> <p>(n) km of sewerage networks and (o) wastewater treatment plants (with total treatment capacity of (p) m³/day) constructed (to be quantified for each tranche when engineering design is completed and summarized when engineering designs for all tranches are completed)</p> <p>At least (q) schools provided with improved latrine facilities; all schools in project areas provided with piped water supply</p> <p>Hygiene promotion activities carried out in all schools in the project areas; at least five women trained in each <i>makhalla</i>^a in project areas</p> <p>All WSS operators in project towns selected on a competitive basis by 2018</p> <p>All technical and financial management training available to WSS operators with equal access for men and women in project towns by 2018</p> <p>A customer care unit established by WSS operator in each project town by 2018</p> <p>Sex-disaggregated consumer databases developed and all consumers registered by 2018</p> <p>Computerized financial management systems adopted by 2018</p> <p>O&M manual developed by each WSS operator and adopted by 2018</p> <p>Performance benchmarking systems developed and adopted by WSS operators</p>	<p>Project progress reports</p> <p>Project performance monitoring system</p> <p>Review missions</p> <p>Back-to-office report</p> <p>Project completion report</p> <p>Sex-disaggregated baseline and follow-up hygiene surveys</p> <p>Training evaluation reports</p>	<p>engaged</p> <p>Risks</p> <p>Delays in internal approval procedures of the Government</p> <p>Inadequate counterpart financing</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanism	Assumptions and Risks
1.3 Effective support provided to program implementation	by 2018 All investment tranches under the multitranche financing facility developed, implemented, and managed in timely manner		
Activities with Milestones Tranche 1: 1. Water Supply and Sanitation System Rehabilitation and Improvement Tranche 1: (i) Detailed design completed by month 21 (ii) Existing facilities rehabilitated and new facilities constructed, commissioned, and made operational between month 21 and month 45 (iii) Machinery and equipment procured and delivered by month 36 2. Management Improvement and Capacity Development (i) Due diligence work for structured management contract pilot completed by month 35, structuring completed by month 37, negotiations completed by month 41, and operation started from month 42 (ii) Due diligence work for lease contract pilot completed by month 36, bidding documents prepared by month 38, bidding and negotiation completed by month 45, and operation started from month 46 (iii) Training plan developed by month 18 and training conducted between month 18 and month 55; at least 30% of training participants to be women (iv) Customer care units established by month 55 (v) Sex-disaggregated consumer databases developed by month 55 (vi) Computerized financial management systems adopted by month 55 (vii) O&M manual developed and adopted by month 36 (viii) Performance benchmarking systems developed and implemented between months 24 and 55 (ix) Hygiene promotion implementation plan prepared by month 8 and carried out regularly in all schools between months 18 and 48 with equal participation by boys and girls (x) Sex-disaggregated baseline survey conducted by month 6 and follow-up surveys continued until month 66 3. Program Management Facility (i) Program management facility established and consultants recruited by month 8 (ii) Support provided to the program development, implementation, and management for the whole duration of the Investment Program. Tranche 2 to be approved by end of 2010; Tranche 3 to be approved by end of 2011; Tranche 4 to be approved by end of 2012			Inputs Asian Development Bank (Asian Development Fund) loan: \$300 million Government: \$75 million

km = kilometer, m³ = cubic meter, O&M = operation and maintenance, WSS = water supply and sanitation.

^a A *makhala* is the smallest administrative group in a community.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

1. Unless modified and amended in loan or project agreements under the Facility, the Investment Program will be implemented as follows.

A. Implementation Arrangements

2. The executing agency for the Investment Program will be the Uzbekistan Agency "Uzkommunhizmat" (UCSA). Each participating provincial government will be the implementation agency for the activities under the Investment Program for their provinces.

3. The inter-agency council for cooperation with international financial institutions, organizations and donor countries, implementation of large and strategically important projects, established in accordance with Resolution N-229 dated 12 August 2009 of the Cabinet of Ministers (Inter-Agency Council) shall be responsible for overall policy direction and guidance for the Investment Program.

4. The Inter-Agency Council shall meet at least on a semi-annual basis to review implementation of, and decide on all major issues relating to, the Investment Program. Specifically, it shall: (a) provide strategic guidance on, and oversee the implementation of, the Investment Program, including related legislative, regulatory and institutional reforms; (b) facilitate the endorsement of the subprojects and PFRs; (c) approve the creation of posts in the PPMU and the recruitment of key PPMU staff (including the program director, the financial management specialist and the procurement specialist); and (d) ensure compliance with environment and social safeguards and related requirements.

5. The PPMU, already established under UCSA, will be expanded to execute, manage, and monitor the implementation of the Investment Program. The PPMU will be headed by a full time program director and comprise of technical, financial, procurement, social and environment, and administrative units. Each of these units will have adequate staff with relevant expertise. Such staff should include: a WSS engineer, a financial management specialist, an accountant, a procurement specialist, an environment specialist, a social safeguards specialist, a monitoring and evaluation specialist, an interpreter, a training officer and a management information system specialists. Supported by consultants under the program management facility (PMF) (from Part 2 of the Investment Program), the PPMU will be responsible for:

- (i) selecting and appraising subprojects;
- (ii) undertaking feasibility studies;
- (iii) preparing and submitting PFRs;
- (iv) supervising detailed designs;
- (v) procuring the goods and services;
- (vi) directing construction supervision;
- (vii) overseeing the implementation of the institutional strengthening and capacity development action plan;
- (viii) monitoring and evaluating the implementation progress and impact;
- (ix) checking and guiding safeguards compliance;
- (x) coordinating among government agencies; and
- (xi) consolidating and preparing periodic reports for the Investment Program.

6. A project implementation unit (PIU) will be set up in each participating province and will be responsible for day-to-day implementation of the Investment Program and the subprojects

within the corresponding provinces. Each PIU will be headed by a full time program manager and comprise of a technical, financial, social and environment, and administrative units. Each PIU should include: a WSS engineer or a waste water management engineer, a financial management specialist, an accountant, an environment specialist, a social safeguards specialist, an interpreter and an officer manager. Supported by consultants under the PMF, the PIUs will be responsible for:

- (i) participating in subprojects planning, detailed design, and bid evaluation;
- (ii) coordinating the activities of consultants and contractors in the province;
- (iii) overseeing construction activities;
- (iv) coordinating resettlement activities;
- (v) monitoring the social and gender and environmental impact of the subproject activities;
- (vi) supervising local institutional reform and capacity development activities; and preparing and consolidating subproject accounting, auditing, and monitoring reports for submission to the PPMU.

B. Reviews

7. After review of the quarterly progress reports, ADB will field review missions as required to discuss with the Borrower and UCSA the progress of the Investment Program under each loan, any changes in the implementation arrangements, or remedial measures that are needed to achieve the overall objectives of specific subprojects and of overall Investment Program. Relevant PIUs will participate in the review missions

8. In addition to regular reviews, including a midterm review for each loan, a detailed midterm review of the Investment Program will be done by the Borrower, UCSA and ADB, 3 years after the effectiveness of the loan for the first tranche. The midterm review for each loan will be done in accordance with the implementation period of each loan. Such midterm reviews will evaluate in detail the project activities, implementation arrangements, any outstanding issues, environment and resettlement as well as other safeguard issues, achievement of scheduled targets, contract management progress, and other issues, as appropriate. The midterm review for the Investment Program will focus on: (i) performance of the Parts under the Investment Program; and (ii) any changes to implementation arrangements or remedial measures needing to be undertaken toward achieving the objectives of Parts and overall Investment Program.

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SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR SUBPROJECTS

A. Selection Criteria

1. Selection of Participating Provinces and Towns

1. For activities to be financed under Part 1 of the Investment Program, the prospective participating province should be first identified based on an overall assessment of the water supply and sanitation (WSS) situation in the province relative to the national average. Within an identified participating province, the selection of program towns will be based on an overall assessment of their WSS situations and their importance in the economy. Factors to be considered include (i) town population, (ii) population growth, (iii) WSS coverage, (iv) water supply service duration, (v) commercial and industrial growth, and (vi) urgency of a wastewater management system. It is anticipated that each tranche under the Facility will cover a maximum of three participating provinces, preferable nearby each other.

2. Selection of Subprojects

2. Following the selection of participating provinces and towns, the subprojects eligible for financing under the Investment Program will include (i) water supply development, (ii) wastewater management, and (iii) sanitation and hygiene improvement. In selecting the subprojects for each town, the following general criteria should be followed:

- (i) The subproject has a proven consumer demand analysis indicating that people are willing to pay for the connection charges and monthly tariffs to access the improved services;
- (ii) The subproject is not being considered for financing by other funding agencies.
- (iii) The subproject is technically sound, technical alternatives have been examined and least cost solution has been identified and recommended;
- (iv) The subproject does not require significant resettlement or land acquisition.
- (v) The subproject does not have significant negative environmental impacts and is Category B according to ADB's environmental classification.
- (vi) The provincial government and vodokanal agree to replicate the successful WSS service management models based on the models piloted under the Investment Program;
- (vii) The provincial government and vodokanal agree to take actions specified in the institutional strengthening and capacity development action plan of the Investment Program and agreed upon by Uzbekistan and ADB;
- (viii) The central or provincial government agrees to provide capital investment subsidies in case of wastewater management subproject, when fully cost recovery is not feasible;
- (ix) For wastewater management subproject, sewer network will only be installed to the areas where wastewater generation justifies the need of such network. Wherever sewerage will be uneconomical, on-site sanitation with septic tank or low cost sanitation with adequate odor control and COD/BOD/TSS removal efficiency shall be developed.

3. Appraisal of Subprojects

3. When appraising the subprojects, the following general criteria should be followed:

- (i) The feasibility study shows that the subproject meets ADB's and the Government's technical, economic, financial, and institutional requirements;
- (ii) The economic viability of the subproject should have been demonstrated by an economic analysis undertaken in accordance with ADB's *Guidelines for the Economic Analysis of Projects* (1997) and *Handbook for the Economic Analysis of Water Supply Projects* (1999).
 - For water supply development subproject, the subproject should have an economic internal rate of return (EIRR) of at least 12%;
 - For water source development and wastewater management subprojects, the technical design should have been proven to be the least cost solution;
- (iii) The financial sustainability of the subproject should have been demonstrated through a financial analysis and financial management assessment undertaken in accordance with Chapters 3, 4, and 5 of ADB's *Handbook for Borrowers on the Financial Management and Analysis of Projects* (2006).
- (iv) For a subproject with no land acquisition and resettlement impact, a due diligence report should have been prepared documenting the absence of such impact, in accordance with the Land Acquisition and Resettlement Framework for the Investment Program (incorporated by reference in Schedule 5 to this FFA);
- (v) For a subproject with limited land acquisition and resettlement impact, a short resettlement plan should have been prepared, in accordance with the Land Acquisition and Resettlement Framework of the investment program (see Schedule 5 to this Agreement);
- (vi) An initial environment examination (IEE) should have been undertaken for the subproject with mitigation measures and sufficient budget for managing potential negative environmental impacts, in accordance with the Environment Assessment and Review Framework of the Investment Program (incorporated by reference in Schedule 5 to this FFA); and
- (vii) The implementation arrangements and institutional strengthening and capacity development plan for the subproject have been prepared in accordance with the implementation framework and institutional strengthening and capacity development plan of the investment program.

B. Selection and Approval Process

4. The following process will be followed when preparing and submitting a periodic financing request:

- (i) PPMU reviews the roadmap of the Investment Program to identify the participating provinces following the criteria provided in para 1 above and in consultation with the relevant government agencies, including Ministry of Economy, Ministry of Finance, UCSA, and other ministries and agencies as necessary;
- (ii) PPMU communicates the participating towns and subproject selection criteria in paras. 1 and 2 to the participating provinces and invite subproject proposals;
- (iii) PPMU reviews and screens the subproject proposals from these provinces following the criteria in paras. 1 and 2 and submits the subproject proposals for further feasibility and due diligence studies;
- (iv) PPMU, with the support from the Program Management Facility, undertakes the feasibility and due diligence studies for the subprojects;

- (v) PPMU appraises the subprojects based on the completed feasibility and due diligence reports;
- (vi) PPMU presents the feasibility and due diligence reports of all subprojects for review by relevant government agencies and incorporate the comments as necessary in to the subproject reports;
- (vii) PPMU prepare the periodic financing request (PFR) based on the subproject feasibility and due diligence reports;
- (viii) The Government reviews and endorse the revised subproject feasibility studies and due diligence reports and the Ministry of Finance approves the corresponding PFR;
- (ix) PPMU submits, through Ministry of Finance, the approved PFR together with subproject feasibility and due diligence reports for ADB's approval.

SCHEDULE 5

ENVIRONMENT AND SOCIAL SAFEGUARDS

1. The Republic of Uzbekistan (Uzbekistan) and Asian Development Bank (ADB) will ensure that all the requirements prescribed in this Schedule and the following safeguards frameworks that have been prepared with respect to the Facility (and of which ADB has been provided full copies and are deemed incorporated herein by reference), are complied with during processing and implementation of the subprojects under the Facility.

- The Environment Assessment and Review Framework (EARF) dated [14 August 2009];
- The Land Acquisition and Resettlement Framework (LARF) dated [14 August 2009]; and
- The Ethnic Minority Development Framework (EMDF) dated [14 August 2009].

2. The safeguard frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies. They include: (i) the general anticipated impacts of the components or projects likely to be financed under the Facility on the environment, involuntary resettlement and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components and projects; (iii) the requirements and procedures that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and Uzbekistan's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each Periodic Financing Request (PFR), the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed and updated by UCSA as appropriate to ensure relevance and consistency with applicable laws and regulations in Uzbekistan and ADB's *Involuntary Resettlement Policy* (1995), *Indigenous Peoples Policy* (1998) and *Environment Policy* (2002), as amended from time to time (collectively referred to as ADB Safeguard Policies). Upon the effectiveness of the ADB *Safeguard Policy Statement* (2009) in January 2010, safeguards requirements under that policy will apply in place of the *Involuntary Resettlement Policy* (1995), the *Policy on Indigenous Peoples* (1998) and the *Environment Policy* (2002). In the event that there is a discrepancy between the laws and regulations of Uzbekistan and the ADB safeguard policies, the ADB safeguard policies will prevail.

4. In all cases, for each new PFR preparation, Uzbekistan will review on-going subprojects to assess the status of compliance with the safeguards plans and frameworks, and submit review reports to ADB, together with other required safeguards documents relevant to the subprojects included in the tranche being processed. In any case, if major non-compliance is discovered in the course of the review of ongoing subprojects, a corrective action plan will be prepared and submitted to the ADB for approval.

5. Safeguards assurances for subprojects under individual tranches under the Facility include the following as will be incorporated into related loan and project agreements.

A. Environment

6. Uzbekistan will cause the Executing Agency (EA) to ensure that:

- (i) All subproject facilities are designed, constructed, operated, maintained and monitored in compliance with applicable laws and regulations in Uzbekistan,

ADB's Environment Policy (2002) and the EARF. Subprojects encroaching on national parks or other environmentally protected areas will not be financed under the Facility, however, subprojects close to environmentally sensitive areas may be included provided that the EA has obtained all statutory clearances and that the requirements set forth in this Schedule have been adhered to;

- (ii) Only environment category B subprojects (according to ADB's environmental categorization) will be financed under the Facility.
- (iii) For each subproject, an Initial Environmental Examination (IEE) will be prepared, including an Environmental Management Plan (EMP), with a budget for the cost of implementation and with public consultation, in accordance with the EARF. The IEEs need to be submitted for ADB's review and approval before the approval of the related Periodic Financing Request (PFR).
- (iv) All mitigation and monitoring measures identified in the IEE, SIEE and the related EMP for each subproject will be incorporated in subproject design (such EMP will be updated and made site-specific as appropriate) and carried out during construction, operations and maintenance (O&M), and will be disclosed to stakeholders. These mitigating and monitoring measures will also be incorporated in the bidding documents and civil works contracts
- (v) If there are any changes after completion of the IEE in specific locations or alignments of any subproject facilities, or changes in detailed design which will have an environmental impact previously unidentified, an additional environmental assessment will be carried out in accordance with the ADB's Environment Policy (2002) and the EARF, and re-approval by the ADB before further physical implementation of subprojects;
- (vi) The EA must obtain in a timely manner all environmental clearances required by applicable laws and regulations in Uzbekistan prior to commencement of civil works for the relevant subproject. If a subproject is expected have adverse environmental impact, no civil works contract will be awarded for such subproject until the Borrower and ADB have approved the environmental assessment for such subproject in accordance with their requirements;
- (vii) Semi-annual progress reports on implementation of mitigation and monitoring measures specified in subproject EMPs shall be prepared in accordance with the ADB's Public Communications Policy (2005) and submitted to the ADB.

B. Land Acquisition and Resettlement

7. Uzbekistan will cause the EA to ensure that:

- (i) All subprojects will be implemented in accordance with applicable laws and regulations in Uzbekistan, ADB's *Policy on Involuntary Resettlement* (1995) and the LARF.
- (ii) Ensure to the extent possible that subprojects will not require land acquisition or involuntary resettlement; however, if any land acquisition or involuntary resettlement should be required, Uzbekistan, through the EA, will ensure the following:
 - Preparation of a Resettlement Plan (RP) for the subproject, with consultation with affected peoples (APs), in a format acceptable to the ADB and in accordance with applicable laws and regulation of Uzbekistan and the LARF. Such RP will be submitted to the ADB for review and approval prior to approval of the related PFR. Disclosure of the RP to APs will be undertaken in accordance with the ADB's Public Communications Policy (2005);

- All APs will be compensated in accordance with the agreed RP before commencement of civil works for the relevant subproject. If during detailed design and implementation there are modifications requiring additional land acquisition or changes in involuntary resettlement impacts, an RP will be prepared, or the existing RP will be updated, in accordance with applicable laws and regulations and the LARF, with re-approval by the ADB before further implementation; and
 - There is in place an efficient mechanism for addressing grievances in accordance with the RP to assist affected persons resolve any queries/complaints in a timely manner.
- (iii) Ensure that RPs prepared and endorsed by the EA are disclosed to the public and submitted to ADB for approval.
- (iv) Semi-annual progress reports on implementation of the RPs, as specified in the LARF, will be submitted to ADB

C. Ethnic Minority Development

8. Uzbekistan will cause the EA to ensure that any impact is identified during planning, design, or implementation of any subproject on Ethnic Minority (EM), an Ethnic Minority Development Plan (EMDP) or integration of specific actions in favor of the EMs in the RP is prepared in accordance with ADB's *Policy on Indigenous People* (1998) and the EMDF. The EMDP need to be (i) approved by ADB before the approval of the related PFR, and (ii) implemented before the commencement of the civil works. Any updates to the EMDP due to detailed design or during implementation shall follow requirements similar to the RPs.

SCHEDULE 6

UNDERTAKINGS

The Republic of Uzbekistan will, and will cause the UCSA, to:

- (i) Ensure timely implementation of the Investment Program, including executing the implementation arrangement set out in Schedule 3 to this FFA and monitoring and evaluating implementation based on the Design and Monitoring Framework set out in Schedule 2 to this FFA.
- (ii) Ensure that all projects financed under the Facility are selected and approved in accordance with the criteria and procedure set out in Schedule 4 to this FFA.
- (iii) Ensure that all projects financed under the Facility are developed, implemented and maintained in accordance with the safeguards requirements set out in Schedule 5 to this FFA.
- (iv) Make adequate annual budget allocations for, and have them released in a timely manner, the counterpart funds and other resources, as shall be necessary, in addition to the proceeds of the loans, for the successful implementation of the investment program.
- (v) Cause participating provincial governments and subproject vodokanals to take necessary measures to improve collection efficiency to achieve a collection rate of 90% for each subproject vodokanal by such target year to be agreed for each project.
- (vi) Cause the participating provincial governments to review semiannually and adjust as necessary the level and structure of water tariffs to ensure that by completion of physical investments for each project, the vodokanals will have (i) incorporated full O&M costs in the tariffs; and (ii) serviced their debts, including repayment of ADB loan principal and interest charges. Results of the reviews and adjustments will be reported to ADB within 3 months of each review.
- (vii) Cause the participating provincial governments to: (a) take appropriate measures, including financial incentives and penalties, to reduce the level of payment arrears for water bills, and (b) protect their water resources and facilities through the vigorous prosecution of violations such as water meter tampering and water theft.
- (viii) Acknowledge that ADB, consistent with its commitment to good governance, accountability, and transparency, reserves the right to investigate directly, or through its agents, any possible corrupt, fraudulent, collusive, or coercive practices relating to the investment program. To support these efforts, the Uzbekistan will ensure that (a) UCSA will include in the bidding documents for the Investment Program, and in all contracts financed by ADB in connection with the investment program, provisions specifying the right of ADB to audit and examine the records and accounts of UCSA (PPMU), PIUs, and subproject vodokanals, and all contractors, suppliers, consultants, and other service providers as they relate to the Investment Program; (b) periodic inspections of the contractor's activities related to fund withdrawals and settlements are carried out by the PPMU; and (c) the investment program auditors, appointed by UCSA, have the right to conduct random or spot audits of contract implementation activities under the investment program. All costs related to such investigations shall be borne under the Investment Program.

- (ix) For cranes, excavators, and major repair equipment to be shared by the subproject vodokanals within a participating province, UCSA will cause the participating provincial government to prepare, in consultation with the subproject vodokanals, a maintenance plan for these machinery and equipment, including the standards, procedures, and other arrangements for their maintenance and usage. UCSA will send the draft plan to ADB by the due date to be agreed for each tranche.
- (x) Ensure that the implementation arrangements and implementation plans for the hygiene promotion activities to be carried out in all schools in the project areas are prepared, and that the hygiene baseline surveys and follow-up surveys are carried out according to the target years to be agreed for each tranche.
- (xi) Ensure that (a) UCSA prepare a gender action plan for each tranche using the tranche specific targets and following the gender action plan for the Investment Program; (b) the tranche-specific gender action plan is implemented in a timely manner; and (c) adequate resources are allocated for this purpose. The implementation of the gender action plan will be closely monitored by UCSA and the progress will be reported in the quarterly reports to ADB.
- (xii) Ensure that the costs for water supply household connections will be included under the Investment Program and that such costs will be charged to these households on an installment basis over a 3-year period.
- (xiii) Ensure implementation of the consultation and participation plan of the Investment Program. The consultative process will involve households, institutions such as schools, clinics and businesses, the service providers (i.e. vodokanals) and other stakeholders from government organizations and the private sector. UCSA will engage NGOs where appropriate to implement the hygiene program.
- (xiv) Ensure that civil works contracts under the Investment Program will follow all applicable labor laws and regulations, and that civil works contractors (a) employ, to the extent possible, women and local people, including disadvantaged people, living in the vicinity of the relevant subproject; (b) provide equal pay to men and women for work of equal type; (c) provide safe working conditions for male and female workers; (d) abstain from child labor; and (e) carry out HIV/AIDS awareness programs for laborer and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS for construction workers, as part of the health and safety program at campsites during the construction period. Compliance shall be strictly monitored during project implementation. Breaches by contractors can result in termination of contracts.
- (xv) Ensure that the policies and institutional reforms required to make the vodokanals more autonomous and efficient be implemented. The key changes required include (a) review and adjustment of the responsibilities of the vodokanals to provide them with more autonomy; (b) regular revision and adjustment of water and sewerage tariffs to reflect actual cost of O&M and capital depreciation by the end of the implementation of Tranche 1; (c) issue orders for all property owners to connect to the new water and sewerage systems; (d) introduction of performance-based management of the vodokanals; and (e) establish modern accrual-based accounting systems in the vodokanals.
- (xvi) Maintain and update in the UCSA website information on externally-funded projects, including the Investment Program. For the investment program, the website will provide

information on, among other things, its subproject selection criteria and procedures, water tariff review procedures, results of annual reviews and adjustments, collection efficiency, details on the adopted bidding procedures, amounts of the contracts awarded, the list of goods and services purchased (and their intended and actual utilization).

- (xvii) Ensure that the implementation of the Investment Program, the operation of the Program facilities, and the benefits derived from the Investment Program are monitored and evaluated annually by the PPMU. Within 6 months of effectiveness of each loan, UCSA will establish an IPPMS for such loan in a manner satisfactory to ADB.