

Public Disclosure Authorized

# OFFICIAL DOCUMENTS

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LOAN NUMBER 8826-UZ

## Project Agreement

(Second Additional Financing for the Energy Efficiency Facility  
for Industrial Enterprises Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

JOINT-STOCK COMMERCIAL BANK "INVEST FINANCE BANK"

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**LOAN NUMBER 8826-UZ**

**PROJECT AGREEMENT**

Agreement between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and JSCB “INVEST FINANCE BANK” (“Participating Bank”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) dated May 17, 2018 between the REPUBLIC OF UZBEKISTAN (“Borrower”) and the Bank. The Bank and the Participating Bank hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.
- 1.03. Each reference in the General Conditions to the Project Implementing Entity shall be deemed as a reference to the Participating Bank.

**ARTICLE II - PROJECT**

- 2.01. The Participating Bank declares its commitment to the objective of the Project. To this end, the Participating Bank shall carry out Part B of the Project in accordance with the provisions of Article V of the General Conditions and the Schedule to this Agreement, and shall provide promptly as needed, the funds, facilities, services and other resources required for its respective Part of the Project.

**ARTICLE III - TERMINATION**

- 3.01. For purposes of Section 9.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

**ARTICLE IV - REPRESENTATIVE; ADDRESSES**

- 4.01. The Participating Bank’s Representative is the Chairman of the Board.

4.02. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Facsimile:
INDEVAS	1-202-477-6391
Washington, D.C.	

4.03. The Participating Bank's Address is:

Joint-Stock Commercial Bank "Invest Finance Bank"  
1, T.Shevchenko street,  
Tashkent, 100029,  
Republic of Uzbekistan

Facsimile:  
  
+998 71 202-50-70

AGREED as of the latest of the two dates written below.

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

By

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

Name: HIDEKI MORI

Title: COUNTRY MANAGER  
FOR UZBEKISTAN

Date: MAY 24, 2018

**JOINT-STOCK COMMERCIAL BANK "INVEST  
FINANCE BANK"**

By

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

Name: BOBIR BURKHANOV

Title: CHAIRMAN OF THE BOARD

Date: MAY 24, 2018

## SCHEDULE

### Execution of the Participating Bank's respective part of the Project

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Participating Bank shall, until the completion of the Project, establish by not later than one (1) month following the Effectiveness Date and thereafter maintain at all times the PIU, with adequate staffing, terms of reference and budgetary resources satisfactory to the Bank.
2. The Participating Bank shall carry out Part B of the Project in accordance with the Operations Manual and, except as the Bank shall otherwise agree, shall not amend or waive any provision of the Operations Manual if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objective thereof.
3. The Participating Bank shall fully comply with all the applicable prudential norms and regulations of the Central Bank of the Borrower, in particular as regards to: (a) capital adequacy; (b) asset quality; (c) management and governance; (d) liquidity; and (e) profitability and efficiency.
4. (a) Unless otherwise agreed with the Bank, the Participating Bank shall maintain compliance with the following criteria: (i) the net loans-to-total deposits shall be below 200%; (ii) maintaining a positive return on the assets; (iii) the non-performing loans shall be below 10% of gross loans excluding state guaranteed loans; and (iv) the non-performing Sub-loans under the Project shall be below 10% or less than 3 Sub-loans.  
  
(b) For purposes of this paragraph 4 (a):
  - (i) the term "net loans" means total volume of loan exposure minus provisions to cover possible losses;
  - (ii) the term "total deposits" means total volume of all deposits of the customers including the state organizations, social organizations, legal entities and individuals;
  - (iii) the term "return on assets" means ratio of net profit to average weighted balance of assets;

- (iv) the term “non-performing loans” means impaired loans according to international financial reporting standards (IFRS) minus loan impairment provisions; and
- (v) the term “state guaranteed loans” means loans provided under the guarantee of the Republic of Uzbekistan.

**B. Sub-projects**

1. The Participating Bank shall make Sub-loans to Beneficiaries and appraise, review, approve, and supervise Sub-projects in accordance with the criteria, conditions and procedures set forth in the Operations Manual, including, *inter alia*, the following eligibility criteria:
  - (a) (i) the proposed Sub-project is in compliance with the environmental standards set out in the ESMF, and with all applicable laws and regulations of the Borrower relating to environmental protection; (ii) an environmental screening has been carried out for the proposed Sub-project in accordance with principles set forth in the ESMF; and (iii) if said environmental screening concludes that an EMP is required, said EMP has been prepared by the Beneficiary and approved by the Borrower’s authorized entities and the Bank for implementing the proposed Sub-project;
  - (b) the proposed Sub-project is technically feasible, and economically, financially and commercially viable; and
  - (c) the proposed Sub-project is in support of energy efficiency investments in industrial enterprises with the objective of achieving energy savings and shall include, *inter alia*, the following categories of energy efficiency investments:
    - (i) investments in energy systems related to boiler upgrading and fuel switching, use of co-generation facilities, electric driven systems including compressed air systems, electric chillers, machinery and lighting; as well as heat piping (steam, water) and associated equipment;
    - (ii) investments in production technology related to upgrading and replacement of equipment, machinery and facilities; and/or
    - (iii) investments in waste heat and waste use related to the utilization of waste heat (of hot/warm gases, liquids and solids) and burning of combustible waste (gases, liquids, solids) when harmful pollution can be effectively controlled.

2. No Sub-project shall be eligible for financing under the Project if such Sub-project: (a) is qualified as per the ESMF as a Category A; or (b) will include activities deemed ineligible in accordance with the exclusion list set forth and defined in the Operations Manual.
3. The Participating Bank shall make Sub-loans to Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Bank as set out in the Operations Manual, and shall only make the proceeds of the Sub-loan available to such Beneficiary after the Participating Bank has entered into a Sub-loan Agreement with the Beneficiary on terms and conditions acceptable to the Bank, which shall include the following:
  - (a) The Sub-loan shall be: (i) in an amount not exceeding, respectively, US\$10,000,000 equivalent to any individual Beneficiary and US\$30,000,000 equivalent to any group of connected Beneficiaries, unless otherwise agreed by the Bank; (ii) denominated and repayable in US Dollars, Soum linked to US Dollars or in Soum, depending on the assessment of the Beneficiaries' capacity to repay in foreign currency and the need to purchase imported goods and services; (iii) repaid with a maturity and grace period as set forth in the Operations Manual for various types of Beneficiaries and Sub-projects; (iv) charged interest on the principal amount withdrawn and outstanding from time to time at a rate sufficient to cover the cost of borrowing of the Participating Bank concerned plus a reasonable risk-adjusted spread and profit margin; (v) co-financed by the Beneficiary in an amount equivalent to 20% of the cost of each Sub-project.
  - (b) The Participating Bank shall obtain rights adequate to protect its interests and those of the Borrower and the Bank through a Sub-loan Agreement between the Participating Bank and a Beneficiary, including the right to:
    - (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-loan, or declare to be immediately due and payable, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Sub-loan Agreement; and
    - (ii) require each Beneficiary to:
      - (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices (including any applicable laws and regulations on child and/or forced labor and

- any other applicable national labor laws and regulations) satisfactory to the Bank and in accordance with the provisions of the Anti-Corruption Guidelines applicable to Borrowers of financing proceeds other than the Borrower as well as the requirements set out in the Environmental Assessment Framework;
- (B) contribute to the Sub-project an amount equivalent to at least 20% of the said Sub-project's cost, and thereafter provide promptly as needed, the resources required for carrying out the Sub-project;
  - (C) procure the goods, works and services to be financed out of the Sub-loan in accordance with the provisions of this Agreement, the Operations Manual and use such goods, works, and services exclusively for the Sub-project;
  - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Sub-project and the achievement of its objectives;
  - (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards as set forth in the Operations Manual, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2), have such financial statements audited by independent auditors as set forth in the Operations Manual, in accordance with consistently applied auditing standards as set forth in the Operations Manual, and promptly furnish the statements as so audited to the Borrower and the Participating Bank;
  - (F) enable the Borrower, the Bank and the Participating Bank to inspect the Sub-project, its operation and any relevant records and documents; and
  - (G) prepare and furnish to the Borrower, the Bank and the Participating Bank all such information as the Borrower or the Bank or the Participating Bank shall reasonably request relating to the foregoing.



4. Unless the Bank shall otherwise agree, each Participating Bank shall select and approve Beneficiaries in accordance with the criteria and procedures set forth in the Operations Manual, including that a Beneficiary may be selected only if:
  - (a) said Beneficiary has been established and is operating pursuant to the Borrower's relevant laws and regulations and is in compliance with the laws and regulations referred to in paragraph 3 (b) (ii) (A) of this section;
  - (b) said Beneficiary: (i) owns less than 10% in the shares of the Participating Bank; and (ii) has less than 10% of its equity shares owned by the Participating Bank or any subsidiary or affiliate thereof;
  - (c) said Beneficiary has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project, including without limitation: (i) a maximum debt-equity ratio of 75:25 (after receipt and for the first three years for each Sub-loan); and (ii) after receipt of the Sub-loan, it generates enough cash during the pay-back period of the Sub-loan to maintain a minimum debt service coverage ratio of at least 1.1:1 (after receipt), unless otherwise agreed with the Bank;
  - (d) said Beneficiary has a demonstrated record of profitability in the preceding two business years; and
  - (e) said Beneficiary has demonstrated that the annual energy efficiency savings of the proposed Sub-project shall be at least equal to 20%.
5. For the purpose of Section 4(c) above:
  - (a) the term "debt-equity ratio" means the proportion of total liabilities and equity the Beneficiary uses to finance its assets; and
  - (b) the term "debt service coverage ratio" means the coverage of interest expense with earnings before interest and taxes.
6. The Participating Bank shall furnish Sub-project proposals and appraisal documents for the first two (2) Sub-projects to the Bank for review and approval, prior to signing of Sub-loan Agreements for carrying out said Sub-projects.
7. The Participating Bank shall exercise its rights and carry out its obligations under each Sub-loan Agreement in such manner as to protect the interests of the Borrower, the Bank and the Participating Bank and to accomplish the purposes of the Financing. Except as the Borrower and the Bank shall otherwise agree, the

Participating Bank shall not assign, amend, abrogate, waive or fail to enforce any Sub-loan Agreement or any of its provisions.

**C. Safeguards**

1. The Participating Bank shall: (a) take all necessary measures to implement the Project in accordance with the Operations Manual, the ESMF and the EMPs, and shall not amend, suspend, abrogate, repeal or waive any provisions of the Operations Manual, the ESMF and the EMPs, without prior approval of the Bank; (b) ensure that no Sub-project shall involve any involuntary resettlement or land acquisition; and (c) ensure that adequate information on the implementation of the ESMF and the EMPs is suitably included in the Project Reports referred to in Section II.1 of this Schedule.
2. The Participating Bank shall not finance any Sub-project with a Sub-loan unless: (i) the Sub-project has been screened and approved by the Participating Bank in accordance with the provisions of the Operations Manual and the ESMF; and (ii) as the case may be, the Sub-project has been subjected to an environmental analysis and its environmental impacts have been addressed in a manner satisfactory to the Bank in accordance with the provisions of the Operations Manual and the ESMF.

**Section II. Project Monitoring, Reporting and Evaluation**

1. The Participating Bank shall monitor and evaluate the progress of its Respective Part B of the Project and prepare Project Reports for its Respective Part B of the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. The Participating Bank shall provide to the Borrower not later than four (4) months, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.