

**CONFORMED COPY**  
**CREDIT NUMBER 3664-TJ**

# **Project Agreement**

**(Dushanbe Water Supply Project)**

**among**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE**

**and**

**MUNICIPALITY OF DUSHANBE**

**Dated July 3, 2002**

**CREDIT NUMBER 3664-TJ**

## **PROJECT AGREEMENT**

AGREEMENT, dated July 3, 2002, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE (DVK) and the MUNICIPALITY OF DUSHANBE.

WHEREAS (A) by the Development Credit Agreement of even date herewith between

Republic of Tajikistan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirteen million five hundred thousand Special Drawing Rights (SDR 13,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that DVK and Municipality of Dushanbe agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and DVK, the proceeds of the credit provided for under the Development Credit Agreement will be made available to DVK on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS DVK and the Municipality of Dushanbe, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## **ARTICLE I**

### **Definitions**

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

## **ARTICLE II**

### **Execution of the Project**

Section 2.01. (a) DVK and the Municipality of Dushanbe declare their commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, DVK shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and DVK and the Municipality of Dushanbe shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association, DVK and the Municipality of Dushanbe shall otherwise agree, DVK shall carry out the Project in accordance with the Operational Manual, PIP and the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' 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 this Agreement.

Section 2.03. (a) DVK shall carry out 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) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, DVK shall:

- (i) 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 Association and DVK, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with DVK on said plan.

Section 2.04. DVK shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, DVK shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) DVK and the Municipality of Dushanbe shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Credit.

(b) DVK and the Municipality of Dushanbe 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 Credit, or the performance by DVK of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. DVK and the Municipality of Dushanbe shall ensure that the Service Contract with the Operator, satisfactory to the Association, is maintained throughout Project implementation.

Section 2.07. The Municipality of Dushanbe shall take all measures necessary to ensure that DVK is able to meet its financial obligations as they fall due, including those under the Service Contract.

Section 2.08. After contributing an initial amount to the Project Account referred to in Section 6.01(c) of the Development Credit Agreement, DVK and the Municipality of Dushanbe shall contribute to the replenishment of said Project Account promptly every quarter with sufficient funds from their own resources to cover the projected counterpart financing requirements for local expenditures to be made under the Project in the succeeding three months.

### **ARTICLE III**

#### **Management and Operations of DVK**

Section 3.01. DVK shall carry on its operations and conduct its affairs in accordance

with sound administrative, engineering, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. DVK shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

Section 3.03. DVK shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) DVK shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) DVK shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon the DVK's progress reporting obligations set out in paragraph 1 of Schedule 2 to this Agreement, DVK shall 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. (a) Except as the Association shall otherwise agree, DVK shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of DVK, 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 DVK not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and DVK accept as reasonable and as to which the Association has notified DVK 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 DVK.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in such exchange obtainable for rate, on the terms of the currency of the Borrower, debt payable in another currency, valuation shall be made on the basis of the prevailing lawful rate of at which such other currency is, at the time of such valuation, the purposes of servicing such debt, or, in the absence of such basis of a rate of exchange acceptable to the Association.

Section 4.04. The Municipality of Dushanbe shall review, in accordance with established procedures, the periodic proposals for tariff adjustments submitted by DVK at least quarterly and, thereafter, 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 4.05. The Municipality of Dushanbe, after review of the forecast amount of water consumption prepared by DVK every six months shall: (a) allocate in the relevant operating budget of budget organizations adequate funds for payment of water fees; and (b) ensure that said funds are paid to DVK.

Section 4.06. 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 4.07. The Municipality of Dushanbe shall take all measures necessary to ensure appropriate yearly budgetary allocations to the municipal budget required for Project implementation.

Section 4.08. By December 31, 2002, 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**

### **Effective Date; Termination;**

### **Cancellation and Suspension**

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of DVK thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify DVK and the Municipality of Dushanbe of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

## **ARTICLE VI**

### **Miscellaneous Provisions**

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. telegram, cable,

telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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

For DVK

14A Ayni Street,  
734042 Dushanbe, Tajikistan

Facsimile:  
(992372) 217745

For the Municipality of Dushanbe

48 Rudaki Ave.,  
Dushanbe, Tajikistan

Facsimile:  
(992372) 219438

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of: (a) DVK may be taken or executed by the Director of DVK or such other person or persons as its Director shall designate in writing; and (b) the Municipality of Dushanbe may be taken or executed by its Mayor or such other person or persons as the Mayor shall designate in writing, and DVK and the Municipality of Dushanbe shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.



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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dennis de Tray  
Authorized Representative

DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE

By: /s/ Saidrahmon Khidirov  
Authorized Representative

MUNICIPALITY OF DUSHANBE

By: /s/ Behruz Safarov  
Authorized Representative

**SCHEDULE 1**

**Procurement and Consultant's Services and Consultants' Services**

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with: (a) the provisions of Section I of

the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods, works and Management Services shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods, works and Management Services to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the Service Contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the

provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$10,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works for urgent repairs associated with operational emergencies, estimated to cost less than \$10,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract under Part B.1 of this Section, and with respect to the first two contracts under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts under Parts C.2 and C.3; and (ii) the first three contracts under Part C.4 of this Section, the following procedures shall apply:

- (i) prior to execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the

specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

### Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, Consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Least-cost Selection

Services for financial audits and engineering designs estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 2. Selection Based on Consultants' Qualifications

Services for surveys and studies related to public awareness and community relations estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines for short term advisory services and legal services, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) With respect to each contract for employment of consulting firms or individual consultants, irrespective of the value of the contract, the terms of reference shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

**SCHEDULE 2**

## **Implementation Program**

1. DVK 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. DVK shall take or cause to be taken, all measures necessary for the carrying out of the EMMP in a timely manner.

3. The Municipality of Dushanbe shall maintain the PCU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it responsibility for overall Project coordination, including:

(a) preparation of disbursement applications under the Credit;

(b) management of the Special Accounts referred to in Schedule 4 to the Development Credit Agreement;

(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; and

(e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than December 31, 2002.

4. DVK shall take all measures necessary to enable the PCU to carry out its responsibilities relating to the implementation of the Project, including the administration of the Special

Account, the Project accounting, financial management, Project reporting, auditing arrangements and procurement.

5. 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.

6. DVK and the Municipality of Dushanbe in conjunction with 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.

