

CONFORMED COPY

CREDIT NUMBER 3664-TJ

Development Credit Agreement

(Dushanbe Water Supply Project)

between

REPUBLIC OF TAJIKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 3, 2002

CREDIT NUMBER 3664-TJ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 3, 2002, between REPUBLIC OF TAJIKISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Dushanbe Vodokanal State Unitary Enterprise (DVK) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to DVK, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith among the Association, DVK and the Municipality of Dushanbe (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "DVK" means Dushanbe Vodokanal State Unitary Enterprise, a legal entity established under the Decision No. 45 of the Mayor of Municipality of Dushanbe dated May 3, 2002, and registered in the State Statistical Agency of the Borrower (#850) dated May 6, 2002, and in the notary's office of the Ministry of Justice of the Borrower (#4/g-47) dated May 7, 2002, or any successor thereto;

(b) "EMMP" means the Environmental Management and Monitoring Plan, satisfactory to the Association, adopted by DVK on September 13, 2000, setting forth measures to mitigate any adverse impacts to the environment;

(c) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(d) "Municipality of Dushanbe" means the City of Dushanbe of the Borrower, or any successor thereto;

(e) "Operational Manual" means the manual satisfactory to the Association, setting forth procedures and rules related to Project implementation, prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(f) “Operator” means an internationally experienced private sector water utility operator that will enter into the Service Contract (hereinafter defined) with DVK and the Municipality of Dushanbe;

(g) “PCU” means the Project Coordination Unit established by the Municipality of Dushanbe for the purpose of Project coordination and management;

(h) “PIP” means the Project Implementation Plan for carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(i) “Project Account” means the account referred to in Section 6.01 of this Agreement, maintained by the Borrower in local currency and to be used for financing the Borrower’s contribution to Project expenditures;

(j) “Project Agreement” means the agreement among the Association, DVK and Municipality of Dushanbe of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(k) “Project Coordination Committee” means the Committee established by the Borrower to provide policy guidance and oversight of Project implementation;

(l) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the Letter Agreement signed on behalf of the Association on June 3, 1999 and on behalf of the Borrower on June 9, 1999;

(m) “Repair and Rehabilitation Fund” means the special fund established, administered and maintained by the Borrower for the purposes of financing essential investments under Part A of the Project for the repair and rehabilitation of the water supply systems in Dushanbe;

(n) “Service Contract” means the performance-based service contract that DVK and Municipality of Dushanbe will enter into with the Operator for: (i) the management of water services in the DVK service areas in the Municipality of Dushanbe; (ii) the rehabilitation and operations improvement of the water treatment and distribution system; (iii) the implementation of a program of demand management and customer service; (iv) the implementation of an energy efficiency program; and (v) the implementation of operation of commercial and financial management systems for DVK;

(o) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(p) “Somoni” means the lawful currency of the Borrower; and

(q) “Subsidiary Loan Agreement” means the agreement to be entered into between

the Borrower and DVK pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and the term "Subsidiary Loan" means the Subsidiary Loan provided under the Subsidiary Loan Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million five hundred thousand Special Drawing Rights (SDR 13,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be

applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing December 1, 2012 and ending June 1, 2042. Each installment to and including the installment payable on June 1, 2022, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the

above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause DVK and the Municipality of Dushanbe to perform in accordance with the provisions of the Project Agreement, Operational Manual and PIP all the obligations of DVK and the Municipality of Dushanbe therein set forth, shall take and cause to be taken the actions provided for in the Implementation Program set forth in Schedule 3 to this Agreement, and all other actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable DVK and the Municipality of Dushanbe to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend out of the proceeds of the credit the amount allocated from time to time under Categories (1) through (6) to DVK under a subsidiary loan agreement entered between the Borrower and DVK, under terms and conditions which shall have been approved by the Association, which shall include the principal terms and conditions specified in paragraph (c) of this section.

(c) The principal terms of the conditions of the Subsidiary Loan Agreement shall be as follows: (i) the term of the Subsidiary Loan shall be thirty years including a grace period of five years; (ii) interest on the amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate that shall gradually increase every year for ten years after the grace period to reach five percent (5%); and (iii) the Subsidiary Loan shall be denominated in US Dollars.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) maintain the Project Account referred to in Section 6.01 of this Agreement, and shall replenish said account promptly every quarter with sufficient funds to

enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; (b) use the amount in said Project Account for financing the Borrower's contribution to Project expenditures; and (c) ensure that sufficient annual allocations will be made in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultant services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.04. The Borrower shall take all measures necessary in respect of DVK and the Municipality of Dushanbe to ensure that the Service Contract with the Operator, satisfactory to the Association, is maintained throughout Project implementation.

Section 3.05. The Borrower shall take all measures necessary to ensure that DVK is able to meet its financial obligations as it falls due, including those under Service Contract.

Section 3.06. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.07. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by DVK pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and

other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 2 to this Agreement, the Borrower shall cause DVK to prepare and furnish to the Association a Financial Monitoring Report in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the second calendar quarter after the Effective Date, and shall cover the period from

the incurrence of the first expenditure under the Project through the end of such second calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall take all measures necessary to ensure that: (a) the Municipality of Dushanbe shall review, in accordance with established procedures, the periodic proposals for tariff adjustments submitted by DVK quarterly; and (b) thereafter, the Municipality of Dushanbe shall promptly take action to adjust said tariffs so that DVK can meet its obligations by collecting sufficient revenues to cover operation and maintenance costs and other expenses.

Section 4.04. The Borrower shall take all measures necessary to ensure that the Municipality of Dushanbe and the national government agencies shall, after review of the forecast amount of water consumption prepared by DVK every six months: (a) allocate in the relevant operating budgets of budget organizations adequate funds for payment of water fees; and (b) ensure that said funds are paid to DVK.

Section 4.05. The Borrower shall take all measures necessary to ensure that the Municipality of Dushanbe shall: (a) enable DVK to collect water fees from its customers, including but not limited to disconnection of non-paying customers; and (b) assist the Operator in the implementation of said collection of water fees.

Section 4.06. The Borrower shall take all measures necessary to ensure appropriate yearly budgetary allocations to the central and municipal budgets required for Project implementation.

Section 4.07. By December 31, 2002, the Borrower shall take all measures necessary to ensure that the Municipality of Dushanbe shall define and initiate implementation of adequate measures to enable accounts payable and receivable of DVK to be reduced to a level that will allow DVK to conduct properly its financial and commercial activities and to prevent blocking of its bank accounts.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 5.02 (1) of the General Conditions, the following additional events are specified:

(a) DVK or the Municipality of Dushanbe shall have failed to perform any of their respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that DVK or the Municipality of Dushanbe will be able to perform its obligations under the Project Agreement.

(c) The law, decree, charter or other founding documents of DVK, including any legal or regulatory enactments upon which such instruments are based, or any licenses granted to DVK related to the Project shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of DVK to perform any of its obligations under the Project Agreement.

(d) The PIP shall have been amended, suspended abrogated or waived without the Association's prior consent.

(e) The Operational Manual shall have been amended, suspended abrogated or waived without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a), (d) and (e) of Section 5.01 of this Agreement shall occur and shall continue to occur for a period of 60 days of the notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and DVK;

(b) the Service Contract, satisfactory to the Association and the Borrower, has been executed on behalf of DVK, the Municipality of Dushanbe and the Operator;

(c) the Borrower has opened the Project Account on terms and conditions satisfactory to the Association, and an initial amount equivalent to \$150,000 has been deposited into said Account by the Borrower, DVK and the Municipality of Dushanbe; and

(d) the Borrower has adopted the PIP and the Operational Manual, satisfactory to the

Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by DVK and the Municipality of Dushanbe and is legally binding upon DVK and the Municipality of Dushanbe in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and DVK and is legally binding upon the Borrower and DVK in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
3, Akademic Rajobovkho Street
Dushanbe, 734025
Republic of Tajikistan

Facsimile:

(992-372) 213329

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Almaty, Republic of Kazakhstan, as of the day and year first above written.

REPUBLIC OF TAJIKISTAN

By: /s/ Narzullo Abibullaev
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dennis de Tray
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	3,200,000	90%
(2) Goods	5,200,000 expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally	100% of foreign
(3) Consultant's services, training and auditing	450,000	77%
(4) Management Services	2,300,000	69%
(5) Incremental operating costs	200,000	84%
(6) Recurrent costs of DVK	180,000	80% before September 30, 2004, and 0% thereafter
(7) Refunding of Project Preparation Advance	320,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	1,650,000	
TOTAL	13,500,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Management Services” means services under the Service Contract for DVK under Part B of the Project;

(d) the term “training” means training activities (other than consultants’ services) to be carried out for the staff members of DVK under the Project, including the cost of workshops and the travel cost and per diem of the trainees;

(e) the term “Incremental operating costs” means operating expenditures incurred by the PCU on account of management of Project implementation for communications, utilities, printing and publications, office rent, maintenance and supplies, office security systems, vehicle operation and maintenance, transportation and field trip expenses, training of PCU staff for the purposes of Project management, remuneration for staff, including qualified social charges but excluding salaries of civil servants, and audits and such other expenditures as may be agreed upon by the Association; and

(f) the term “recurrent costs of DVK” means expenditures incurred by DVK for its consumables needed for technical and administrative operation, including chemicals, fuel, oil, communications, and related supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$50,000 equivalent each; (b) works under contracts costing less than \$100,000 equivalent each; (c) services costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants; (d) incremental operating costs; (e) training; and (f) recurrent costs of DVK, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the safety, reliability, efficiency and financial viability of the water supply services in Dushanbe.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Repair and Rehabilitation Fund of Water Supply System and Infrastructure

Creation of the Repair and Rehabilitation Fund for rehabilitation and efficiency improvement of existing water supply facilities and services to customers in Dushanbe, including: (a) design, implementation and supervision of the repairs and rehabilitation of water distribution systems; (b) water production, treatment and pumping equipment and structural

rehabilitation of facilities; (c) bulk and retail water measuring equipment and control systems; (d) design, evaluation, installation and operation of water supply technical, administrative, financial, commercial and customer service support systems; and (e) operating and construction equipment, materials and parts, operations consumables and administrative operation.

Part B: Service Contract

Provision of services for:

1. operation of water supply facilities to carry out:
 - (a) the pumping and transportation of water from water wells, reservoirs, collection points and the point of supply by any bulk water supplier;
 - (b) the disinfection and treatment of water where necessary; and
 - (c) the distribution and supply of drinking water to the customers.
2. maintenance of the facilities and development of comprehensive maintenance management programs for the facilities;
3. development and management of programs to train and advance the skills of staff of DVK;
4. carrying out of all billings, collections and customer relations and service functions related to the customers in the service areas with respect to both water and wastewater services;
5. carrying out of all management, financial and administrative responsibilities related to the DVK;
6. planning and management of the program implementation carried out under the Repair and Rehabilitation Fund; and
7. provision of assistance and advice to DVK on all matters related to DVK, the services, and any requests for information, advice or reports from the regulators of the DVK with respect to the facilities or the services.

Part C: Project Management

Provision of technical assistance, including audit services, and incremental operating costs to the PCU for Project management.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2004, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. The Borrower shall, by December 31, 2002, appoint an independent auditor for the Project, acceptable to the Association.

3. The Borrower shall ensure that all measures necessary for the carrying out of the EMMP shall be taken in a timely manner.

4. The Borrower, together with DVK and the Municipality of Dushanbe, shall: (a) review with the Association, not later than December 31, 2004, proposals for continued management of the water services of the Municipality of Dushanbe upon completion of the Service Contract, with due consideration to various options for public and private sector management; and (b) based on the conclusions and recommendations of said review take appropriate measures regarding the management of the water services upon completion of the Service Contract.

5. The Borrower shall: (a) ensure that technical and financial audits of the Operator's performance will be carried out annually, the first such audit to be completed by September 30, 2003, or such later date as may be agreed upon with the Association, by independent auditors acceptable to the Association, under terms of reference acceptable to the Association; and (b) thereafter, submit the results of said audits to the Association for its review.

6. The Borrower, through the PCU, shall prepare and furnish to the Association by June 30 in each year, for its review and concurrence, an annual work program for the Project for the following calendar year, including procurement and financing plans.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in

accordance with the relevant provisions of this Agreement, including the General Conditions.

