
LOAN NUMBER 2208-UZB(SF)

PROJECT AGREEMENT

(Kashkadarya and Navoi Rural Water Supply and Sanitation Sector Project)

between

ASIAN DEVELOPMENT BANK

and

UZBEKISTAN COMMUNAL SERVICES AGENCY

DATED 26 FEBRUARY 2007

PAG: UZB 38074

PROJECT AGREEMENT

PROJECT AGREEMENT dated 26 February 2007 between ASIAN DEVELOPMENT BANK ("ADB") and UZBEKISTAN COMMUNAL SERVICES AGENCY ("UCSA").

WHEREAS

(A) by a Loan Agreement dated 09 February 2007 between the Republic of Uzbekistan (the "Borrower") and ADB, ADB has agreed to make to the Borrower a loan in various currencies equivalent to seventeen million two hundred and ninety one thousand Special Drawing Rights (SDR 17,291,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the proceeds of the Loan be made available to UCSA and that UCSA agree to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(B) UCSA, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. (a) Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

(b) In addition to the terms referred to in paragraph (a) of this Section, the following terms, wherever used in this Project Agreement, have the following meaning:

- (i) "Charter" means the regulation on UCSA approved by Resolution of the Borrower's Cabinet of Ministers No. 74 dated 13 February 2001, as amended from time to time; and
- (ii) "RMC No. 405" means Resolution of the Borrower's Cabinet of Ministers No. 405 dated 17 September 2003 on Additional Measures for the Improvement of the Supply of Rural Settlement and Drinking Water and Natural Gas.

ARTICLE II
Particular Covenants

Section 2.01. (a) UCSA shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and public utility practices.

(b) In the carrying out of the Project and operation of the Project facilities, UCSA shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to UCSA and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. UCSA shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project in accordance with the Loan Agreement.

Section 2.03. (a) In the carrying out of the Project, UCSA shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Loan Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. UCSA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. UCSA shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) UCSA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, UCSA undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 2.06. UCSA shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and UCSA shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

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

(c) ADB and UCSA shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, UCSA and the Loan.

Section 2.08. (a) UCSA shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of UCSA; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, UCSA shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, UCSA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by UCSA of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) UCSA shall (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. UCSA shall furnish

to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) UCSA shall enable ADB, upon ADB's request, to discuss UCSA financial statements and its financial affairs from time to time with the auditors appointed by UCSA pursuant to Section 2.09(a) above, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of UCSA unless UCSA shall otherwise agree.

Section 2.10. UCSA shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, works, and equipment of UCSA and any relevant records and documents.

Section 2.11. (a) UCSA shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

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

(c) UCSA shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, public utility, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, UCSA shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, UCSA shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all goods and services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, UCSA shall duly perform all its obligations under the Subsidiary Loan Agreement and the Subloan Agreements, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement and the Subloan Agreements.

Section 2.15. UCSA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Charter and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

ARTICLE III**Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement shall come into force and effect. ADB shall promptly notify UCSA of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE IV**Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2407. [of Projects Division or equivalent]

For UCSA

Uzbekistan Communal Services Agency
1, Niyozbek Yuli Street
700035, Tashkent
Republic of Uzbekistan

Telex Number:

(998 71) 35-8070

Facsimile Number:

(998 71) 135-4524

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 6.01 of the Loan Agreement by or on behalf of UCSA may be taken or executed by its Director General or by such other person or persons as he shall so designate in writing notified to ADB.

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

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

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

ASIAN DEVELOPMENT BANK

By 
HARUHIKO KURODA
President

UZBEKISTAN COMMUNAL SERVICES
AGENCY

By 
UTKUR KHALMUHAMEDOV
Authorized Representative

SCHEDULE

Screening, Selection and Appraisal of Subprojects

1. USCA shall carry out a two-phase selection procedure before declaring any subproject eligible for financing under the Project. Phase 1 shall involve an initial screening based on the availability of water resources. Phase 2 shall be subdivided into two stages: (i) subproject selection, and (ii) subproject appraisal.

Phase 1: Screening

2. The initial screening process shall be developed based on (i) the Borrower's existing policies regarding priority water needs in rural water supply, particularly as outlined in RMC No. 405, and (ii) the type and availability of the water resources.

Phase 2: Subproject Selection and Appraisal

(i) Subproject Selection

3. Based on a list of potential subprojects, USCA shall cause the PMU and the PIUs to mobilize villages included in the lists of priority villages prepared by the Kashkadarya and Navoi oblast governments. Each village administration shall have first submitted a request to the relevant PIU proving that the basic conditions for being included in the Project have been fulfilled. These conditions shall be:

- (a) a willingness to create a drinking water consumers union (DWCU) and to elect a DWCU board;
- (b) a willingness to apply and pay water tariffs for water consumed; and
- (c) a commitment on the part the relevant oblast government to implement a resettlement plan where applicable, and also where relevant to take affirmative action with regard to ethnic minorities.

4. The composition of a subproject shall be determined primarily by the availability of a water resource and by the type of this resource. In areas without groundwater resources, groups of settlements located within a reasonable distance of a trunk main may constitute a single subproject. In areas with available local groundwater resources, a subproject may include a number of villages served by individual production wells. Within one subproject, one production well may serve one or several villages. The size of one subproject shall be approximately 10 to 20 villages, all included within the political boundaries of a single rayon. Once a subproject has been identified, the list of settlements being included in the subproject shall be submitted to the oblast government for approval.

(ii) Subproject Appraisal and Approval

5. The PMU shall be in charge of the subproject appraisal process. A design institute selected according to agreed criteria shall conduct the feasibility studies for all 12 subprojects. The design institute must be licensed to carry out planning, feasibility studies and the design of infrastructure projects.

6. In addition to the feasibility study, the PMU shall prepare for each subproject a resettlement plan (RP) and an initial environmental examination (IEE), and each shall be disclosed to all affected persons and used as the basis for consultation. The results of each consultation shall be incorporated in the relevant appraisal documents. UCSA shall review each subproject appraisal including the safeguard reports, and shall endorse each RP. In addition, the IEE of each subproject shall be endorsed by the State Committee for Nature Protection.