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LOAN NUMBER 2564-UZB(SF)

LOAN AGREEMENT  
(Special Operations)

(Water Supply and Sanitation Services Investment Program – Project 1)

between

REPUBLIC OF UZBEKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 1 DECEMBER 2009

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LAS:UZB 42489

## **LOAN AGREEMENT (Special Operations)**

LOAN AGREEMENT dated 1 December 2009 between REPUBLIC OF UZBEKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

### WHEREAS

(A) by a framework financing agreement dated 28 August 2009 between the Borrower and ADB ("FFA"), ADB has agreed to provide a multitranche financing facility to the Borrower for the purpose of financing projects under the Water Supply and Sanitation Services Investment Program ("Investment Program");

(B) by a periodic financing request dated 28 August 2009 submitted by the Borrower, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Project will be carried out by the Uzbekistan Agency "Uzkommunhizmat" ("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; 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 to be entered into 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 ("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) "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);

(b) "EARF" means the environmental assessment and review framework prepared for the Investment Program and incorporated by reference in the FFA;

(c) "EMDP" means the ethnic minority development framework prepared for the Investment Program and incorporated by reference in the FFA;

(d) "EMPs" means the environmental management plans prepared for the Project;

(e) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(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) "IEEs" means the initial environmental examinations prepared for the Project;

(h) "Inter-Agency Council" means the inter-agency council for cooperation with international financial institutions, organizations and donor countries, implementation of large and strategically important investment projects, established in accordance with Resolution N-229 dated 12 August 2009 of the Cabinet of Ministers of the Borrower;

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

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

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

(l) "PFR" means the periodic financing request submitted or to be submitted by the Borrower for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request #1 dated 28 August 2009;

(m) "PIUs" means the project implementation units established for the Project;

(n) "PMF" means the program management facility under Part 2 of the Investment Program;

(o) "PPMU" means the program preparation and management unit established in USCA for the Investment Program;

(p) "PPMS" means the project performance monitoring system established for the Project;

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

(r) "Procurement Plan" means the procurement plan for the Project dated 28 August 2009 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;

(s) "provincial government" means khokimiyat (the provincial body of executive power) under the national legislation of the Borrower on local state power Ref#913-XII dated 3 September 1993;

(t) "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;

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

(v) "SUM" means the currency of the Borrower;

(w) "UCSA" means the Uzbekistan Agency "Uzkommunhizmat" established in accordance with the President's Decree No. UP-2791 of 19 December 2000 and operating under the Regulations approved by the President's Resolution No. 445-PP of 17 August 2006;

(x) "vodokanals" means the WSS entities from the participating provinces of the Project;

(y) "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

(z) "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 thirty-eight million three hundred and thirty-eight thousand Special Drawing Rights (SDR38,338,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 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 March and 15 September 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, and UCSA shall onlend a portion of the proceeds to the participating provincial governments on similar terms and conditions. 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 32 years, including a grace period of 8 years.

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

Section 3.02. The Goods, Works, 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. Withdrawals from the Loan Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to:

(a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and

(b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

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

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2015 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.

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

Section 4.03. The Borrower shall take all action 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 10 of Schedule 5 to this Loan Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

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

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

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Borrower shall have issued a decree approving the Project and specifying, among other things, the general project scope and the implementation arrangements; and

(b) 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 become fully effective and legally binding upon such parties in accordance with its terms subject only to the effectiveness of this Loan Agreement.

Section 5.02. The following is specified as an additional matter for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: 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.

Section 5.03. A date 45 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 VI**

### **Delegation of Authority**

Section 6.01. The Borrower hereby designates UCSA as 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 6.02. Any action taken or any agreement entered into by UCSA pursuant to the authority conferred under Section 6.01 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 6.03. The authority conferred UCSA under Section 6.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

## **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 11.02 of the Loan Regulations.

Section 7.02. 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) 239-1259.

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  
Minister of Finance

ASIAN DEVELOPMENT BANK

By

  
\_\_\_\_\_  
HARUHIKO KURODA  
President

**SCHEDULE 1****Description of the Project**

1. The objective of the Investment Program is to finance projects with one or more of the following parts:

- (a) development of WSS infrastructure ("Part 1"); and
- (b) strengthening of WSS institutions and support for capacity development ("Part 2").

2. As part of the Investment Program, the Project shall support:

Part 1

- (a) rehabilitation and expansion of the inter-regional Damkhoja water facilities;
- (b) rehabilitation of water distribution systems in approximately 11 district cities in the Bukhara and Navoi provinces;
- (c) improvement of waste water collection and treatment facilities in Termez City in the Surkhandarya province;
- (d) promotion of positive hygiene behaviour and provision of sanitation facilities in health clinics and schools in the Bukhara, Navoi and Surkhandarya provinces;

Part 2

- (e) implementation of institution strengthening and capacity development in the participating provinces, including the Bukhara, Navoi and Surkhandarya provinces; and
- (f) provision of technical and financial support to the PPMU and to the PIUs in the Bukhara, Navoi and Surkhandarya provinces.

3. The Project is described more fully in the PFR.

4. The Project is expected to be completed by 31 December 2014.

**SCHEDULE 2****Amortization Schedule****(Water Supply and Sanitation Services Investment Program – Project 1)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 Mar 2018	798,708
15 Sep 2018	798,708
15 Mar 2019	798,708
15 Sep 2019	798,708
15 Mar 2020	798,708
15 Sep 2020	798,708
15 Mar 2021	798,708
15 Sep 2021	798,708
15 Mar 2022	798,708
15 Sep 2022	798,708
15 Mar 2023	798,708
15 Sep 2023	798,708
15 Mar 2024	798,708
15 Sep 2024	798,708
15 Mar 2025	798,708
15 Sep 2025	798,708
15 Mar 2026	798,708
15 Sep 2026	798,708
15 Mar 2027	798,708
15 Sep 2027	798,708
15 Mar 2028	798,708
15 Sep 2028	798,708
15 Mar 2029	798,708
15 Sep 2029	798,708
15 Mar 2030	798,708
15 Sep 2030	798,708
15 Mar 2031	798,708
15 Sep 2031	798,708
15 Mar 2032	798,708
15 Sep 2032	798,708
15 Mar 2033	798,708
15 Sep 2033	798,708
15 Mar 2034	798,708
15 Sep 2034	798,708
15 Mar 2035	798,708
15 Sep 2035	798,708
15 Mar 2036	798,708
15 Sep 2036	798,708
15 Mar 2037	798,708

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Special Drawing Rights)*</u>
15 Sep 2037	798,708
15 Mar 2038	798,708
15 Sep 2038	798,708
15 Mar 2039	798,708
15 Sep 2039	798,708
15 Mar 2040	798,708
15 Sep 2040	798,708
15 Mar 2041	798,708
15 Sep 2041	<u>798,724</u>
TOTAL	<u>38,338,000</u>

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

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

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

Percentages of ADB Financing

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

Interest Charge

3. The amount allocated to Category 7 is for financing the interest charge on the Loan during the implementation period of the 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 Goods, Works, consulting services and other items shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account and Statement of Expenditures

6. (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 financed from the imprest account for the first 6 months of Project implementation; or (ii) the equivalent of 10 percent of the Loan amount.

(b) The statement of expenditures procedure may be used for reimbursement of eligible expenditures for the Project in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed the equivalent of \$100,000.

Retroactive Financing

7. 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 items to be retroactively financed subject to a maximum amount equivalent to 20 percent of the Loan amount.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Water Supply and Sanitation Services Investment Program – Project 1)</b>			
<b>CATEGORY</b>			<b>ADB FINANCING</b>
<b>Number</b>	<b>Item</b>	<b>Amount Allocated SDR Category</b>	<b>Percentage and Basis for Withdrawal from the Loan Account</b>
1	Works	21,981,000	92 percent of total expenditure*
2	Equipment	10,543,000	100 percent of total expenditure*
3	Land Acquisition and Resettlement	447,000	100 percent of total expenditure*
4	Training and Capacity Building	128,000	100 percent of total expenditure*
5	Consulting Services	2,300,000	100 percent of total expenditure*
6	Incremental Administration	447,000	100 percent of total expenditure*
7	Interest Charge	2,492,000	100 percent of amount due
	Total	38,338,000	

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

## SCHEDULE 4

### Procurement of Goods and Works, and Consulting Services

#### A. General

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

#### B. Procurement for Goods and Works

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

International Competitive Bidding
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. National Competitive Bidding. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures 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. Selection of Consulting Services

5. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.
6. 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 assignments costing less than \$200,000 per contract
Least-Cost Selection for small assignments costing less than \$100,000 per contract
Individual Consultant Selection

**D. 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.

**E. 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

### Execution of Project and Operation of Project Facilities; Financial Matters

#### Project Management and Implementation

1. The Borrower shall designate UCSA as the Project Executing Agency with responsibility for overall Project coordination and implementation and for liaison with ADB and relevant government agencies. Each participating provincial government shall be the implementing agency for Project activities in their provinces.
2. The Borrower shall cause UCSA to ensure that the PPMU is responsible for managing, executing and monitoring Project implementation. The PPMU shall be headed by a full-time program director and comprise of technical, financial, procurement, social and environment, and administrative units. Each of these units shall have adequate staff with relevant expertise. Such staff shall include: (a) a WSS engineer; (b) a financial management specialist; (c) an accountant; (d) a procurement specialist; (e) an environment specialist; (f) a social safeguards specialist; (g) a monitoring and evaluation specialist; (h) an interpreter; (i) a training officer; and (j) a management information system specialists. UCSA shall ensure that the social and environment unit of the PPMU is staffed with the environment specialist and the social safeguards specialist within 3 months of the Effective Date.
3. The PPMU shall be responsible for: (a) selecting and appraising subprojects; (b) undertaking feasibility studies; (c) preparing and submitting PFRs; (d) supervising detailed designs; (e) procurement; (f) directing construction supervision; (g) overseeing implementation of the institutional strengthening and capacity development action plan; (h) monitoring and evaluating the implementation progress and impact; (i) ensuring compliance with safeguards requirements; (j) coordinating among government agencies; and (k) consolidating and preparing periodic reports. The PPMU shall be supported by consultants under the PMF.
4. The Borrower shall cause UCSA to ensure that a PIU shall be established by the participating provincial governments in each of their respective provinces. The PIUs shall be responsible for day-to-day implementation of the Project activities in their provinces. Each PIU shall be headed by a full-time project manager and comprise of a technical, financial, social and environment, and administrative units. Each PIU shall include: (a) a WSS engineer or a waste water management engineer; (b) a financial management specialist; (c) an accountant; (d) an environment specialist; (e) a social safeguards specialist; (f) an interpreter; and (g) an officer manager.
5. The PIUs shall be responsible for: (a) participating in subprojects 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 environmental, social and gender impact of Project activities; (f) supervising local institutional reform and capacity development activities; and (g) preparing and consolidating accounts and monitoring reports for submission to the PPMU. The PIUs shall be supported by consultants under the PMF.

Program Coordination

6. The Inter-Agency Council shall be responsible for overall policy direction and guidance for the Investment Program.

7. The Inter-Agency Council shall meet at least on a semi-annual basis to review implementation of, and decide on all major issues relating to, the Investment Program. Specifically, it shall: (a) provide strategic guidance on, and oversee the implementation of, the Investment Program, including related legislative, regulatory and institutional reforms; (b) facilitate the endorsement of the subprojects and PFRs; (c) approve the creation of posts in the PPMU and the recruitment of key PPMU staff (including the program director, the financial management specialist and the procurement specialist); and (d) ensure compliance with environment and social safeguards and related requirements.

Subproject Selection and Approval

8. The Borrower shall cause UCSA to ensure that all candidate subprojects are selected and approved in accordance with the eligibility criteria and procedures agreed between the Borrower and ADB and as set out in Schedule 4 to the FFA.

Counterpart Funds

9. Without limiting the generality of Section 6.06 of the Loan Regulations, the Borrower shall make adequate annual budget allocations for, and have them released in a timely manner, the counterpart funds and other resources, in addition to the proceeds of the Loan, for the successful implementation of the Project.

Collection Efficiency and Tariffs

10. The Borrower shall cause:

(a) UCSA, the participating provincial governments and related vodokanals to take necessary measures for improving collection efficiency to achieve a collection rate of 90% for each vodokanal by such target year to be agreed for the Project;

(b) UCSA and the participating provincial governments to review semiannually and adjust as necessary the level and structure of water tariffs to ensure that by completion of physical investments for the Project, the vodokanals shall have: (i) incorporated full O&M costs in the tariffs; and (ii) serviced their debts, including proceeds of the Loan onlent to the vodokanals by the provincial governments. Results of the reviews and adjustments shall be reported by UCSA to ADB within 3 months of each review; and

(c) UCSA and the participating provincial governments to: (i) take appropriate measures, including financial incentives and penalties, to reduce the level of payment arrears for water bills; and (ii) protect their water resources and facilities through the vigorous prosecution of violations such as water meter tampering and water theft.

11. The Borrower shall cause UCSA to ensure that the costs of household connections for water supply shall be included under the Project and that such costs shall be charged to these households on an installment basis over a 3-year period.

Policy and Institutional Reforms

12. The Borrower shall ensure that the policies and institutional reforms required to make the vodokanals more autonomous and efficient are implemented. Such reforms include:

- (a) regular revision and adjustment of WSS tariffs to reflect actual cost of O&M and capital depreciation; and
- (b) ensuring that USCA and the participating provincial governments: (i) review and adjust the responsibilities of the vodokanals to provide them with more autonomy; (ii) introduce performance-based management for the vodokanals; and (iii) establish modern accrual-based accounting systems in the vodokanals.

Environment

13. The Borrower shall cause UCSA to ensure that:

- (a) all subproject facilities are designed, constructed, operated, maintained and monitored in compliance with applicable laws and regulations in Uzbekistan, ADB's Environment Policy (2002) and the EARF. Subprojects encroaching on national parks or other environmentally protected areas shall not be financed under the Project; however, subprojects close to environmentally sensitive areas may be included provided that UCSA has obtained all statutory clearances and that the requirements set forth in this Loan Agreement have been adhered to;
- (b) only category B subprojects (based on categorization under ADB's Environment Policy (2002)) shall be financed under the Project;
- (c) for each subproject, an IEE shall be prepared (including an EMP with a budget for the cost of implementation and with public consultation) in accordance with the EARF and such IEEs shall be submitted for ADB's review and approval;
- (d) all mitigation and monitoring measures identified in the IEE and the related EMP for each subproject shall be incorporated in the detailed design (such EMP shall be updated and made site-specific as appropriate), carried out during construction, operations and maintenance, and be disclosed to stakeholders. These mitigating and monitoring measures shall also be incorporated in the bidding documents and civil works contracts;
- (e) if there are any changes after completion of the IEE in specific locations or alignments of any subproject facilities, or changes in detailed design that has an environmental impact previously unidentified, an additional environmental assessment shall be carried out in accordance with the ADB's Environment Policy (2002) and the EARF, and approved by the ADB before further implementation of that subproject;
- (f) all environmental clearances required by applicable laws and regulations in Uzbekistan shall be obtained by UCSA prior to commencement of civil works for the relevant subproject. If a subproject is expected have adverse environmental impact, no civil works contract shall be awarded for such subproject until the Borrower and ADB have

approved the environmental assessment for such subproject in accordance with their requirements; and

(g) progress reports on implementation of mitigation and monitoring measures for subprojects shall be submitted to ADB on a semi-annual basis.

#### Involuntary Resettlement

14. The Borrower shall cause UCSA to ensure that land acquisition for the Galasiya subproject shall be implemented in accordance with the approved land acquisition and resettlement plan for the Galasiya subproject. If during detailed design and implementation, there are modifications requiring additional land acquisition or changes in involuntary resettlement impacts, the land acquisition and resettlement plan shall be updated and submitted to ADB for approval. If any land acquisition and/or resettlement activity arise in any other subproject, the Borrower shall cause UCSA to ensure that such activity shall be carried out in accordance with applicable laws and regulations in Uzbekistan, ADB's *Involuntary Resettlement Policy* (1995) and the LARF.

15. No impact on ethnic minority is expected for the Project. However, if any such impact is identified during the planning, design or implementation of a subproject, the Borrower shall cause UCSA to ensure that: (a) an ethnic minority development plan is prepared; or (b) specific actions relating to the ethnic minority are integrated in the resettlement plan, in accordance with ADB's *Policy on Indigenous People* (1998) and the EMDF.

#### Gender and Labour

16. The Borrower shall cause UCSA to: (a) prepare a gender action plan for the Project using Project-specific targets and in accordance with the gender action plan for the Investment Program; (b) ensure that the gender action plan for the Project is implemented in a timely manner (including ensuring that adequate resources are allocated); and (c) monitor implementation of the gender action plan for the Project and report its progress in the quarterly reports submitted to ADB.

17. The Borrower shall cause UCSA to ensure that civil works contracts under the Project shall follow all applicable laws and regulations in Uzbekistan, and that civil works contractors: (a) to the extent possible, employ women and local people, including disadvantaged people, living in the vicinity of the relevant subproject; (b) provide equal pay to men and women for work of equal type; (c) provide safe working conditions for male and female workers; (d) abstain from child labor; and (e) carry out HIV/AIDS awareness programs for laborer and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS for construction workers, as part of the health and safety program at campsites during the construction period. Compliance shall be monitored by UCSA during Project implementation and breaches by contractors can result in termination of contracts.

#### Good Governance and Anti-Corruption

18. The Borrower and UCSA acknowledge that ADB, consistent with its commitment to good governance, accountability, and transparency, reserves the right to

investigate directly, or through its agents, any possible corrupt, fraudulent, collusive, or coercive practices relating to the investment program. In support of these efforts and pursuant to ADB's Anti-Corruption Policy (1998, as amended to date), the Borrower shall cause UCSA to ensure that (a) the bidding documents for the Project, and all contracts financed by ADB in connection with Project, include provisions specifying the right of ADB to audit and examine the records and accounts of UCSA (PPMU), PIUs and subproject vodokanals, and all contractors, suppliers, consultants, and other service providers as they relate to the Investment Program; (b) periodic inspections of the contractor's activities relating to fund withdrawals and settlements are carried out by the PPMU; and (c) the auditors, appointed by UCSA, have the right to conduct random or spot audits of contract implementation activities under the Project. All costs related to such investigations shall be borne under the Investment Program.

#### Maintenance Plan

19. The Borrower shall cause UCSA to ensure that for cranes, excavators and major repair equipment to be shared by the vodokanals within a participating province, the participating provincial government shall prepare, in consultation with the vodokanals, a maintenance plan for these machinery and equipment, including the standards, procedures and other arrangements for their maintenance and usage. UCSA shall send the draft maintenance plan to ADB by the date to be agreed for the Project.

#### Hygiene Consultation and Promotion

20. The Borrower shall cause UCSA to ensure that the implementation arrangements and plans for the hygiene promotion activities to be carried out in all schools in the Project areas are prepared, and that the hygiene baseline surveys and follow-up surveys are carried out according to the target years to be agreed for the Project.

21. The Borrower shall cause UCSA to ensure implementation of the consultation and participation plan of the Investment Program in the Project. The consultative process shall involve households, institutions such as schools, clinics and businesses, the vodokanals and other stakeholders from government agencies and the private sector. UCSA shall engage NGOs where appropriate to implement the hygiene program.

#### Information Dissemination

22. The Borrower shall cause UCSA to maintain and update in UCSA's website information on the Project. Such information shall include the subproject selection criteria and approval procedures, water tariff review procedures, results of annual reviews and adjustments, collection efficiency, details on the adopted bidding procedures, amounts of the contracts awarded and a list of goods and services purchased (and their intended and actual utilization).

#### Project Performance Monitoring System

23. The Borrower shall cause UCSA to ensure that implementation of the Project, operation of the Project facilities and the benefits derived from the Project are monitored and evaluated annually by the PPMU. This includes establishing a PPMS within 6 months of the

Effective Date and providing results for incorporation in the Project progress and completion reports.

Project Reviews

24. The Borrower shall cause UCSA to submit to ADB quarterly Project progress reports. Following review of such reports, ADB shall carry out review missions to discuss with the Borrower and UCSA progress of the Project, including any changes in the implementation arrangements, or remedial measures that are needed, to achieve Project objectives. Relevant PIUs shall participate in the review missions.

25. The Borrower, UCSA and ADB shall carry out a midterm review for the Project. Such midterm review shall evaluate the Project activities, implementation arrangements, environment and social safeguard issues, achievement of scheduled targets, contract management and such other issues as appropriate.