

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H692-TJ

Project Agreement

(Second Dushanbe Water Supply Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE

Dated July 13, 2011

GRANT NUMBER H692-TJ

PROJECT AGREEMENT

Agreement dated July 13, 2011, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and the DUSHANBEVODOKANAL STATE UNITARY ENTERPRISE (“DVK”) (“Project Implementing Entity”) in connection with the Financing Agreement of same date between the REPUBLIC OF TAJIKISTAN (“Recipient) and the Association (the “Financing Agreement”). The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity's Representative is the Director of DVK.

4.02. The Association's Address is:

For the Association:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

4.03. The Project Implementing Entity's address is:

14A Ayni Street
734042, Dushanbe, Tajikistan

Facsimile:

(992372) 217745

AGREED at Dushanbe, Republic of Tajikistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Marsha Olive

Authorized Representative

DUSHANBE VODOKANAL STATE UNITARY
ENTERPRISE

By /s/ Isupov Faizullokhon Alikhonovich

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Subsidiary Financing, Institutional and Other Arrangements

1. Without limitation upon the provisions of Article II of this Agreement, and except as the Association shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the Operational Manual, the Resettlement Policy Framework, the Resettlement Action Plan(s) and the EMMP.
2. The Project Implementing Entity shall duly perform all its obligations under the Subsidiary Agreement and except as the Association and the Recipient shall otherwise agree, shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof.
3. The Project Implementing Entity shall: (a) not later than forty-five (45) days after the Effective Date, prepare and adopt, jointly with the Municipality of Dushanbe, the Operational Performance Improvement Action Plan, satisfactory to the Association and (b) thereafter implement said Plan in a timely manner, and shall provide to the Association, on a quarterly basis, a report which sets out progress made on implementation of the Operational Performance Improvement Action Plan.
4. The Project Implementing Entity shall take or cause to be taken, all measures necessary for the carrying out of the EMMP, the Resettlement Policy Framework and the Resettlement Action Plan(s) in a timely manner.
5. The Project Implementing Entity shall not assign, amend, arrogate, or waive the Resettlement Policy Framework, the Resettlement Action Plan and/or EMMP or any of their provisions, without prior approval of the Association.
6. The Project Implementing Entity shall: (i) not carry out any civil works for the Project on those sites where land acquisition or resettlement of residents is required to proceed with Project activities, unless and until the Project Implementing Entity shall prepare, disclose and publish a Resettlement Action Plan for such sites, in accordance with the Resettlement Policy Framework and satisfactory to the Association; and (ii) carry out any resettlement or land acquisition with due care and in accordance with the Recipient's applicable legal and institutional framework, and with a respective Resettlement Action Plan.
7. The Project Implementing Entity shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the

performance of their obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Financing.

8. The Project Implementing Entity shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Financing, or the performance by the Project Implementing Entity of its obligations under this Agreement and under the Subsidiary Agreement.

9. Not later than one hundred twenty (120) days after the Effective Date, the Project Implementing Entity shall appoint a qualified PMC and a qualified financial management consultant for the purposes of Project coordination, implementation and management.

10. Not later than ninety (90) days after the Effective Date, the Project Implementing Entity shall upgrade to, or install, an automated accounting system capable of generating interim financial reports under Section II.B of Schedule 2 to this Agreement.

11. The Project Implementing Entity shall maintain PMC and the financial management consultant until completion of the Project, with resources and terms of reference for each satisfactory to the Association, and assign them responsibility for overall Project coordination, including:

(a) preparation of disbursement applications under the Financing Agreement;

(b) management of the Designated Account;

(c) maintenance of records and accounts related to the Project and arranging for the audit thereof;

(d) participation in administration of bidding procedures and of contracts under the Project;

(e) maintenance of a financial management system and the preparation of financial statements in accordance with consistently applied accounting standards acceptable to the Association, and

(f) preparation of quarterly progress reports and submission thereof to the Recipient, the Municipality of Dushanbe and the Association.

B. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports of the Project in accordance with the provisions of Section 4.08 (b) of the General Conditions and on basis of indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient not later than forty five (45) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

2. No later than December 31, 2013, the Project Implementing Entity shall carry out jointly with the Association, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). The Midterm Review shall cover, amongst other things:

- (a) Progress made in meeting the Project's objectives; and
- (b) Overall Project performance against the Project performance indicators;

3. The Project Implementing Entity shall prepare at least four (4) weeks prior to the Midterm Review and furnish to the Association, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

4. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months prior to the Closing Date.

B. Financial Management, Financial Reports; Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have the financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

3. Not later than six (6) calendar months after the Effective Date, the Project Implementing Entity shall establish and maintain, throughout the implementation of the Project, the Project Implementing Entity's internal audit unit, with a composition, resources and terms of reference satisfactory to the Association.

4. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

(A) the sum of collected revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between:

(A) collected revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

- (v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment if any) of, and interest and other charges on, debt.
- (vi) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity, as the case maybe, not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and the Project Implementing Entity accept as reasonable and as to which the Association has notified the Project Implementing Entity of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entity.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

5. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall maintain for each of its fiscal years during implementation of the Project a ratio of total operating expenses to total operating revenues not higher than 0.9.

(b) Before July 1 in each of its fiscal years, the Project Implementing Entity shall, on the basis of forecasts prepared by the Project Implementing Entity and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (a) for its fiscal years covered by such review, the Project Implementing Entity shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates or prices) in order to meet such requirements.

- (d) For the purposes of this Section:
- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than five percent (5%) per annum of the average current gross value of the Project Implementing Entity's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.
 - (ii) The term "total operating revenues" means revenues from all sources related to operations.
 - (iii) The average current gross value of the Project Implementing Entity's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Project Implementing Entity's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

6. The Project Implementing Entity shall submit annually to the Recipient, for the latter's review, in accordance with established procedures the periodic proposals for tariff adjustments.

Section III. Procurement

All goods, works and services required for the Project shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.