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GRANT NUMBER \_\_-UZB

LOAN NUMBER \_\_-UZB(SF)

PROJECT AGREEMENT

(Surkhandarya Water Supply and Sanitation Project)

between

ASIAN DEVELOPMENT BANK

and

UZBEKISTAN COMMUNAL SERVICES AGENCY

DATED \_\_\_\_\_

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PAG: UZB 40007

## PROJECT AGREEMENT

PROJECT AGREEMENT dated \_\_\_\_\_ between ASIAN DEVELOPMENT BANK ("ADB") and UZBEKISTAN COMMUNAL SERVICES AGENCY ("UCSA").

### WHEREAS

(A) by a loan agreement of even date herewith between the Republic of Uzbekistan (the "Borrower") and ADB (the "Loan Agreement"), ADB has agreed to make to the Borrower a loan in various currencies in the amount equivalent to Nineteen Million Three Hundred Fifty Seven Thousand Special Drawing Rights (SDR 19,357,000) 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

(B) by a grant agreement of even date herewith between the Republic of Uzbekistan (the "Recipient") and ADB (the "Grant Agreement"), ADB has agreed to make to the Recipient a grant in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000) on the terms and conditions set forth in the Grant Agreement, but only on condition that the proceeds of the Grant be made available to UCSA; and

(C) UCSA, in consideration of ADB entering into the Loan Agreement with the Borrower and the Grant Agreement with the Recipient, 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) as well as in the Grant Agreement 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 Regulations on UCSA approved by President's Resolution No. 445-PP of 17 August 2006; and
- (ii) "Project" for the purposes of this Project Agreement means the entire Project described in Schedule 1 to the Loan Agreement.

## 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, social safeguards, 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 this Project Agreement, and the Loan Agreement and the Grant Agreement to the extent that they are applicable to UCSA.

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

(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, the Loan, and the Grant.

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 Grant and the expenditure of the proceeds thereof; (ii) the Goods, Works and consulting services and other items of expenditures 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 and the Grant.

(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 and the Grant.

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 and Grant proceeds and compliance with the financial covenants of the Loan Agreement and the Grant Agreement as well as on the use of the procedures for imprest accounts/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 and Works financed out of the proceeds of the Loan, the Grant, 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, social safeguards, 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 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, social safeguards, 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, Works and consulting 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 Agreement, 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 Agreement.

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 and/or the Grant 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

Facsimile Numbers:

(632) 636-2444  
(632) 636-2407.

**For UCSA**

Uzbekistan Communal Services Agency  
1, Niyozbek Yuli Street  
100035, Tashkent  
Republic of Uzbekistan

Facsimile Number:

(998 71) 235-4524.

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 7.01 of the Loan Agreement and Section 8.01 of the Grant 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 \_\_\_\_\_

UZBEKISTAN COMMUNAL SERVICES  
AGENCY

By \_\_\_\_\_  
Authorized Representative

## SCHEDULE

### Execution of Project and Operation of Project Facilities

#### Project Executing Agency and Project Implementing Agency

1. UCSA as the Project Executing Agency shall be responsible for the overall Project coordination and implementation, and liaison with ADB and government agencies concerned. UCSA shall be directly responsible for the planning, design, and development and rehabilitation of water supply systems under the Project.

#### Project Management Unit

2. UCSA shall establish the PMU, which will be responsible for (a) supervising project implementation, budgeting, financial planning, and accounting; (b) carrying out procurement activities; (c) providing administrative and technical support to the PIU; (d) preparing consolidated Project progress reports and completion report; and (e) consolidating Project accounting, auditing and monitoring, and reporting to ADB, the Borrower, and other stakeholders. The Borrower shall ensure that throughout the Project implementation period the PMU remains headed by Project Director and comprised of (a) one deputy project director, who will also serve as the sector strategy study manager; (b) a financial specialist/accountant; (c) a water supply and sanitation specialist, (d) a procurement specialist, (e) a monitoring and environment specialist, (f) a driver, and (g) an office manager/translator.

#### Project Implementation Unit

3. UCSA shall ensure that the PIU shall be established by SPG in Termez to be responsible for the day-to-day implementation of the Project at the local level. The major responsibilities of the PIU shall include (a) participating in Project planning, detailed design, and bid evaluation; (b) coordinating the activities of consultants and contractors; (c) overseeing construction activities; (d) coordinating resettlement activities; (e) monitoring the environment and social impacts of the Project activities; (f) supervising capacity building activities; and (g) preparing and consolidating subproject accounting, auditing and monitoring reports for submission to the PMU. UCSA shall ensure that throughout the Project implementation period the PIU remains headed by a Project coordinator acceptable to ADB, and comprised of (i) a financial specialist/accountant, (ii) a water supply and design specialist, (iii) a monitoring and social and resettlement specialist, (iv) a driver, and (v) an office manager/translator.

#### Sector Strategy, Roadmap and Investment Plan

4. UCSA shall develop a new water supply and wastewater sector strategy (the "Sector Strategy"), a roadmap, and an investment program is carried out in accordance with the agreed process in consultation with stakeholders in the sector so that the agreed Sector Strategy is approved by the Government by 31 December 2011. UCSA shall keep ADB informed of any major changes in the sector programs and plans that may impact the Project and any future projects to be financed by ADB.

Water Tariff Review and Adjustments

5. UCSA shall report to ADB that results of the Borrower's reviews and adjustments, if any, of water tariff level and structure within three (3) months of each review.

Environment

6. UCSA shall ensure that (a) the Project facilities are constructed, operated, maintained and monitored in conformity with all applicable laws and regulations of the Borrower, including regulations and standards for environmental protection, health, labor and occupational safety, ADB's *Environment Policy* (2002), the IEE, and the SIEE for the Project; (b) any adverse environmental impacts during construction and operation are minimized by implementing mitigation measures and monitoring program detailed in the EMMP set forth in the IEE; (c) the progress on the EMMP implementation and any violations of environmental standards are reported to ADB semi-annually in accordance with the specifications set forth in the IEE; and (d) the EMMP is incorporated in the bidding documents.

Involuntary Resettlement

7. UCSA shall ensure that (a) the Project is carried out in accordance with applicable laws and regulations of the Borrower, ADB's *Involuntary Resettlement Policy* (1995), and the RP; (b) the RP and due diligence reports are updated based on detailed design of the subprojects, disclosed to all affected persons, and resubmitted to ADB for approval; (c) no civil works contract is awarded for the Djarkurgan subproject until the updated RP has been approved by ADB, and (d) the contractors are not given a notice to proceed under the Djarkurgan subproject until the RP has been implemented in accordance with its terms.

Gender and Labor

8. UCSA shall ensure that the GAP is implemented in a timely manner over the entire Project period, and adequate resources are allocated for this purpose. The implementation of the GAP will be closely monitored, and the progress will be reported through quarterly reports to ADB.

9. UCSA shall ensure that all civil works contractors (i) employ women and local people, including disadvantaged people, living in the vicinity of the relevant subproject; (ii) provide equal pay to men and women for work of equal type; (iii) provide safe working conditions for male and female workers; (iv) abstain from child labor; and (v) conduct an information and education campaign on sexually transmitted diseases and HIV/AIDS for construction workers as part of the health and safety program at camp sites during the construction period. All civil works contracts shall include specific clauses on these undertakings, and compliance shall be strictly monitored during Project implementation.

Anticorruption Measures

10. During Project implementation, UCSA shall

(a) apply, and cause for be applied, ADB's *Anticorruption Policy*, it being understood that ADB reserves the right to investigate directly, or through its agents, any possible corrupt, fraudulent, collusive or coercive practices relating to the Project. To support these efforts, UCSA shall ensure that (i) provisions are included in the bidding documents for the Project, and in all contracts financed by ADB in connection with the Project specifying the right of ADB to audit and examine the records and accounts of PMU, PIU and vodokanals, and all contractors, suppliers, consultants and other service providers as they relate to the Project; (ii) periodic inspections of the contractors' activities related to fund withdrawals and settlements under the Project are carried out; and (iii) auditors have the right to conduct random or spot audits for contract implementation activities under the Project. The cost of this auditing will be borne by the Project; and

(b) maintain and update its website to present information on externally-funded projects, including this Project. With regard to this Project, the website shall provide information on, among other things, water tariff review procedures, results of annual reviews and adjustments, collection efficiency, financial statements of this Project procurement activities and 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.

#### Maintenance Plan

11. For the cranes, excavators and major repair equipment to be provided under the Project and shared between the district vodokanals, UCSA shall cause the Surkhandarya provincial vodokanal to prepare in consultation with vodokanals a maintenance plan covering the proposed station to place the equipment and standards, procedures, other arrangements for the maintenance and use of the equipment. UCSA shall, by 30 September 2009, submit the draft plan to ADB for review.

#### Hygiene Promotion Activities

12. UCSA shall ensure that (a) by 31 December 2009, the implementation arrangements and implementation plan for the hygiene promotion activities are prepared to be carried out in all schools in the Project Area; (b) by 30 June 2010, the hygiene baseline survey is completed; and (c) the follow up surveys are carried out in 2012 and 2014.

#### Project Performance Monitoring System

13. UCSA shall ensure that the implementation of the Project, the operation of the Project facilities, and the benefits derived from the Project are monitored and evaluated annually by the PMU. Within six (6) months of the Effective Date, a PPMS shall be established by UCSA. The establishment of baseline data and benchmarks, collection of information, monitoring and evaluation of benefits, and evaluation of social impact, shall be undertaken by the PMU with the consultants support. Data collection shall be carried out (a) prior to physical implementation of each subproject in conjunction with socioeconomic surveys, (b) regularly during Project implementation, and (c) for three (3) months after physical completion of the Project. The results shall be incorporated into the Project progress and completion reports.

Project Reviews

14. UCSA shall conduct jointly with the Borrower and ADB semi-annual reviews during the first two (2) years of the Project, and annual reviews thereafter. A comprehensive mid-term review shall be undertaken after the third year of Project implementation. These reviews shall include evaluation of project implementation arrangements, detailed evaluation of the Project scope, the actual implementation progress, resettlement and environment safeguards, community involvement, health education and hygiene practice, feedback from the PPMS, performance of consultants, institutional and capacity development progress, and possible reallocation of the Loan and Grant proceeds. The cost recovery mechanisms for each subproject shall also be evaluated and remedial action shall be instituted as needed.