
LOAN NUMBER _____-UZB

LOAN AGREEMENT
(Ordinary Operations)
(CAREC Regional Road Project)

between

REPUBLIC OF UZBEKISTAN

and

ASIAN DEVELOPMENT BANK

DATED _____

LAL: UZB 39669

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated _____ between REPUBLIC OF UZBEKISTAN (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 Project described in Schedule 1 to this Loan Agreement; and

(B) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding

Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the

Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

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) "Component" means a component of the Project as described in Schedule 1 to this Loan Agreement;

(b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2007, as amended from time to time);

(c) "EMP" means the Environmental Management Plan included in the IEE;

(d) "equity" means, in relation to any entity, the sum of its total unimpaired paid-up capital, retained earnings and reserves not allocated to cover specific liabilities;

(e) "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;

(f) "IEE" means the Initial Environmental Examination prepared for the Project by the Borrower and agreed with ADB;

(g) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2007, as amended from time to time);

(h) "PIU" means the Project Implementation Unit established within the Road Fund pursuant to paragraph 1 of Schedule 5 to this Loan Agreement;

(i) "PRCDD Head" means the head of the Road Fund's Program and Road Construction Development Division, or a suitable replacement acceptable to ADB;

(j) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Road Fund or any legal successor thereto acceptable to ADB;

(k) "Project facilities" means the Goods, the road sections that will be the subject of the Works, and any other facilities to be procured, rehabilitated, installed, maintained or serviced under the Project;

(l) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(m) "Procurement Plan" means the procurement plan for the Project dated 23 November 2007 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(n) "REPC" means the road equipment pool company that will be established by the Borrower for the purposes of Subcomponent 2(ii)b;

(o) "Road Development Program" means the Borrower's Road Development Program 2007-2010, as approved by the Borrower through resolution PP-535 on 20 December 2006;

(p) "Road Fund" means the Republican Road Fund under the Ministry of Finance of the Borrower;

(q) "SIEE" means the summary of the IEE prepared by the Borrower and agreed with ADB;

(r) "Subcomponent" means a subcomponent of a Component;

(s) "Subsidiary Loan Agreement" means the agreement pursuant to which the Borrower relends a portion of the Loan proceeds to the REPC as described in Section 3.01(a) of this Loan Agreement;

(t) "TCD Head" means the head of the Road Fund's Technical Construction Division, or a suitable replacement acceptable to ADB; and

(u) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping as well as 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. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of seventy-five million three hundred thousand Dollars (\$75,300,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) From the proceeds of the Loan, the Borrower (i) shall relend to the REPC an amount of fifty-five million three hundred ten thousand Dollars (\$55,310,000) under the Subsidiary Loan Agreement for the financing of Subcomponent 2(ii)b; and (ii) shall make an amount of nineteen million nine hundred ninety thousand Dollars

(\$19,990,000) available to the Road Fund for the financing of other expenditures on the Project. Except as ADB may otherwise agree, the terms of the Subsidiary Loan Agreement shall be identical to the terms of this Loan Agreement, except that the REPC shall pay to the Borrower an additional interest charge of no more than 0.20% per annum on the principal amount withdrawn and outstanding from time to time. Under the Subsidiary Loan Agreement, the REPC shall also undertake (i) to perform all obligations set forth in this Loan Agreement to the extent that they apply, or also apply, to the REPC; and (ii) to bear any foreign exchange risk.

(b) The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan 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, 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. 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. ADB may refuse to finance a contract where Goods, Works or consulting 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 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2012 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, road reconstruction, business and environmental practices.

(b) In the carrying out of the Project 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 make available, promptly as needed and on terms and conditions acceptable to ADB, 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 and for the operation and maintenance of the Project facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, procedures, design standards, specifications, work schedules, business methods and construction methods acceptable to ADB. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, procedures, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. (a) The Borrower shall ensure that the activities of its departments, agencies, and the REPC with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

(b) The Borrower shall take all action which shall be necessary on its part to enable the REPC to perform its obligations under the Subsidiary Loan Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the REPC and for the Project as a whole; (ii) have such accounts and related financial 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; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, 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 this Loan Agreement as well as on the use of the procedures for the imprest account and the statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the REPC, and the financial affairs related to the Project and the REPC, from time to time with the auditors appointed by the Borrower pursuant to Section 4.05(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.06. The Borrower shall enable ADB's representatives to inspect the Project, the REPC, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents related to the Project.

Section 4.07. The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, and maintenance and operational practices.

Section 4.08. (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, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: either party to the Subsidiary Loan Agreement has failed to perform any of its obligations under the Subsidiary Loan Agreement, or a situation has arisen or developed which in the reasonable opinion of ADB makes it improbable that a party to the Subsidiary Loan Agreement will be able to perform any of its obligations thereunder.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement.

ARTICLE VI

Effectiveness

Section 6.01. A date sixty (60) days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Ministry of Finance
5, Mustaqilik Square
Tashkent 100008
Republic of Uzbekistan

Facsimile Number:

(998-71) 144-5643
(998-71) 139-1079

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) 636-2428

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 UZBEKISTAN

By _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1

Description of the Project

Impact and Outcome

1. The outcome of the Project will be an adequate, efficient, safe, and sustainable road network that provides domestic and regional connectivity. The impact of the Project will be sustainable economic development and increased domestic and international trade.

Scope of the Project

2. The Project has two Components: (i) the Road Development Component and (ii) the Road Sector Sustainability Component.

(i) Road Development Component

This Component will comprise reconstruction of two road sections of the Borrower's A380 highway to meet two-lane international design standards with a four-lane road bed within the existing right-of-way. The road sections are:

- (a) Section 1: Km 876–916 (40 km) in Kungrad District, Republic of Karakalpakstan.
- (b) Section 2: Km 490–581 (91 km) in Khazarasp District, Khorezm Province and in Tortkul District, Republic of Karakalpakstan.

(ii) Road Sector Sustainability Component

This Component will assist the Borrower in strengthening the sustainability of its road sector and has the following two Subcomponents.

(a) Institutional Support for Road Sector Planning and Management System

This Subcomponent will provide advisory support to improve the Borrower's current road sector planning and financing systems, and will focus on the promotion of road user charges and tolling systems, the introduction of a computerized road network data base system and road sector planning and management systems, and the preparation of a time-bound program to roll out these systems for country-wide application. This Subcomponent will also provide advisory support to rationalize road sector institutions and road enterprises, and promote competition in road works. This Subcomponent will train eligible staff of the Road Fund to form a planning unit dedicated to road sector planning and management.

(b) Provision of Road Equipment

This Subcomponent will assist the Borrower to finance the procurement of road equipment for the REPC, and to develop and implement a business model under which the REPC will hire out road equipment and provide related services to road construction and maintenance enterprises on an economically viable and financially sustainable basis. Advisory support under this Subcomponent will include, without limitation, the development of business and marketing plans; the establishment of an equipment hire system; the introduction of an appropriate management structure and administrative, accounting, financial and equipment maintenance and replacement procedures; and identification of workshops and stores. The Subcomponent will also study the feasibility of commercializing the REPC in the longer term, and a possible roadmap towards its privatization.

3. The Project includes the provision of consulting services. The Project is expected to be completed by 31 December 2011.

SCHEDULE 2

Amortization Schedule (CAREC Regional Road Project)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Period</u>	<u>Date Payment Due</u>			<u>Installment Share</u> <u>(expressed in Percentage)</u>
1	15	June	2012	2.50
2	15	December	2012	2.50
3	15	June	2013	2.50
4	15	December	2013	2.50
5	15	June	2014	2.50
6	15	December	2014	2.50
7	15	June	2015	2.50
8	15	December	2015	2.50
9	15	June	2016	2.50
10	15	December	2016	2.50
11	15	June	2017	2.50
12	15	December	2017	2.50
13	15	June	2018	2.50
14	15	December	2018	2.50
15	15	June	2019	2.50
16	15	December	2019	2.50
17	15	June	2020	2.50
18	15	December	2020	2.50
19	15	June	2021	2.50
20	15	December	2021	2.50
21	15	June	2022	2.50
22	15	December	2022	2.50
23	15	June	2023	2.50
24	15	December	2023	2.50
25	15	June	2024	2.50
26	15	December	2024	2.50
27	15	June	2025	2.50
28	15	December	2025	2.50
29	15	June	2026	2.50
30	15	December	2026	2.50
31	15	June	2027	2.50

<u>Period</u>	<u>Date Payment Due</u>			<u>Installment Share</u> <u>(expressed in Percentage)</u>
32	15	December	2027	2.50
33	15	June	2028	2.50
34	15	December	2028	2.50
35	15	June	2029	2.50
36	15	December	2029	2.50
37	15	June	2030	2.50
38	15	December	2030	2.50
39	15	June	2031	2.50
40	15	December	2031	2.50
Total				<u>100.00</u>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating

to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule (hereinafter called the "Table") 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. (Reference to a "Category" or "Categories" in this Schedule is to Category or Categories of the Table and reference to a "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories 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.

Reallocation

3. 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, in consultation with and 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, in consultation with and by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook, and detailed arrangements agreed upon

between the Borrower and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be paid through the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures under Category 4 and to liquidate advances provided into the imprest account in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with expenditures under Subcategory 3A, Subcategory 3D, and Category 4, subject to a maximum amount equivalent to 20 percent of the Loan amount.

Conditions of Withdrawal from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until the Borrower has provided evidence, satisfactory to ADB, that the PIU has been established, has been adequately equipped and staffed as agreed with ADB, and has become fully operational to implement the Project.

8. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for expenditures under Category 2 until:

- (i) the Borrower has provided evidence, satisfactory to ADB, that the REPC (a) has been established, (b) has been adequately equipped and staffed, (c) has equity in an amount that will be sufficient to maintain a ratio of debt to equity no greater than 90 to 10 upon the incurrence of debt in the amount of fifty-five million three hundred ten thousand Dollars (\$55,310,000), all in accordance with the provisions of Section 19 of Schedule 5 to this Loan Agreement, and (d) has become fully operational to implement the Project; and
- (ii) (a) the Borrower has furnished a legal opinion satisfactory to ADB of counsel acceptable to ADB, showing that the Subsidiary Loan Agreement has been duly authorized by, and executed and delivered on behalf of, the parties thereto and is legally binding upon the parties in accordance with its terms; and (b) the Borrower has furnished to ADB a copy of the Subsidiary Loan Agreement thus executed and delivered.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (CAREC Regional Road Project)				
CATEGORY			ADB FINANCING BASIS	
Number	Item	Total Amount Allocated for ADB Financing		Percentage of ADB Financing from the Loan Account
		\$ Category	Subcategory	
1	Civil Works	9,200,000		15 percent of total expenditure claimed
2	Equipment	55,100,000		100 percent of total expenditure claimed*
3	Consulting Services	3,770,000		100 percent of total expenditure claimed*
3A	Procurement Specialist		240,000	100 percent of total expenditure claimed*
3B	Project Management and Supervision		1,970,000	100 percent of total expenditure claimed*
3C	Road Sector Planning and Management System		1,350,000	100 percent of total expenditure claimed*
3D	Development of the REPC		210,000	100 percent of total expenditure claimed*
4	Recurrent costs	550,000		100 percent of total expenditure claimed*
5	Unallocated	6,680,000		
	Total	75,300,000		

* Exclusive of local taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods, Works, and Consulting Services

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 in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Procurement of Goods and Works

3. Except as otherwise set forth in the Procurement Plan, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

Methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower 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. The Borrower 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.
5. No procurement under national competitive bidding may be undertaken unless ADB and the Borrower have agreed in writing on any modifications or clarifications to the Borrower's national competitive bidding procedures as may be required to ensure their consistency with the Procurement Guidelines. Such modifications or clarifications agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

Selection of Consulting Services

6. Except as otherwise set forth in the Procurement Plan, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

Industrial or Intellectual Property Rights

7. (a) The Borrower 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) The Borrower 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.

8. The Borrower 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.

ADB's Review of Procurement Decisions

9. 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 Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Project Implementation Covenants; General Project Covenants; Covenants for Specific Components

I. PROJECT IMPLEMENTATION COVENANTS

Project Management

1. The Borrower shall designate the Road Fund as the Project Executing Agency with overall responsibility for carrying out the Project in accordance with the provisions of this Loan Agreement. The Borrower shall establish within the Road Fund a Project Implementation Unit (PIU) for the day-to-day implementation, administration and coordination of the Project. The PIU's activities shall include, without limitation, (i) recruitment, engagement, and support of consultants; (ii) procurement of Goods and Works; (iii) detailed design and construction supervision; (iv) maintenance of the Project accounts, including supervision of the REPC's accounts and financial statements; (v) monitoring and reporting on Project implementation, and (vi) provision of any supervision, coordination, support, and liaison activities necessary for the successful implementation of the Project.

2. The Borrower shall appoint a qualified professional in project management with relevant road works experience, acceptable to ADB, as head of the PIU. The Borrower shall ensure that during the entire period of Project implementation, the PIU is adequately staffed with sufficient expertise and experience in engineering, financial, procurement, administrative, and secretarial staff; and equipped with the necessary office space, equipment, facilities and management information systems.

3. The Borrower shall cause (i) the TCD Head to ensure that the PIU receives any assistance it reasonably requires for successful implementation of the Road Development Component; (ii) the PRCDD Head to ensure that the PIU receives any assistance it reasonably requires for the development and implementation of the Road Sector Planning and Management System Subcomponent; and (iii) the managing director of the REPC to ensure that the PIU receives any assistance it reasonably requires for the development and implementation of the Provision of Road Equipment Subcomponent.

Incentive payments

4. The Borrower may consider using a portion from the amount allocated to Category 4 (as defined in Schedule 3 to this Loan Agreement) for incentive payments but shall ensure that that portion does not exceed the equivalent of thirty thousand Dollars (\$30,000). The Borrower shall ensure that the incentive payments are (i) awarded only to staff of the Road Fund directly involved in implementation of the Project, (ii) determined in accordance with performance-based standards and methods agreed with ADB, and (iii) fully accounted for in the Project accounts.

Project monitoring and reporting

5. Within six months from the Effective Date, the Borrower, through the Road Fund, shall finalize and adopt a comprehensive project performance monitoring system (PPMS) acceptable to ADB, based upon the PPMS indicators agreed upon between the

Borrower and ADB. The Borrower, through the Road Fund, shall collect base line data for performance monitoring.

6. The Borrower, through the Road Fund, shall submit to ADB quarterly progress reports in form and substance satisfactory to ADB. The quarterly reports shall include, without limitation, a description of (i) the progress in implementation of each component and subcomponent of the Project during the relevant quarter; (ii) difficulties and delays encountered in implementation of the Project, and remedial actions suggested; (iii) the overall progress of the Project as monitored against the PPMS indicators, and (iv) activities for the next quarter. Unless specific issues have arisen earlier, the progress reports will report on the items set forth in paragraph 16.(b) of this Schedule semi-annually. The Borrower shall submit a project completion report within three months of completion of the Project.

II. GENERAL PROJECT COVENANTS

Counterpart Funds

7. The Borrower, through the Road Fund and/or the REPC (as applicable), shall make available all counterpart funds required for timely and effective implementation of the Project, and shall ensure that the resources thus required are made available on an annual basis for each fiscal year. The Borrower shall cause the Road Fund to incorporate updated estimates of the funding requirements for implementation of the Project in its annual development program.

Funding for Reconstruction, Repair and Routine Maintenance

8. The Borrower, through the Road Fund, (i) shall allocate and make available, on a timely basis, the funds budgeted for the reconstruction and repair of roads in accordance with the Road Development Program; and (ii) shall ensure that the road sections covered by the Road Development Program are maintained in accordance with applicable standards and best international practices.

9. The Borrower, through the Road Fund, (i) shall allocate and make available, on a timely basis, the funds budgeted for routine maintenance of roads in accordance with the Road Development Program; and (ii) shall ensure that, in each fiscal year after 2010, the budget for routine maintenance is increased by no less than annual inflation rates, provided always that sound fiscal balance is maintained.

Road Sector Reform

10. The Borrower shall keep ADB informed about the progress in implementing the road sector reforms included in the Road Development Program so that the objectives and outputs of the Project and the Road Development Program remain fully aligned.

Road Safety

11. The Borrower, through the Road Fund, will ensure that Works contracts will include an obligation on the part of contractors to comply with road safety measures.

12. The Borrower shall cause the accident rate and traffic volume on the road sections rehabilitated under the Road Development Component to be monitored and reported on under the PPMS until 2018.

No Land Acquisition and Resettlement

13. The Borrower shall ensure that the Project involves neither land acquisition nor involuntary resettlement within the meaning of ADB's *Involuntary Resettlement Policy* (1995).

Change in ownership

14. Implementation of plans for (a) any change in the ownership of the Project facilities or the REPC, and/or (b) any material change in the organizational structure of the Road Fund or the REPC that may affect the Borrower's ability to perform its obligations under this Loan Agreement or the REPC's ability to perform its obligations under the Subsidiary Loan Agreement, shall require ADB's prior approval. In the event that any such change is approved by ADB, the Borrower shall ensure that the change is carried out in a lawful and transparent manner. Depending on the nature of the approved change, ADB shall have the right to require changes to the terms of this Loan Agreement and/or the Subsidiary Loan Agreement.

III. COVENANTS SPECIFIC TO THE ROAD DEVELOPMENT COMPONENT

Construction Quality

15. The Borrower, through the Road Fund, shall ensure that the Road Development Component is carried out in accordance with the applicable technical specifications and design, and that the construction supervision, quality control and management of the Project are performed in accordance with applicable standards and best international practices.

Environment

16. The Borrower, through the Road Fund, shall ensure that potential adverse environmental impacts arising from the Project are minimized by implementing all the mitigation measures presented in the IEE and SIEE. The Borrower shall also ensure that the design, construction, and operation of the Project Facilities are in accordance with ADB's *Environment Policy* (2002) and the Borrower's environmental laws and regulations. The Borrower, through the Road Fund, shall ensure that:

- (a) the PIU has access to sufficient resources to implement and record the implementation of the EMP with guidance from the Borrower's State Committee for Environmental Protection or any legal successor thereto;
- (b) the PIU semi-annually reviews the progress made on environmental measures detailed in the EMP, IEE, and SIEE; environmental monitoring; and problems encountered and remedial measures taken;

and that its findings are included in the next quarterly progress report to be submitted to ADB;

- (c) detailed engineering designs, Works contracts and other contracts for the Project facilities incorporate applicable environmental measures identified in the EMP, IEE, and SIEE; and
- (d) Works contractors are supervised to ensure compliance with the requirements of the EMP, IEE, and SIEE.

Labor, Gender, Health, and Social Protection

17. The Borrower, through the Road Fund, will include a specific provision in bidding documents to ensure that Works contractors (a) comply with applicable core labor standards, labor laws and incorporate applicable workplace occupational safety norms; (b) do not differentiate payment between men and women for work of equal value; (c) do not employ child labor in the construction and maintenance activities; (d) eliminate forced or compulsory labor; (e) eliminate discrimination in respect of employment; (f) allow for freedom of association; and (g) to the extent possible, maximize employment of local poor and disadvantaged persons for construction purposes, provided that the requirements for efficiency are adequately met.

18. The Borrower, through the Road Fund, shall ensure that Works contractors disseminate, or engage appropriate service providers to –disseminate, information on the risks of sexually transmittable diseases, including HIV/AIDS, to the employees of Works contractors engaged under the Project and to members of the local communities surrounding the road sections that will be rehabilitated under the Project, particularly to females.

IV. COVENANTS SPECIFIC TO THE REPC

Establishment and operation

19. (a) No later than 30 June 2008, the Borrower shall establish the REPC as a state-owned corporate entity in a legal form to be determined under Subcomponent 2(ii)(b).

(b) The Borrower shall ensure (i) that the REPC has the capacity to own, operate, manage and rent out equipment for road construction, rehabilitation and/or maintenance works in Uzbekistan, (ii) that the REPC has equity in an amount that will be sufficient to maintain a ratio of debt to equity no greater than 90 to 10 upon the incurrence of debt in the amount of fifty-five million three hundred ten thousand Dollars (\$55,310,000), (iii) that this equity takes the form of assets acceptable to ADB appraised in accordance with methods acceptable to ADB, and, without limiting the generality of the foregoing, (iv) that the REPC is sufficiently equipped with office space, facilities and motivated personnel with sufficient expertise and experience in areas relevant to the REPC's proposed business operations (including, without limitation, business management, road equipment operation and maintenance, financial management and accounting, and marketing).

(c) For purposes of this Section, the term "debt" means any indebtedness of the REPC maturing by its terms more than one year after the date on which it is originally incurred.

20. The Borrower shall ensure that the REPC conducts its operations in a transparent manner by offering its services upon terms and conditions that it makes publicly available and that are the same for all its potential customers, whether state-owned or privately owned and whether foreign or national.

Fee levels

21. The Borrower shall ensure that the REPC sets its equipment hire and service charges at a level that is sufficient for its financial viability in accordance with the business and financial models developed under the Project.

Operating Ratio

22. (a) Except as ADB shall otherwise agree, the Borrower shall ensure that the REPC maintains, for each of its fiscal years after its fiscal year ending on 31 December 2009, a ratio of total operating expenses to total operating revenue not higher than 80% (eighty percent).

(b) The Borrower shall ensure that, in the third quarterly progress report in each of its fiscal years, the REPC reports to the Road Fund, on the basis of a forecast prepared by the REPC, whether the REPC would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year. If any such review shows that the REPC would not meet the requirements for the fiscal years covered by such review, the Borrower shall ensure that the REPC promptly takes all necessary measures (including without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

(c) For the purposes of this Section:

- (i) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation, but excluding interest and other charges on debt; and
- (ii) the term "total operating revenues" means revenues from all sources related to operations, after making adequate provisions for uncollectible debts.

Debt-Equity Ratio

23. (a) Except as ADB shall otherwise agree, the Borrower shall ensure that as of 31 December 2009, the REPC shall have a ratio of debt to equity that is no greater than 80 to 20.

(b) For purposes of this Section, the term "debt" means any indebtedness of the REPC maturing by its terms more than one year after the date on which it is originally incurred.

V. COVENANTS RELATED TO PROJECT GOVERNANCE, REVIEW AND AUDIT

Anti-corruption

24. The Borrower shall comply with, and shall ensure that the Road Fund and the REPC comply with, ADB's *Anticorruption Policy* (1998, as amended to date). The Borrower, consistent with its commitment to good governance, accountability and transparency, agrees (a) that ADB has the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In addition, the Borrower shall (a) conduct periodic inspections on the contractors' activities related to fund withdrawals and settlements; (b) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants, and other service providers as they relate to the Project; and (c) the construction supervision consultant shall verify the contractors' invoices in accordance with working drawings and contract specifications. The Road Fund shall announce the Project and business opportunities associated with the Project on its website, which is currently part of the website of the Ministry of Finance of the Borrower.

Mid-term review

25. Two years from the Effective Date, the Borrower, the Road Fund, the REPC and ADB shall jointly undertake a comprehensive mid-term review of the Project. The mid-term review shall assess the Project's achievements and progress in implementing the Project against the PPMS indicators and the project implementation schedule in order to identify any difficulties or constraints encountered in implementing the Project and to make adjustments, if necessary, for the remaining project implementation period. In particular, the mid-term review shall, among others, evaluate the Project scope, costs, overall implementation progress, and status of compliance with loan covenants.

Project audit

26. The Borrower shall ensure that the annual performance audit for the Project referred to in Section 4.05 of this Loan Agreement is conducted by independent auditors recruited in accordance with the Consulting Guidelines. All costs incurred in connection with such performance audits shall be Recurrent costs under Category 4 (as defined in Schedule 3 to this Loan Agreement).