OFFICIAL DOCUMENTS

CREDIT NUMBER 5709-TJ
GRANT NUMBER D087-TJ

Project Agreement

(Additional Financing for the Second Dushanbe Water Supply Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE

Dated August 4, 2015
PROJECT AGREEMENT

Agreement dated August 7, 2015, entered into between the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"), and the DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE ("DVK") ("Project Implementing Entity") in connection with the Financing Agreement (Grant) and Financing Agreement (Credit) of same date between the REPUBLIC OF TAJIKISTAN ("Recipient") and the Association (collectively, 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 objective 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 the pertinent provisions of the Subsidiary Financing Agreement, and the Project Implementing Entity 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:

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

Cable: INTBAFRAD Telex: 248423(MCI) or 64145(MCI) Facsimile: 1-202-477-6391

4.03. The Project Implementing Entity's address is:

Dushanbe Vodokanal State Unitary Enterprise
14A Ayni Street
734042, Dushanbe
Republic of Tajikistan

Facsimile:
(992372) 217745
AGREED at Dushanbe, Republic of Tajikistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Patricia Vevey Carter
Title: Country Manager

DUSHANBE VODOKANAL STATE UNITARY ENTERPRISE

By

[Signature]

Authorized Representative

Name: Fayzullohov Ismon
Title: Director
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional 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 Project Operational Manual.

2. The Project Implementing Entity shall submit periodic proposals for tariff adjustments to the Recipient, in accordance with established procedures, at least annually, so that the Project Implementing Entity can meet its financial obligations by collecting sufficient revenues to cover operation and maintenance costs and other expenses.

3. The Project Implementing Entity shall implement the Operational Performance Improvement Action Plan in a manner satisfactory to the Association and shall provide to the Association, on a quarterly basis throughout Project Implementation, a report, acceptable to the Association, which sets out progress made on implementation of the Operational Performance Improvement Action Plan.

4. The Project Implementing Entity shall:

   (a) prepare and furnish to the Association by November 30 in each year of Project implementation, for the Association’s review and concurrence, an annual work program for the Project for the following calendar year, including procurement and financing plans; and

   (b) thereafter, carry out said annual work program in accordance with its terms and in a manner acceptable to the Association.

5. Not later than December 31, 2015, the Project Implementing Entity shall implement a new organizational structure, acceptable to the Association.

6. Not later than December 31, 2015, the Project Implementing Entity shall have successfully completed the installation of a customer management system, on terms and in a manner acceptable to the Association.

7. Not later than December 31, 2015, the Project Implementing Entity shall have successfully completed the recruitment process for the Deputy Director of Finance and Deputy Director of Customer Service, with qualifications acceptable to the Bank.
B. Subsidiary Financing Agreement

1. The Project Implementing Entity shall:
   
   (a) duly perform all of its obligations under the Subsidiary Financing Agreement; and
   
   (b) not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Financing Agreement or any of its provisions, without the prior approval of the Association.

C. Safeguards

1. The Project Implementing Entity shall ensure that all measures necessary for carrying out the EMMP, the Resettlement Policy Framework and the Resettlement Action Plan(s) shall be taken in a manner acceptable to the Association.

2. The Project Implementing Entity shall not assign, amend, abrogate, or waive the Resettlement Policy Framework, the Resettlement Action Plan and/or EMMP or any of their provisions, without prior approval of the Association.

3. The Project Implementing Entity shall:
   
   (a) ensure that no civil works for the Project will be carried out on those sites where Resettlement is required, 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
   
   (b) thereafter, carry out the respective Resettlement Action Plan in accordance with its terms and in a manner acceptable to the Association.

D. 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 shall prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. (a) The Project Implementing Entity will, no later than June 30, 2017, carry out jointly with the Association, a midterm review of the progress made in carrying out the Project ("Midterm Review"). The Midterm Review shall cover, inter alia: (i) progress made in meeting the Project's objectives; and (ii) overall Project performance against the Project performance indicators; and

(b) Thereafter, the Project Implementing Entity shall prepare and furnish to the Association a report in form and substance acceptable to the Association, integrating the results of said Midterm Review and the recommended measures.

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 and Audits

1. The Project Implementing Entity shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Project Implementing Entity shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. The Project Implementing Entity shall 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.

5. (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.

6. (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.
Section III. **Procurement**

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