
LOAN NUMBER 3630-CAM(COL)

LOAN AGREEMENT
(Ordinary Operations [Concessional])
(Provincial Water Supply and Sanitation Project)

between

KINGDOM OF CAMBODIA

and

ASIAN DEVELOPMENT BANK

DATED 9 JANUARY 2018

CAM 48158

LOAN AGREEMENT
(Ordinary Operations [Concessional])

LOAN AGREEMENT dated 9 January 2018 between KINGDOM OF CAMBODIA (“Borrower”) and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of financing the project described in Schedule 1 to this Loan Agreement (“Project”);

(B) the Borrower has applied to Agence Française de Développement (“AFD”) for a loan (“AFD Loan”) in an amount of €40,000,000 to assist in cofinancing a part of the Project, upon the terms and conditions set forth in a loan agreement between the Borrower and AFD (“AFD Loan Agreement”);

(C) the Borrower has also applied to the European Union’s Asia Investment Facility (“EU-AIF”) for a grant (“EU-AIF Grant”), to be administered by AFD, in an amount of €4,670,000 to assist in cofinancing a part of the Project, upon the terms and conditions set forth in a grant agreement between the Borrower and AFD (“EU-AIF Grant Agreement”);

(D) the Borrower has also requested ADB to apply on its behalf to the Government of Japan for a grant from the Japan Fund for the Joint Crediting Mechanism (“JFJCM”), and the Government of Japan has agreed to provide such grant to the Borrower in an amount of \$10,000,000 (“JFJCM Grant”) for purposes of joint cofinancing of a part of the Project, and, subject to the terms and conditions of an externally financed grant agreement of even date herewith between the Borrower and ADB (“Grant Agreement”), ADB has agreed to administer the JFJCM grant pursuant to its relevant cofinancing arrangements with JFJCM; and

(E) ADB has agreed to make a concessional loan to the Borrower from ADB’s ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All provisions of ADB’s Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2017 (“Loan Regulations”), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

- (a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);
- (b) "Consulting Services" means the services to be financed out of the proceeds of the Loan and JFJCM Grant as described in paragraph 3 of Schedule 1 to this Loan Agreement;
- (c) "EMP" means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;
- (d) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (e) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the EA, IA and ADB;
- (f) "Goods" means equipment and materials to be financed out of the proceeds of the Loan and JFJCM Grant, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;
- (g) "IEE" means the initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (h) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;
- (i) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;
- (j) "km" means kilometers;
- (k) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (l) "MIH" means the Borrower's Ministry of Industry and Handicraft or any successor thereto;
- (m) "MPWT" means the Borrower's Ministry of Public Works and Transport or any successor thereto;

- (n) "O&M" means operation and maintenance;
- (o) "PAM" means the project administration manual for the Project dated 26 October 2017 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
- (p) "PMU" means a project management unit within the relevant IA;
- (q) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);
- (r) "Procurement Manual" means the Procurement Manual under the Standard Operating Procedures prepared by the Borrower and endorsed by ADB, which sets forth procurement-related policies and procedures for externally-financed projects and programs;
- (s) "Procurement Plan" means the procurement plan for the Project dated 26 October 2017 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;
- (t) "Project Executing Agency" or "EA" for the purposes of, and within the meaning of, the Loan Regulations means the MIH, or any successor of each thereto acceptable to ADB, which is responsible for the carrying out of the overall Project;
- (u) "Project facilities" means the structures and facilities developed, constructed, upgraded, improved, rehabilitated and/or maintained under the Project;
- (v) "Project Implementing Agency" or "IA" means the MPWT which is responsible for implementation of a part or parts of the Project as such relate thereto;
- (w) "PWU" means provincial wastewater units of Battambang, Kampong Cham, Sihanoukville and Siem Reap;
- (x) "PWW" means the provincial waterworks of Battambang and Kampong Cham;
- (y) "Riel" or "KR" means the currency of the Borrower;
- (z) "RP" means the resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (aa) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP and the RP (as applicable), including any corrective and preventative actions;

- (bb) "SPS" means ADB's Safeguard Policy Statement (2009);
- (cc) "Standard Operating Procedures" means the standard operating procedures of the Borrower dated 22 May 2012 (as amended from time to time) providing procedures applicable to all externally-financed projects and programs; and
- (dd) "Works" means construction or civil works to be financed out of the proceeds of the Loan and JFJCM Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of fifty million Dollars (\$50,000,000).

(b) The Loan has a principal repayment period of 24 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. The **Loan Closing Date** for the purposes of Section 8.02 of the Loan Regulations shall be **30 June 2023** or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall cause the EA and IA to (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall cause the EA and IA to enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall cause the EA and IA to enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: that the Grant Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Grant Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms.

Section 5.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Economy and Finance
St. 92, Sangkat Wat Phnom
Khan Daun Penh
Phnom Penh, Cambodia

Facsimile Numbers:

(855) 23-427-798

(855) 23-428-424

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444

(632) 636-2018.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

KINGDOM OF CAMBODIA

By _____
H.E. DR. AUN PORNMONIROTH
Senior Minister
Minister, Ministry of Economy and Finance

ASIAN DEVELOPMENT BANK

By _____
SAMIUELA TUKUAFU
Country Director
Cambodia Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is to establish a sustainable piped water supply and sanitation service provision in the selected provincial cities/towns, namely Battambang, Kampong Cham, Sihanoukville and Siem Reap.

2. The Project shall comprise:

Output 1: Improved Piped Water Supply. This includes two water supply subprojects in Battambang and Kampong Cham to:

- (a) construct new water treatment plants and new distribution networks;
- (b) develop a subsidized connection policy (modeled on Phnom Penh Water Supply Authority's approach) for the poor and disadvantaged households; and
- (c) provide new laboratory equipment for monitoring and water quality testing.

Output 2: Improved Sanitation. This includes four sanitation subprojects to:

- (a) construct a new wastewater treatment plant and approximately 15 km of sewers in Battambang;
- (b) expand capacity of the wastewater treatment plant in Sihanoukville and construct approximately 32 km of sewers;
- (c) establish septage management facilities for collection, treatment and disposal in Kampong Cham; and
- (d) construct approximately 4 km trenchless trunk sewer in Siem Reap.

Output 3: Improved Institutional Effectiveness. This includes:

- (a) develop institutional capacity in project management, operation and maintenance of the urban water supply and sanitation projects, interagency coordination, and public consultation and communication on water supply and sanitation services; and
- (b) support to PMUs in their relevant part of Project/subproject management, contract administration, safeguards implementation and monitoring, gender and community social development, accounting and financial management, procurement, and disbursement.

3. The Project will include Consulting Services for procurement, contract administration, design and engineering review, construction management and supervision, monitoring and reporting, and audit.
4. The Project is expected to be completed by 31 December 2022.

SCHEDULE 2**Amortization Schedule**

| <u>Payment Due Date</u> | <u>Payment of Principal</u> (Expressed in Dollar*) |
|-------------------------|---|
| 15 April 2026 | 1,041,667 |
| 15 October 2026 | 1,041,667 |
| 15 April 2027 | 1,041,667 |
| 15 October 2027 | 1,041,667 |
| 15 April 2028 | 1,041,667 |
| 15 October 2028 | 1,041,667 |
| 15 April 2029 | 1,041,667 |
| 15 October 2029 | 1,041,667 |
| 15 April 2030 | 1,041,667 |
| 15 October 2030 | 1,041,667 |
| 15 April 2031 | 1,041,667 |
| 15 October 2031 | 1,041,667 |
| 15 April 2032 | 1,041,667 |
| 15 October 2032 | 1,041,667 |
| 15 April 2033 | 1,041,667 |
| 15 October 2033 | 1,041,667 |
| 15 April 2034 | 1,041,667 |
| 15 October 2034 | 1,041,667 |
| 15 April 2035 | 1,041,667 |
| 15 October 2035 | 1,041,667 |
| 15 April 2036 | 1,041,667 |
| 15 October 2036 | 1,041,667 |
| 15 April 2037 | 1,041,667 |
| 15 October 2037 | 1,041,667 |
| 15 April 2038 | 1,041,667 |
| 15 October 2038 | 1,041,667 |
| 15 April 2039 | 1,041,667 |
| 15 October 2039 | 1,041,667 |
| 15 April 2040 | 1,041,667 |
| 15 October 2040 | 1,041,667 |
| 15 April 2041 | 1,041,667 |
| 15 October 2041 | 1,041,667 |
| 15 April 2042 | 1,041,667 |
| 15 October 2042 | 1,041,667 |
| 15 April 2043 | 1,041,667 |
| 15 October 2043 | 1,041,667 |
| 15 April 2044 | 1,041,667 |
| 15 October 2044 | 1,041,667 |
| 15 April 2045 | 1,041,667 |
| 15 October 2045 | 1,041,667 |

*The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

| <u>Payment Due Date</u> | <u>Payment of Principal</u> (Expressed in Dollar*) |
|-------------------------|---|
| 15 April 2046 | 1,041,667 |
| 15 October 2046 | 1,041,667 |
| 15 April 2047 | 1,041,667 |
| 15 October 2047 | 1,041,667 |
| 15 April 2048 | 1,041,667 |
| 15 October 2048 | 1,041,667 |
| 15 April 2049 | 1,041,667 |
| 15 October 2049 | <u>1,041,651</u> |
| Total | 50,000,000 |

*The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest Charge

3. The amount allocated to Category "Interest Charge" is for financing the interest charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and
- (b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Condition for Withdrawals from Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Water Supply and Wastewater and Sanitation until the Borrower has confirmed to ADB in writing that the AFD Loan Agreement and the EU-AIF Grant Agreement have been duly authorized and executed by, and are legally binding upon the Borrower in accordance with their terms.

TABLE

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS | | | | |
|--|-----------------------------------|---|-------------|--|
| Number | Item | Total Amount Allocated for ADB Financing (\$) | | Basis for Withdrawal from the Loan Account |
| | | Category | Subcategory | |
| 1 | Water Supply* | 21,895,000 | | 47.91% of total expenditure claimed |
| 2 | Wastewater and Sanitation* | 16,951,000 | | |
| 2a | Battambang | | 4,594,000 | 24.54% of total expenditure claimed |
| 2b | Sihanoukville | | 5,223,000 | 40.86% of total expenditure claimed |
| 2c | Kampong Cham | | 199,000 | 45.40% of total expenditure claimed |
| 2d | Siem Reap | | 6,935,000 | 47.94% of total expenditure claimed |
| 3 | Equipment and Consulting Services | 2,871,000 | | 52.70% of total expenditure claimed** |
| 4 | Project Administration | 597,000 | | 57.00% of total expenditure claimed |
| 5 | Interest Charge | 1,381,000 | | 100% of amounts due |
| 6 | Unallocated | 6,305,000 | | |
| | Total | 50,000,000 | | |

*Subject to the condition for withdrawal described in paragraph 6 of Schedule 3.

**Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. Except as ADB may otherwise agree, Goods and Works shall be procured and Consulting Services shall be selected and engaged only on the basis of the procurement methods and the selection methods set forth below. These methods are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the procurement methods and the selection methods or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.
3. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Eligible Source of Procurement

4. Goods, Works and Consulting Services may also be procured from non-member countries of ADB.

Goods and Works

5. Goods and Works shall be procured on the basis of the procurement methods set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.

Domestic Preference

6. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.

National Competitive Bidding

7. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

Conditions for Award of Contract

8. The Borrower through MIH and MPWT shall not award any Works contract which involves environmental impacts until:

- (a) the final approval of the IEE has been provided; and
- (b) relevant provisions from the EMP into the Works contract have been incorporated.

9. The Borrower through MIH and MPWT shall not award any Works contract which involves involuntary resettlement impacts, until the final RP based on the Project's detailed design has been prepared and submitted to, and cleared by ADB.

Consulting Services

10. Except as set forth in the paragraph below, the Borrower shall apply Quality- and Cost-Based Selection for Consulting Services.

11. The Borrower shall recruit the individual consultants for technical, procurement and support for procedural requirements in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

12. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

13. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

14. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5**Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower shall cause the EA and IA to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Environment

2. The Borrower shall cause the EA and IA to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

3. The Borrower shall ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

4. Without limiting the application of the Involuntary Resettlement Safeguards or the RP, the Borrower shall ensure that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Indigenous Peoples

5. The Borrower shall ensure that the Project does not have any indigenous peoples impacts, all within the meaning of ADB's SPS. In the event that the Project does have any such impact, the Borrower shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with ADB's SPS.

Human and Financial Resources to Implement Safeguards Requirements

6. The Borrower shall make available to the EA and IA necessary budgetary and human resources to fully implement the EMP and the RP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

7. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and the RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, the RP and the PAM;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

8. The Borrower shall cause the following:

- (a) submission of semiannual Safeguards Monitoring Reports to ADB and disclosure of relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP, promptly informing ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) reporting any actual or potential breach of compliance with the measures and requirements set forth in the EMP or the RP promptly after becoming aware of the breach.

Prohibited List of Investments

9. The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

10. The Borrower shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) do not restrict the workers from developing a legally permissible means of expressing their grievances and protecting their rights regarding working conditions and terms of employment; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

11. The Borrower shall cause the EA and IA to strictly monitor compliance with the requirements set forth in paragraph 10 above and provide ADB with regular reports.

Gender and Development

12. The Borrower shall cause the EA and IA to ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB; and (e) key gender outcome and output targets include, but not limited to:

- (a) that the extended water supply systems shall benefit around 107,400 women (51% of the population);
- (b) that the sanitation improvements shall directly benefit around 47,400 women by 2022 (51% of the population); and
- (c) that the replacement of the Siem Reap interceptor sewer shall provide an immediate benefit to around 25,400 people, 50% of whom are women living in the proximity of the pipeline.

Counterpart Support

13. The Borrower shall ensure that the EA and IAs have sufficient funds to satisfy its liabilities arising from any Works, Goods and/or Consulting Services contract.

Operation and Maintenance of Project Facilities

14. The Borrower shall cause the MIH and MPWT to ensure that the Project facilities are operated and maintained appropriately and in accordance with the standards and requirements prescribed by the applicable laws and regulations of the Borrower, and that adequate budgetary and other resources are promptly provided for such operation and maintenance.

Grievance Redress Mechanism

15. The Borrower shall ensure that a separate safeguards grievance redress mechanism acceptable to ADB is established in accordance with the provisions of the EMP and the RP at the PMUs, within the timeframes specified in the relevant EMP and RP, to consider safeguards complaints.

Governance and Anticorruption

16. The Borrower, the EA, and IA shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

17. The Borrower, the EA and IA shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Operational Covenants

18. The Borrower shall ensure and cause relevant government agencies to clear the Project site(s) of any potential unexploded ordnance prior to award of relevant contract.

19. The Borrower shall cause the EA and IA to ensure that the civil works contractors take necessary actions to minimize interruptions to water supply, sewerage and other utility services during the construction under the Project.

20. The Borrower shall cause PWW to consolidate and improve its operational sustainability by ensuring that commencing no later than 2019 fiscal year, PWW will achieve and maintain for each subsequent fiscal year, a cost recovery operating ratio of 1.0 or below, where:

- (a) "cost recovery operating ratio" means that ratio of full expenditure over revenues net of subsidies;
- (b) "full expenditure" means the sum of all expenses related to operations including administration, maintenance, current taxes and payments in lieu of taxes, and a return on equity computed at 8% of the average of the opening and closing balance of equity;

- (c) “debt” means any indebtedness of PWW maturing by its terms more than 1 year after the date on which it was originally incurred;
- (d) “equity” means the sum of total unimpaired paid-up capital, retained earnings and reserves of PWW not allocated to cover specific liabilities; and
- (e) “debt servicing” means the aggregate amount of all repayments (including sinking fund payments, lease payments under financial leases if any), whether or not actually paid, and interest and other charges on debt. Interest charges which are incurred in financing capital expenditure during development are excluded if they are capitalized.

21. The Borrower and the EA shall ensure that: (a) commencing no later than 2019 fiscal year, PWWs achieve an aggregate tariff collection rate from all customers of 85% for full recovery of O&M expenses plus depreciation and taxes (if any); and (b) commencing no later than 2020 fiscal year, PWWs achieve an aggregate tariff collection rate from all customers of 100% for full recovery of O&M expenses plus depreciation and taxes (if any). Furthermore, the Borrower and the EA shall ensure that appropriate public awareness programs are conducted to educate the public on the need for a rational water supply tariffs scheme and the importance of water conservation.

22. The Borrower shall cause the EA to ensure that all PWWs implement a standard socialized tariff scheme to provide a lifeline tariff for low-income families and a subsidized connection policy to assist poor households to connect to the water supply system, in accordance with Water Supply Policy of the Borrower, no later than 2020.

23. The Borrower shall cause the IA to ensure that all PWUs implement a standard sustainable tariff scheme for sanitation, including (i) tariffs for sewer connections collected under the water billing; and (ii) tariffs for septage management services no later than 2019. These tariffs should cover the full cost of operation and maintenance and revenues shall be ring-fenced for operations and maintenance activities by the PWUs no later than 2020.

24. In order to facilitate and improve operational and financial sustainability of relevant PWW, the Borrower through the EA shall ensure that PWWs prepare, in accordance with prudent business practice, annual business plans commencing no later than 2018 fiscal year.

25. The Borrower shall cause the EA to improve operational sustainability by ensuring that a dedicated nonrevenue water (NRW) section is established at each PWW and that each PWW's NRW levels are reduced to less than 15% by 2019, as compared with a baseline determined, not later than 2017, using a calculation methodology acceptable to ADB.

26. The Borrower shall cause the EA to ensure that all PWW transform into financially autonomous water supply authorities in the form of a public establishment of economic nature by 2019.

27. The Borrower shall cause the EA to develop based on international best practices and adopt a regulatory framework applicable for water supply industry in Cambodia by 2019.