
LOAN NUMBER 2303-TAJ(SF)

LOAN AGREEMENT
(Special Operations)

(Regional Power Transmission Interconnection Project)

(Tajik Component)

between

REPUBLIC OF TAJIKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 22 FEBRUARY 2007

LAS:TAJ 40043

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 22 February 2007 between REPUBLIC OF TAJIKISTAN (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Tajik Component of the Project described in Schedule 1 to this Loan Agreement (hereinafter called the Tajik Component);

(B) the Islamic Republic of Afghanistan (hereinafter called Afghanistan) has applied to ADB for a loan for the purpose of the Afghan Component of the Project described in the Loan Agreement (Regional Transmission Interconnection Project) between ADB and Afghanistan;

(C) the Borrower has also applied to the OPEC Fund for International Development (hereinafter called the OFID) for a loan in an amount equivalent to eight million five hundred thousand Dollars (\$8,500,000) for the purposes of financing Part A(ii) of the Tajik Component (hereinafter called the OFID Loan). The OFID Loan will be administered by ADB;

(D) the Borrower has also applied to the Islamic Development Bank (hereinafter called the IDB) for a loan in an amount equivalent to ten million Dollars (\$10,000,000) for the purposes of financing Part C(iii) of the Tajik Component on a parallel basis (hereinafter called the IDB Loan);

(E) the Government of the Borrower (hereinafter called the Government) has applied to ADB for technical assistance for Strengthening Corporate Management of Barki Tajik (hereinafter called the TA), and by a TA Letter Agreement between the Government and ADB, ADB has agreed to provide a grant not exceeding the equivalent of one million five hundred thousand Dollars (\$1,500,000) for the TA;

(F) the Tajik Component will be carried out by Barki Tajik, and for this purpose the Borrower will make available to Barki Tajik the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(G) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and Barki Tajik;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Afghan Component" means the component of the Project to be financed under the loan to Afghanistan as referred to in Recital (B) of this Loan Agreement;

(b) "Afghan Loan Agreement" means the agreement for the Afghan Component as referred to in Recital (B) of this Loan Agreement;

(c) "Afghan Project Agreement" means the agreement of even date with the Afghan Loan Agreement entered into between ADB and DABM for the Afghan Component;

(d) "BT" means Barki Tajik, and any successor thereto acceptable to ADB;

(e) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated April 2006, as amended from time to time;

(f) "DABM" means Da Afghanistan Breshna Moassessa (Afghanistan Electricity Authority), and any successor thereto;

(g) "FY" means the fiscal year of BT and/or the Borrower, as the context may require, commencing 1 January and ending 31 December;

(h) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(i) "HPP" means a hydropower plant;

(j) "IEE" means the initial environmental examination prepared for the Tajik Component by the Borrower dated October 2006 and agreed with ADB;

(k) "Intergovernmental Agreement" means the agreement dated 17 November 2006 between the Government and the Government of Afghanistan setting out key considerations to be reflected in the PPA;

- (l) "kV" means kilovolt;
- (m) "LIBOR" means London interbank offered rate;
- (n) "MOE" means the Ministry of Energy of the Borrower, and any successor thereto;
- (o) "MOF" means the Ministry of Finance of the Borrower, and any successor thereto;
- (p) "Part" refers to a part of the Tajik Component as described in Schedule 1 to this Loan Agreement;
- (q) "PIU" means the Project Implementation Unit;
- (r) "PPA" means a power purchase agreement as described in paragraph 4 of Schedule 5 to this Loan Agreement;
- (s) "Project" means the Regional Transmission Interconnection Project comprising the Afghan Component and the Tajik Component;
- (t) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means BT, which is responsible for the carrying out of the Tajik Component;
- (u) "Project facilities" means the equipment and facilities to be provided or rehabilitated under the Tajik Component;
- (v) "Procurement Guidelines" means ADB's Procurement Guidelines dated April 2006, as amended from time to time;
- (w) "Procurement Plan" means the procurement plan for Tajik Component dated 23 September 2006 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;
- (x) "Resettlement Plan" means the Resettlement Plan prepared for the Tajik Component by the Borrower dated October 2006 and agreed with ADB;
- (y) "Sangtuda substation" means a substation within Sangtuda-1 HPP to be constructed by BT;
- (z) "Southern Grid" means the southern grid system supplying electricity to the Borrower's Katlon region;
- (aa) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and BT referred to in Section 3.01 of this Loan Agreement; and
- (bb) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related

services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to fourteen million four hundred seventy five thousand Special Drawing Rights (SDR 14,475,000).

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

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 01 June and 01 December in each year.

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

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to BT under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB. Except as ADB shall otherwise agree, the terms for relending the proceeds of the Loan shall include interest at the rate applicable to ADB's LIBOR-based lending facility and a repayment period of twenty-five (25) years including a grace period of five (5) years, with the foreign exchange risk being borne by the Borrower.

(b) The Borrower shall cause BT to apply the proceeds of the Loan to the financing of expenditures on the Tajik Component in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Withdrawals from the Loan Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2010 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Tajik Component and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Tajik Component, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.03. The Borrower shall take all action which shall be necessary on its part to enable BT to perform its obligations under the Project Agreement, including the establishment and maintenance of tariffs as stipulated in paragraph 7 of Schedule 5 to this Loan Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.04. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations:

(a) the Borrower or BT shall have failed to perform any of their respective obligations under the Subsidiary Loan Agreement, or the Subsidiary Loan Agreement or any provision thereof shall have been transferred, assigned, amended, suspended, abrogated or waived without the prior approval of ADB; and

(b) BT's organizational structure shall have been significantly altered in such a manner that in the reasonable opinion of ADB will or may adversely affect the carrying out of the Tajik Component or the operation of the Project facilities.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Borrower and BT and shall have become fully effective and binding upon the parties in accordance with its terms, subject only to the effectiveness of this Loan Agreement; and

(b) the Afghan Loan Agreement and the Afghan Project Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the parties and shall have become fully effective and binding upon the parties

thereto in accordance with their terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Subsidiary Loan Agreement has been duly authorized by or ratified by, and executed and delivered on behalf of, the Borrower and BT, and is legally binding upon the parties in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Borrower hereby designates BT its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02 and 3.05 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by BT pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on BT under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

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

Facsimile Numbers:

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

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

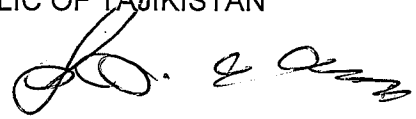
Facsimile Numbers:

(632) 636-2444
(632) 636-2426.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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.

REPUBLIC OF TAJIKISTAN

By



MR. SAFARALI M. NAJMUDDINOV
Authorized Representative

ASIAN DEVELOPMENT BANK

By



NEERAJ K. JAIN
Authorized Representative

SCHEDULE 1

Description of the Project

1. The impact of the Project will be enhanced cooperation in the energy sector between the Borrower and Afghanistan. The outcome of the Project will be (a) increased power export and income generating capacity of the Borrower through increasing the capacity of the Southern Grid HPPs; and (b) restored power supply, and reduced cost for consumers in Afghanistan.

2. The Project consists of the Tajik Component and the Afghan Component. The Tajik Component comprises the following parts:

Part A: Transmission

- (i) construction of a new 220kV double-circuit river crossing at the level of Karadum village over the Pianj River to the territory of Afghanistan; and
- (ii) construction of approximately 118 kilometers of new double-circuit 220kV transmission line from the Karadum river border crossing to the Sangtuda substation.

Part B: Substation

- (i) supply and installation of high accuracy export/import metering equipment at the Sangtuda substation; and
- (ii) construction of two-line bays to connect the new 220kV transmission line with the Sangtuda substation.

Part C: Generation

- (i) replacement of transformer T3 at Golovnaya HPP;
- (ii) dredging of canals at the Prepadnaya and Centralnaya HPPs;
- (iii) rehabilitation and upgrading of unit 3 at Golovnaya HPP;
- (iv) rehabilitation of the excitation system at Baipaza HPP; and
- (v) optimization of the operation of the Vakhsh cascade.

Part D: Metering

Supply of bulk metering systems for other transmission substations.

3. The Tajik Component will also provide consulting services and is expected to be completed by 30 June 2010.

SCHEDULE 2

Amortization Schedule

(Regional Power Transmission Interconnection Project) (Tajik Component)

<u>Period</u>	<u>Date Payment Due</u>	<u>Payment of Principal (expressed in SDR) *</u>
1	1 June 2015	301,563.00
2	1 December 2015	301,563.00
3	1 June 2016	301,563.00
4	1 December 2016	301,563.00
5	1 June 2017	301,563.00
6	1 December 2017	301,563.00
7	1 June 2018	301,563.00
8	1 December 2018	301,563.00
9	1 June 2019	301,563.00
10	1 December 2019	301,563.00
11	1 June 2020	301,563.00
12	1 December 2020	301,563.00
13	1 June 2021	301,563.00
14	1 December 2021	301,563.00
15	1 June 2022	301,563.00
16	1 December 2022	301,563.00
17	1 June 2023	301,563.00
18	1 December 2023	301,563.00
19	1 June 2024	301,563.00
20	1 December 2024	301,563.00
21	1 June 2025	301,563.00
22	1 December 2025	301,563.00
23	1 June 2026	301,563.00
24	1 December 2026	301,563.00
25	1 June 2027	301,563.00
26	1 December 2027	301,563.00
27	1 June 2028	301,563.00
28	1 December 2028	301,563.00
29	1 June 2029	301,563.00
30	1 December 2029	301,563.00
31	1 June 2030	301,563.00
32	1 December 2030	301,563.00
33	1 June 2031	301,563.00
34	1 December 2031	301,563.00
35	1 June 2032	301,563.00
36	1 December 2032	301,563.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

<u>Period</u>	<u>Date Payment Due</u>	<u>Payment of Principal (expressed in SDR)*</u>
37	1 June 2033	301,563.00
38	1 December 2033	301,563.00
39	1 June 2034	301,563.00
40	1 December 2034	301,563.00
41	1 June 2035	301,563.00
42	1 December 2035	301,563.00
43	1 June 2036	301,563.00
44	1 December 2036	301,563.00
45	1 June 2037	301,563.00
46	1 December 2037	301,563.00
47	1 June 2038	301,563.00
48	1 December 2038	301,539.00
	Total	14,475,000.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 7 is for financing the interest charge on the Loan during the implementation period of the Tajik Component.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services, and other items of expenditures shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time (ADB's Loan Disbursement Handbook).

Condition of Withdrawals from Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account, except for expenditures under Category 6, until the PIU shall have been established and made operational in a manner satisfactory to ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Regional Power Transmission Interconnection Project - Tajik Component)				
CATEGORY			PERCENTAGE OF BANK FINANCING	
Number	Item	Amount Allocated SDR	Percentage	Basis for Withdrawal from the Loan Account
1	Transmission Line	7,204,000	59	percent of total expenditure
2	Baipaza HPP	1,279,000	100	percent of total expenditure*
3	Bulk Metering	1,145,000	100	percent of total expenditure*
4	Optimization of Vakhsh	539,000	100	percent of total expenditure*
5	Resettlement and Environmental Activities	269,000	100	percent of total expenditure*
6	Consulting Services	1,346,000	100	percent of total expenditure*
7	Interest During Construction	337,000	100	percent of amount due
8	Unallocated	2,356,000		
	Total	14,475,000		

* Excluding local taxes and duties

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
Limited International Bidding

The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. BT may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. BT may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

C. Conditions for Award of Contract

5. BT shall not award a contract for the transmission line until (a) the PPA has been signed as described in paragraph 4 of Schedule 5 to this Loan Agreement; and (b) the updated Resettlement Plan has been approved by ADB.

D. Recruitment of Consulting Services.

6. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, BT shall apply quality- and cost-based selection for recruiting consulting services.

E. Industrial or Intellectual Property Rights

- (a) BT shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) BT shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph; and that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

7. BT shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

F. ADB's Review of Procurement Decisions

8. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the, unless otherwise agreed between BT and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of the Project (Tajik Component); Financial and Other Matters

Project Implementation Unit

1. BT shall be the Project Executing Agency. The Borrower, through BT, shall establish a separate Project Implementation Unit (PIU) to be responsible for day-to-day implementation of the Tajik Component. This shall include, among other things, the review of tender documents, the evaluation of bids, and the supervision of the installation of the Project facilities, as well as the necessary liaison among BT, contractors, the counterpart under the Afghan Component, and ADB.
2. The PIU shall be headed by a full-time Project Director reporting directly to Chairman of BT. The Project Director shall be responsible for the overall administration of the Tajik Component and coordination of activities under the Project. The PIU shall be staffed with qualified staff, including environmental, resettlement, and procurement specialists, substation and transmission line experts, an electromechanical engineer, a telecoms expert, a civil engineer, an accountant, and other experts on demand.
3. The Borrower shall ensure that, at all times throughout the implementation of the Tajik Component, the PIU remains a separate unit adequately staffed and assisted by the consultants engaged under the Tajik Component.

Power Purchase Agreement

4. The Borrower shall, and cause BT to, ensure that the Intergovernmental Agreement is implemented in a timely and effective manner. Specifically, the Borrower shall cause BT to enter into a PPA with DABM for the term of twenty (20) years, and shall ensure that the PPA is approved by all necessary government action. The PPA shall include, among other things, clear provisions on (a) minimum purchase and supply obligations, (b) penalties for failure to supply and to sell, (c) the delivery point, (d) price, payment and billing procedures, (e) financial guarantees, (f) access to necessary property, facilities, and local labor, (g) operation of cross-border assets, (h) operation and maintenance of facilities, (j) force majeure, (k) procedures for disputes resolution, and (l) governing law and language of the agreement.

Sangtuda Substation

5. The Borrower shall, and cause BT to, ensure that by no later than 2 months prior to the commissioning of the transmission line, the Sangtuda substation is commissioned and become operational.

Cofinancing

6. In the event that the OFID Loan or IDB Loan does not become available, the Borrower and BT shall consult ADB with a view to reducing the scope of the Tajik Component.

Tariff Adjustments and Financial Covenants

7. The Borrower shall take all necessary measures to ensure that (a) tariffs are adequately adjusted throughout the project implementation period, to enable BT to comply with financial covenants set forth in paragraph 8 below; (b) a lifeline tariff subsidy is maintained during the period of 2006-2010 to provide an element of tariff subsidy to the poor; (c) a margin arising from a higher interest rate applied for relending the proceeds of the Loan and loans provided by co-financiers under the Tajik Component is used to fund the lifeline tariff subsidy; and (d) public awareness programs are conducted to educate the public on the need for a rational electricity tariff scheme and the importance of energy conservation.

8. The Borrower shall cause BT to comply with the following requirements:

- (a) BT shall ensure that its accounts receivable (i) from 31 December 2008, do not exceed the equivalent of the aggregate amount of six months of billings at the end of each quarter; and (ii) from 31 December 2009 onwards, are maintained at a level that does not exceed the equivalent of the aggregate amount of three months of billing;
- (b) from 31 December 2008 onwards, BT shall maintain an operating ratio of less than ninety (90%) percent;

For the purposes of this subparagraph:

- (i) the term "operating ratio" means operating expenses divided by operating revenues;
 - (ii) the term "operating expenses" for the purposes of the definition of "operating ratio" means expenses, including taxes, depreciation, maintenance but excluding interest and charges on debt directly related to BT's operations and services; and
 - (iii) the term "operating revenues" means revenues from all sources related to BT's operations, after making adequate provisions for uncollectible debts.
- (c) Except as ADB shall otherwise agree, BT shall not incur any debt, unless its free cash flows for the twelve months prior to the date of such incurrence shall be at least 1.3 times the estimated maximum debt service requirements of BT for any succeeding year on all debt of BT, including the debt to be incurred.

For the purposes of this subparagraph:

- (i) the term "debt" means the aggregate (as of the relevant date of calculation) of all obligations of BT then outstanding for the payment of money, including under any loan agreement, contract, bond, debenture, note or other agreement, whether secured or unsecured, except debt incurred in the ordinary

- course of business and maturing by its terms on demand or less than one year after its incurrence;
- (ii) the term "debt-service requirements" means the aggregate amount of repayments (including sinking-fund payments, if any) of, and interest and other charges on debt;
 - (iii) the term "incur" includes, with reference to any debt, any modification of the terms of payment of such debt; debt shall be deemed to be incurred (1) under a contract or loan agreement, on the date such contract or loan agreement providing for such debt is entered into, and (2) under a guarantee agreement, on the date the agreement providing for such guarantee is entered into but shall only be counted to the extent that the underlying debt is outstanding;
 - (iv) the term "free cash flows" means the difference between (1) the sum of revenues from all sources related to BT's operations and services, after making adequate provisions for uncollectible debts, adjusted to take account of the BT's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income, and (2) the sum of all expenses related to BT's operations and services including administration, maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges, movements in working capital, and interest and other charges on debt;
 - (v) the term "net non-operating income" means the difference between (1) revenues from all sources other than those related to BT's operations and services, and (2) expenses including taxes and payments in lieu of taxes, incurred in the generation of revenues;
 - (vi) the term "working capital" means the difference between current assets and current liabilities at the end of FY;
 - (vii) the term "current assets" means all assets, which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within next FY; and
 - (viii) the term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes, and payments in lieu of taxes, and dividends.

9. The Borrower shall ensure that:
- (a) by 30 June 2007, BT stops all barter operations and takes necessary measures to ensure full cash payment from all its consumers;
 - (b) by 31 December 2008, BT maintains the inventory at a level not exceeding the equivalent of the aggregate amount of six months of sales revenue, and from 31 December 2009 onwards, maintains the inventory at a level not exceeding the equivalent of the aggregate amount of three months of sales revenue; and
 - (c) by 31 December 2008, BT establishes an escrow account at a nominated bank for accumulating payments received from export of electricity to Afghanistan. The accumulated funds shall be used by BT exclusively for the purposes of repayment of the principle and interest of the subsidiary loan, maintenance and rehabilitation of the existing facilities and for new investments.

Governance, Anticorruption, and Transparency

10. The Borrower shall ensure that no material changes (either financial, structural, or operational) to, nor major asset transfer to and from, BT are formally approved or implemented during the term of the loan, without prior ADB approval, if such changes would or are likely to affect the ability of BT to perform its obligations under the Project Agreement and Subsidiary Loan Agreement. In the event that BT or any part thereof is privatized during the term of the Loan, the Borrower shall consult with ADB in order to review the terms and conditions of this Loan Agreement and of the Loan with a view to making any amendments that may be deemed necessary.

11. The Borrower shall cause BT to have the project and corporate accounts annually audited by an independent auditor acceptable to ADB. The Borrower shall cause BT to provide adequate funds for carrying out independent audits, as required under Section 2.09 of the Project Agreement.

12. The Borrower shall, and cause BT to, ensure that ADB's *Anticorruption Policy* (1998, as amended to date) is followed throughout project implementation, it being understood that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Tajik Component. The Borrower shall, and cause BT to, ensure that (a) relevant provisions of ADB's *Anticorruption Policy* are included in all bidding documents; (b) 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 BT and all contractors, suppliers, consultants and other

service providers as they relate to the Tajik Component; and (c) an independent audit of procurement activities is carried out at least twice during the implementation of the Tajik Component.

13. The Borrower shall cause BT to establish, within one (1) year of the Effective Date, a website that will present information on all externally-funded projects. With regard to

the Project, the website shall provide information on, among other things, financial statements of BT, procurement activities, including the list of participating bidders, names of the winning bidders, basic details on the adopted bidding procedures, amounts of the contracts awarded, the list of goods and/or services purchased, and their intended and actual utilization.

Environment and Safety Measures

14. The Borrower shall cause BT to ensure that the Tajik Component is carried out, and all Project facilities are designed, constructed, operated, and maintained in compliance with applicable local laws and regulations of the Borrower concerning environmental protection, ADB's *Environment Policy (2002)* and the initial environmental examination (IEE), summary IEE (SIEE), including the environmental management plan (EMP), prepared for the Tajik Component and agreed with ADB.

15. Without limiting the generality of the foregoing, the Borrower shall cause BT to ensure that (a) all mitigation and monitoring measures identified in the EMP are incorporated into the detailed design and implemented during design, construction, and operation of the Project facilities; (b) all civil works and consultant contracts under the Tajik Component contain provisions requiring compliance with these requirements; and (c) information on the implementation of the IEE, SIEE, and EMP is included in annual progress reports to be submitted to ADB.

16. Without limiting the generality of the foregoing, the Borrower shall provide, or cause BT to provide, on an annual basis, funds sufficient for the operation and maintenance (O&M) of the Project facilities, and shall cause BT to operate and maintain the Project facilities in accordance with all national safety and O&M guidelines, including safe storage of construction, rehabilitation and maintenance materials to prevent contamination of soil and water with fuel, lubricants and any hazardous materials.

Social Safeguards

17. The Borrower shall cause BT to ensure that all activities under the Tajik Component are carried out in full compliance with all applicable laws and regulations of the Borrower, and ADB's *Policy on Involuntary Resettlement (1995)* and the Resettlement Plan (RP) updated based upon the detailed technical design and in full consultation with affected people. The updated RP shall be submitted to ADB for review and approval. The updated RP shall be disclosed to affected people prior to the submission to ADB.

18. The Borrower shall cause BT to ensure that no notice to proceed is issued to a contractor until the compensation program as detailed in the updated RP has been fully implemented to the satisfaction of ADB.

19. The Borrower shall cause BT to ensure that all contractors (i) comply with all applicable labor laws; (ii) use their best efforts to employ women and local people negatively affected by, or living in the vicinity of, the project; (iii) disseminate information at worksites on the risks of sexually transmitted diseases and HIV/AIDS for those employed during construction; (iv) are required not to differentiate between men and women's wages or benefits for work of equal value; and (v) abstain from using child labor.

Performance Monitoring and Progress Review

20. The Borrower shall cause BT to establish, within six (6) months of the Effective Date, a comprehensive project performance management system to monitor and evaluate the Project implementation progress, including review and assessment of progress towards achieving the Project outcome and delivering Project outputs under the Tajik Component.

21. ADB together with the Borrower, BT, cofinanciers, as appropriate shall undertake an in-depth midterm review in year 2008. Representatives of the project executing agency for the Afghan Component shall be invited to participate in the midterm review. The review shall focus on relevant institutional, administrative, organizational, technical, environmental, social, economic, financial and other aspects that may have an impact on the performance of the Project and its continuing viability. The midterm review shall include a review of progress in the regional power trade activities.