
LOAN NUMBER 2466 - UZB (SF)

LOAN AGREEMENT
(Special Operations)

(Surkhandarya Water Supply and Sanitation Project)

between

REPUBLIC OF UZBEKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 20 APRIL 2009

LAS: UZB 40007

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated 20 April 2009 between the REPUBLIC OF UZBEKISTAN (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower has applied to ADB for (i) a loan for the purposes of financing Component B, Component C, and Component E of the Project described in Schedule 1 to this Loan Agreement (hereinafter called the Project); and (ii) a grant from the Multi-Donor Trust Fund under the Water Financing Partnership Facility administered by ADB for the purposes of financing Component A and Component D of the Project;

(B) the Project will be carried out by the Uzbekistan Communal Services Agency "Uzkommunhizmat" (hereinafter called UCSA), and for this purpose the Borrower will make available to UCSA the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB;

(C) ADB has agreed to make a grant to the Republic of Uzbekistan (hereinafter called the Recipient) from the Multi-Donor Trust Fund under the Water Financing Partnership Facility in the amount of One Million Five Hundred Thousand Dollars (\$1,500,000) upon the terms and conditions set forth in the Grant Agreement of even date herewith between the Recipient and ADB; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Component" means any of components A, B, C, D, and E of the Project, as described in paragraph 2 of 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) "EMMP" means an environmental management and monitoring plan;

(d) "IEE" means an initial environmental examination report prepared by the Borrower for the Project and agreed by ADB;

(e) "GAP" means a Gender Action Plan developed for the Project and agreed by ADB;

(f) "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;

(g) "Government" means the Government of the Borrower;

(h) "Grant" means the grant provided for in the Grant Agreement;

(i) "Grant Agreement" means the agreement between the Recipient and ADB referred to in Recital (C) of this Loan Agreement;

(j) "HIV/AIDS" means human immunodeficiency virus/acquired immunodeficiency syndrome;

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

(l) "Makhallya" means the smallest administrative grouping in a community of the Borrower;

(m) "NGO" means a non-government organization;

(n) "O&M" means operation and maintenance;

(o) "PIU" means the Project Implementation Unit as described in paragraph 3 of Schedule 5 to this Loan Agreement;

(p) "PMU" means the Project Management Unit as described in paragraph 2 of Schedule 5 to this Loan Agreement;

(q) "PPMS" means the project performance monitoring system to be developed under the Project, as more specifically referred to in paragraph 17 of Schedule 5 to this Loan Agreement;

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

(s) "Procurement Plan" means the procurement plan for the Project dated 18 September 2008 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(t) "Project" for the purposes of this Loan Agreement means Component B, Component C and Component D for which ADB has agreed to make the Loan;

(u) "Project Agreement" means the agreement between ADB and UCSA referred to in Recital (D) of this Loan Agreement;

(v) "Project Area" means Termez city and Angor, Djarkurgan, Kizirik, Kumkurgan, Muzrabad, Sariasiya, and Shurchi rayons of the Borrower's Surkhandarya province;

(w) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means UCSA or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(x) "Project facilities" means the Goods and any other facilities to be procured, rehabilitated, installed, maintained or serviced under the Project;

(y) "PSC" means the Project Steering Committee as described in paragraph 4 of Schedule 5 to this Loan Agreement;

(z) "rayon" means a district of the Borrower;

(aa) "Resettlement Plan" or "RP" means the resettlement plan prepared by the Borrower for the Djarkurgan subproject under the Project and agreed by ADB;

(bb) "SIEE" means a summary initial environmental examination prepared by the Borrower for the Project and agreed by ADB;

(cc) "SPG" means the Surkhandarya provincial government and any successor thereto;

(dd) "Subloan Agreement" means the agreement between UCSA and SPG referred to in Section 3.01(b) of this Loan Agreement;

(ee) "subproject" means each of the subprojects included by the Borrower in the Project for financing out of the proceeds of the Loan and agreed by ADB;

(ff) "Subsidiary Loan Agreement" means the agreement between the Borrower and UCSA referred to in Section 3.01(a) of this Loan Agreement;

(gg) "UCSA" means the Uzbekistan Communal Services Agency, a self financing institution, established in accordance with the President's Decree No. UP-2791 of 19 December 2000 and operating under the Regulations approved by President's Resolution No. 445-PP of 17 August 2006;

(hh) "vodokanal" means a water supply and sanitation organization operating in the Project Area;

(ii) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services; and

(jj) "WSS" means water supply and sanitation.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to Nineteen Million Three Hundred Fifty Seven Thousand Special Drawing Rights (SDR19,357,000).

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

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

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

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

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the entire proceeds of the Loan to UCSA under a Subsidiary Loan Agreement, upon terms and conditions satisfactory to ADB. Except as the Borrower and ADB shall otherwise agree, the terms of the Subsidiary

Loan Agreement shall include (i) interest at the rate applicable from time to time to the Loan plus an additional 0.2% per annum, and (ii) a repayment period of thirty-two (32) years, including a grace period of eight (8) years. The net proceeds of the Loan shall be denominated in Dollars and repayment by UCSA to the Borrower shall likewise be in Dollars or equivalent amount in Sum converted at the Central Bank of Uzbekistan exchange rate prevailing at the time of the repayment;

(b) The Borrower shall cause UCSA to (i) onlend the entire proceeds of the Loan to the SPG under a Subloan Agreement upon terms and conditions satisfactory to ADB for further onlending by the SPG to vodokanals on the same terms; and (ii) apply the proceeds of the Loan to the financing of expenditures for the Project in accordance with the provisions of this Loan Agreement and the Project Agreement. Except as ADB and the Borrower may otherwise agree, the terms of the Subloan Agreement shall include (i) provisions for interest and repayment period identical to the relevant provisions of the Subsidiary Loan Agreement; (ii) provision that the repayment of the loan proceeds by the SPG to UCSA shall be in equivalent amount in Sum converted at the Central Bank of Uzbekistan exchange rate prevailing at the time of the repayment; and (iii) that the SPG shall bear the foreign exchange risk.

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

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

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

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

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 September 2014 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the 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 and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Project facilities, and any relevant records and documents.

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

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

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

ARTICLE V

Suspension

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 8.01(m) of the Loan Regulations: the Grant shall have become liable for suspension or cancellation.

ARTICLE VI

Effectiveness

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

(i) the Borrower shall have issued a resolution approving the Project and specifying, among other things, the Project implementation arrangements, roles and responsibilities of the government agencies concerned, flow of funds, monitoring and reporting arrangements;

(ii) the execution and delivery of the Grant Agreement on behalf of the Recipient shall have been duly authorized by all necessary government action; and

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

Section 6.02. The following are specified as additional matters, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB:

(a) on behalf of the Borrower and UCSA that the Subsidiary Loan Agreement has been duly authorized by, and executed and delivered on behalf of, the Borrower and UCSA and is legally binding upon such parties in accordance with its terms, subject only to the effectiveness of this Loan Agreement, and

(b) on behalf of the Recipient that the Grant Agreement has been duly authorized by, executed and delivered on behalf of, the Recipient and is legally binding upon such parties in accordance with its terms.

Section 6.03. A date sixty (60) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

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

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

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

ARTICLE VIII

Miscellaneous

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

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

For the Borrower

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

Facsimile Numbers:

(998-71) 244-5643
(998-71) 233-0925.

For ADB

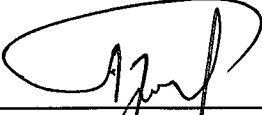
Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

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

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  _____
RUSTAM AZIMOV
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
HONG WEI
Country Director
Uzbekistan Resident Mission

SCHEDULE 1

Description of the Project

1. The expected impact of the Project is improved living standards, environment, and public health in the Project Area. The expected outcome of the Project is safe, reliable and sustainable WSS services and improved community hygiene.
2. The Project shall include the following components:
 - A. Strengthening Sector Strategy and Management
 - (i) Develop an integrated water sector profile;
 - (ii) Formulate a water supply and wastewater sector strategy, including a Public/Private Partnership (PPP) framework; and
 - (iii) Prepare a water supply and wastewater sector development roadmap and a comprehensive investment plan.
 - B. Water Supply Development
 - (i) Develop bore-holes at identified groundwater sources, water transmission, service reservoirs, chlorination facilities, and distribution networks;
 - (ii) Provide individual metered service connections;
 - (iii) Improve the office buildings of vodokanals;
 - (iv) Provide equipment for O&M of the water supply systems; and
 - (v) Explore and pilot appropriate PPP models where such potential exists.
 - C. Sanitation and Hygiene
 - (i) Provide school toilet blocks for a select number of schools;
 - (ii) Develop a network of stakeholders, including Makhalla committees, school teachers, and NGOs, to support hygiene promotion activities in all schools in the Project Area; and
 - (iii) Conduct a baseline survey and follow up surveys to develop targeted hygiene messages and to assess the impact of the activities.
 - D. Capacity Development for Service Delivery
 - (i) Provide office furniture and basic office computer equipment for vodokanals;
 - (ii) Provide technical, operational and management training, including training in public awareness and customer care systems for vodokanals and a range of stakeholders, including Makhalla committees, communities, school teachers and households;
 - (iii) Develop and implement a performance monitoring and benchmarking system for vodokanals; and

- (iv) Conduct study tours for vodokanals staff and key government officials on best practices in WSS delivery nationally and internationally.

E. Project Implementation Assistance

Provide support to the PMU and the PIU in (i) project management and monitoring, (ii) bid-document preparation and process management, (iii) bid evaluations, (iv) financial management and accounting, (v) construction supervision, (vi) social, environment, and resettlement management and monitoring, and (vii) covering incremental administrative costs.

3. The Project includes the provision of consulting services. The Project is expected to be completed by 31 March 2014.

SCHEDULE 2

Amortization Schedule (Surkhandarya Water Supply and Sanitation Project)

| Date Payment Due | Payment of Principal (Expressed in SDR) * |
|------------------|--|
| 15-Apr-2017 | 403,271.00 |
| 15-Oct-2017 | 403,271.00 |
| 15-Apr-2018 | 403,271.00 |
| 15-Oct-2018 | 403,271.00 |
| 15-Apr-2019 | 403,271.00 |
| 15-Oct-2019 | 403,271.00 |
| 15-Apr-2020 | 403,271.00 |
| 15-Oct-2020 | 403,271.00 |
| 15-Apr-2021 | 403,271.00 |
| 15-Oct-2021 | 403,271.00 |
| 15-Apr-2022 | 403,271.00 |
| 15-Oct-2022 | 403,271.00 |
| 15-Apr-2023 | 403,271.00 |
| 15-Oct-2023 | 403,271.00 |
| 15-Apr-2024 | 403,271.00 |
| 15-Oct-2024 | 403,271.00 |
| 15-Apr-2025 | 403,271.00 |
| 15-Oct-2025 | 403,271.00 |
| 15-Apr-2026 | 403,271.00 |
| 15-Oct-2026 | 403,271.00 |
| 15-Apr-2027 | 403,271.00 |
| 15-Oct-2027 | 403,271.00 |
| 15-Apr-2028 | 403,271.00 |
| 15-Oct-2028 | 403,271.00 |
| 15-Apr-2029 | 403,271.00 |
| 15-Oct-2029 | 403,271.00 |
| 15-Apr-2030 | 403,271.00 |
| 15-Oct-2030 | 403,271.00 |
| 15-Apr-2031 | 403,271.00 |
| 15-Oct-2031 | 403,271.00 |
| 15-Apr-2032 | 403,271.00 |
| 15-Oct-2032 | 403,271.00 |
| 15-Apr-2033 | 403,271.00 |
| 15-Oct-2033 | 403,271.00 |
| 15-Apr-2034 | 403,271.00 |
| 15-Oct-2034 | 403,271.00 |
| 15-Apr-2035 | 403,271.00 |
| 15-Oct-2035 | 403,271.00 |
| 15-Apr-2036 | 403,271.00 |
| 15-Oct-2036 | 403,271.00 |

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

| Date Payment Due | Payment of Principal (Expressed in SDR) * |
|-------------------------|--|
| 15-Apr-2037 | 403,271.00 |
| 15-Oct-2037 | 403,271.00 |
| 15-Apr-2038 | 403,271.00 |
| 15-Oct-2038 | 403,271.00 |
| 15-Apr-2039 | 403,271.00 |
| 15-Oct-2039 | 403,271.00 |
| 15-Apr-2040 | 403,271.00 |
| 15-Oct-2040 | 403,263.00 |
| Total | 19,357,000.00 |

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

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

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

Percentages of ADB Financing

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

Interest Charge

3. The amount allocated to Category 5 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

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

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

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

Disbursement Procedures

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

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall cause UCSA to 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 ADB's 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 for the first six (6) 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 for the Project, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

TABLE

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Surkhandarya Water Supply and Sanitation Project) | | | |
|--|---|---|--|
| | CATEGORY | | ADB FINANCING |
| Number | Item | Amount Allocated SDR Category | Percentage and Basis for Withdrawal from the Loan Account |
| 1 | Civil Works | 12,970,000 | 88 percent of total expenditure* |
| 2 | Equipment | 4,310,000 | 100 percent of total expenditure* |
| 3 | Consulting Services (including detailed design, construction supervision, and project audit) | 1,290,000 | 100 percent of total expenditure* |
| 4 | Recurrent Costs | 342,000 | 100 percent of total expenditure* |
| 5 | Interest Charge | 445,000 | 100 percent of amounts due |
| | Total | 19,357,000 | |

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

SCHEDULE 4

Provisions on Procurement and Consulting Services

A. General

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

B. Procurement of Goods and Works

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

| |
|-----------------------------------|
| International Competitive Bidding |
| National Competitive Bidding |
| Shopping |

The 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.

C. Conditions for Award of Contracts

6. The Borrower shall ensure that (a) no civil works contract is awarded for the Djarkurgan subproject until the updated Resettlement Plan for the subproject has been approved by ADB; and (b) no civil works contract is awarded for the Termez subproject until the Borrower issues a resolution approving the implementation of the Termez wastewater management project under arrangements satisfactory to ADB.

D. Selection of Consulting Services

7. Except as ADB may otherwise agree, and except as set forth in paragraphs 8 and 9 below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

8. The Borrower shall apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

| |
|---|
| Consultants' Qualifications Selection for small consultant assignments that cost less than \$200,000 per contract |
|---|

9. The Borrower shall recruit the individual consultants [for very small assignments that cost less than \$100,000] in accordance with procedures acceptable to ADB for recruiting individual consultants.

E. Industrial or Intellectual Property Rights

10. (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.

11. 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.

F. ADB's Review of Procurement Decisions

12. 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

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency and Project Implementing Agency

1. The Borrower shall designate UCSA as the Project Executing Agency with responsibility 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. The SPG shall be the Project Implementing Agency responsible for the day-to-day implementation of the Project.

Project Management Unit

2. The Borrower shall ensure that the PMU is established within UCSA. The PMU shall 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. The Borrower 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. The Borrower 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.

Project Steering Committee

4. The Borrower shall establish an inter-ministerial PSC to provide overall policy direction and guidance, including overseeing Project implementation, facilitating cooperation and coordination among concerned agencies, and ensuring timely implementation of the policy and institutional reform agenda of the Project. The PSC shall be chaired by a Deputy Prime Minister, and comprised of senior officials from UCSA, the Borrower's Ministry of Finance, Ministry of Economy, Ministry of Foreign Economic Relations, Investment and Trade, State Committee of

Natural Protection, Ministry of Health, Ministry of Public Education, SPG, and other agencies concerned. The PSC will meet at least every 6 months to review and discuss the Project implementation.

Counterpart Funds

5. Without limiting the generality of Section 6.06 of the Loan Regulations, the Borrower shall make adequate annual budget allocations and release in a timely manner the counterpart funds and other resources, as shall be necessary or required, in addition to the proceeds of the Loan, for the successful implementation of the Project.

Sector Strategy, Roadmap and Investment Plan

6. The Borrower shall ensure that development of 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. The Borrower 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.

Collection Efficiency and Water Tariffs

7. The Borrower shall ensure that the SPG (a) takes necessary measures to improve the collection efficiency to achieve a collection rate of 90% by 2013; (b) reviews semi-annually and adjusts as necessary the level and structure of water tariffs so that (i) from 2010, each vodokanal will be able to fully recover O&M and capital replacement costs; and (ii) from 2014, each vodokanal will be able to fully recover O&M and capital replacement costs of the water supply scheme under the subproject, serve debt-servicing obligations under the subproject, and maintain a debt service coverage ratio of 1.2:1.

8. The Borrower shall ensure that results of the reviews and adjustments, if any, are reported by UCSA to ADB within three (3) months of each review.

Water Bills

9. The Borrower shall ensure that the SPG (a) takes appropriate measures, including financial incentives and/or penalties, to reduce the level of water bill arrearages, and (b) protects their water resources and facilities through vigorous prosecution for violations, such as water meter tampering and water theft in accordance with applicable laws of the Borrower.

Environment

10. The Borrower shall, and cause UCSA to, 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

11. The Borrower shall ensure and shall cause UCSA to 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

12. The Borrower shall cause UCSA to ensure that (a) the GAP is implemented in a timely manner during the Project implementation period, (b) adequate resources are allocated for this purpose, and (c) the implementation of the GAP is closely monitored and reported to ADB through quarterly progress reports.

13. The Borrower shall cause UCSA to ensure that all civil works contractors (a) employ women and local people, including disadvantaged people, living in the vicinity of the relevant subproject; (b) provide safe working conditions and equal pay to male and female workers for work of equal type; (c) abstain from child labor; and (d) 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

14. During Project implementation, the Borrower shall:

(a) apply, and cause USCA and the SPG to apply, 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, the Borrower shall ensure that (i) UCSA includes in the bidding documents for the Project, and in all contracts financed by ADB in connection with the Project the provisions 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) the Project 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) cause UCSA to 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

15. The Borrower shall cause UCSA to ensure that (a) a set of major repair equipment (such as cranes and excavators) provided under the Project is managed and maintained by the Surkhandarya provincial vodokanal; (b) the Surkhandarya provincial vodokanal prepare, in consultation with vodokanals, a maintenance plan covering the proposed station to place such major repair equipment to be shared by the district vodokanals, standards, procedures, other arrangements for the maintenance and use of such equipment. UCSA shall, by 30 September 2009, submit the draft plan to ADB for review.

Hygiene Promotion Activities

16. The Borrower shall cause UCSA to 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

17. The Borrower shall cause UCSA to 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

18. The Borrower, UCSA and ADB shall jointly conduct 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.