

---

LOAN NUMBER 3232-CAM (SF)

LOAN AGREEMENT  
(Special Operations)  
(Urban Water Supply Project)

between

KINGDOM OF CAMBODIA

and

ASIAN DEVELOPMENT BANK

DATED 18 DECEMBER 2014

---

CAM 41403

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 18 December 2014 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 the Project described in Schedule 1 to this Loan Agreement;

(B) the Project will be carried out by the Ministry of Industry and Handicraft (“MIH”), and for this purpose the Borrower will make available to the PIAs (defined hereunder) the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and the PIAs;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (“Loan Regulations”), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(25) is deleted and the following is substituted therefor:

“Project Agreement” means the Project Agreement of even date herewith between ADB and SRWSA.

(b) The term “Project Executing Agency” appearing in Section 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations shall be substituted by the term “PIAs”.

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 as described in paragraph 2(iv) of Schedule 1 to this Loan Agreement;

(c) “Environmental Management Plan” or “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) “Goods” means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(f) “Indigenous Peoples Safeguards” means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(g) “Initial Environmental Examination” or “IEE” means the initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(h) “Involuntary Resettlement Safeguards” means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(i) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(j) “NRW” means nonrevenue water;

(k) “PAM” means the project administration manual for the Project dated 28 October 2014 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;

(l) “Procurement Guidelines” means ADB’s Procurement Guidelines (2013, as amended from time to time);

(m) “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;

(n) “Procurement Plan” means the procurement plan for the Project dated 28 October 2014 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 (which include SOP and Procurement Manual as updated from time to time);

(o) "Project Executing Agency" or "EA" for purposes and within the meaning of the Loan Regulations means the Borrower's Ministry of Industry and Handicraft or any legal successor thereto acceptable to ADB;

(p) "Project Implementing Agencies" or "PIAs" means SRWSA and PWW;

(q) "PWW" means the Borrower's public waterworks established under the Borrower's Ministry of Industry and Handicraft in the towns of (i) Kampong Cham, (ii) Kampong Thom, (iii) Kampot, (iv) Pursat, (v) Sihanoukille, (vi) Stoung, (vii) Stung Treng; and (viii) Svay Rieng, or any successor thereto acceptable to ADB;

(r) "Resettlement Plan" or "RP" means the resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(s) "Safeguard Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP, the RP and the IPP (as applicable), including any corrective and preventative actions;

(t) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(u) "SRWSA" means Siem Reap Autonomous Water Supply Authority, a public establishment of economic nature duly formed pursuant to the Borrower's Royal Government sub-decree dated 20 January 2007, and validly existing under the laws of the Borrower;

(v) "Standard Operating Procedures" or "SOP" means the standard operating procedures of the Borrower dated 22 May 2012 (as amended from time to time and as such amendments are approved by ADB), providing procedures applicable to all externally financed projects and programs;

(w) "Subsidiary Loan Agreement" means an agreement between the Borrower and SRWSA for relending of a portion of the Loan as provided in Section 3.01(b) hereof; and

(x) "Works" means construction or civil works to be financed out of the proceeds of the Loan, 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. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twenty-two million eight hundred forty-eight thousand Special Drawing Rights (SDR22,848,000).

Section 2.02. (a) 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.

(b) The term "grace period" as used in subsection (a) 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 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 February and 15 August 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. (a) The Borrower shall through MIH make the proceeds of the Loan available to PWW upon terms and conditions satisfactory to ADB.

(b) The Borrower shall relend a portion of the Loan together with other funds required for the Project to SRWSA under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB. Except as ADB shall otherwise agree, the terms for relending the proceeds of the Loan shall include (i) interest at the rate no less than the interest charge stated in Section 2.02; (ii) the repayment period not exceeding 32 years including a grace period not exceeding 8 years; and (iii) SRWSA bearing the foreign exchange variation risks.

(c) The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project 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 and the Procurement Manual under the Standard Operating Procedures. In the event there is a conflict between Schedule 4 to the Loan Agreement and the Procurement Manual, then Schedule 4 shall apply.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Loan Account in respect of Goods, Works and Consulting Services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and Works and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) Goods, Works and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2020 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 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 and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.03. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles 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 international standards for

auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for imprest fund and statement of expenditures) 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 30 days of the date of their receipt by posting them on ADB's website.

(c) The Borrower shall 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 4.04. The Borrower shall take all actions which shall be necessary on its part to enable the EA to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the 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.

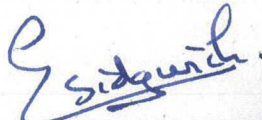


IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

KINGDOM OF CAMBODIA

By   
\_\_\_\_\_  
H.E. DR. AUN PORNMONIROTH  
Minister  
Ministry of Economy and Finance

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
ERIC SIDGWICK  
Country Director  
Cambodia Resident Mission

## SCHEDULE 1

### Description of the Project

1. The objective of the Project is improved water supply infrastructure and service provision in nine provincial towns.
2. The Project shall comprise of the following outputs:
  - (i) **Output 1: Existing Water Supply Systems Improved in Seven Towns** to improve operational performance and ensure the facilities operate at optimal level. The improvements comprise (i) new deep wells at Kampong Cham; (ii) rehabilitated water treatment plants in Kampong Cham, Kampong Thom, Kampot, Pursat, Sihanoukville, Stoung and Svay Rieng; (iii) rehabilitated or new clear water storage tanks in Kampong Cham, Kampong Thom, and Sihanoukville; (iv) rehabilitated pumping equipment in Kampong Cham, Kampong Thom, Pursat, and Svay Rieng; (v) augmented/replaced water mains in Kampong Cham, Kampong Thom, Pursat, and Svay Rieng; and (vi) subsidized new household connections along new pipeline routes, including provision for approximately 2,000 new connections, according to a subsidy mechanism acceptable to ADB. New laboratory equipment will be provided in Kampong Thom, Pursat, Sihanoukville, Stoung, and Svay Rieng to improve monitoring and water quality.
  - (ii) **Output 2: New Water Supply System for Stung Treng** will be provided including: (i) surface water intake, (ii) water treatment plant (approx. 7,950 cubic meter per day capacity), including laboratory; (iii) approx. 354 km of water transmission and distribution pipelines, and (iv) approx. 4,600 new household connections, subsidized for poor households.
  - (iii) **Output 3: Water Supply Coverage Increased in Siem Reap** through a new water distribution zone to distribute water from the new SRWSA water treatment plants. Subcomponents include (i) approx. 6.5 km of new transmission mains, (ii) approx. 35 km of new distribution pipelines and (iii) approx. 5,000 household connections, to be subsidized for poor households (to be interconnected with new water supplies being developed under parallel financing by Agence Francaise de Developpement (AFD) planned for 2016 and by JICA planned for 2018/19).
  - (iv) **Output 4: Project Implementation Support and Operation and Maintenance Development.** This output will include project implementation support services for the project management and implementation units in detailed engineering design and construction supervision, together with all supporting functions including safeguards implementation and monitoring, gender and community development, accounting and financial management, bidding and procurement, and disbursement. It will include skills enhancement and on-the-job training

for project staff in project management, design, and implementation of urban water supply projects and operation and maintenance (O&M).

3. The Project is expected to be completed by 31 December 2019.

**SCHEDULE 2****Amortization Schedule****(Urban Water Supply Project)**

<b>Date Payment Due</b>	<b>Payment of Principal (expressed in Special Drawing Rights)*</b>
15 February 2023	476,000
15 August 2023	476,000
15 February 2024	476,000
15 August 2024	476,000
15 February 2025	476,000
15 August 2025	476,000
15 February 2026	476,000
15 August 2026	476,000
15 February 2027	476,000
15 August 2027	476,000
15 February 2028	476,000
15 August 2028	476,000
15 February 2029	476,000
15 August 2029	476,000
15 February 2030	476,000
15 August 2030	476,000
15 February 2031	476,000
15 August 2031	476,000
15 February 2032	476,000
15 August 2032	476,000
15 February 2033	476,000
15 August 2033	476,000
15 February 2034	476,000
15 August 2034	476,000
15 February 2035	476,000
15 August 2035	476,000
15 February 2036	476,000
15 August 2036	476,000

<b>Date Payment Due</b>	<b>Payment of Principal (expressed in Special Drawing Rights)*</b>
15 February 2037	476,000
15 August 2037	476,000
15 February 2038	476,000
15 August 2038	476,000
15 February 2039	476,000
15 August 2039	476,000
15 February 2040	476,000
15 August 2040	476,000
15 February 2041	476,000
15 August 2041	476,000
15 February 2042	476,000
15 August 2042	476,000
15 February 2043	476,000
15 August 2043	476,000
15 February 2044	476,000
15 August 2044	476,000
15 February 2045	476,000
15 August 2045	476,000
15 February 2046	476,000
15 August 2046	476,000
<b>TOTAL</b>	<b>22,848,000</b>

\* 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 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 6 is for financing the interest charge on the Loan during the implementation period of the Project.

##### 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 Goods and Works in relation to Output 3 (Project components implemented by SRWSA) until the Borrower has certified to ADB in writing, in form and substance satisfactory to ADB that the Subsidiary Loan Agreement shall have been duly authorized and executed by its respective parties and shall have become legally valid and binding upon the parties thereto in accordance with its terms.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS</b> <b>(Urban Water Supply Project)</b>			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (SDR) Category</b>	<b>Basis for Withdrawal from the Loan Account</b>
1	Output 1 – Improvement in Seven Towns	2,727,000	100% of total expenditure claimed*
2	Output 2 – Stung Treng	7,579,000	100% of total expenditure claimed*
3	Output 3 – Siem Reap**	3,361,000	100% of total expenditure claimed*
4	Output 4 – Project Implementation Support and O&M Development	2,775,000	100% of total expenditure claimed*
5	Vehicles and Equipment (including O&M)	437,000	100% of total expenditure claimed*
6	Interest Charge	280,000	100% of amounts due
7	Unallocated	5,689,000	
	<b>Total</b>	<b>22,848,000</b>	

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

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



## 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. 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.

#### Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
  - (a) International Competitive Bidding;
  - (b) Shopping; and
  - (c) National Competitive Bidding.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

#### National Competitive Bidding

5. 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

6. The Borrower shall cause the EA and/or PIAs, as the case may be, not to award any Works contract which involves environmental impacts until:
  - (a) the Borrower's Ministry of Environment has granted the final approval of the IEE(s); and
  - (b) the relevant provisions from the EMP have been incorporated into the corresponding Works contract(s).

Consulting Services

7. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

8. The Borrower shall recruit the individual consultants for incremental project tasks, as required, in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

9. (a) The Borrower shall cause the EA and PIAs to 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 cause the EA and PIAs to 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.

10. The Borrower shall cause the EA and PIAs to 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

11. 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 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 through the EA ensure that the preparation, design, construction, implementation, operation of the Project, comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environmental Safeguards provided in the ADB's Safeguard Policy Statement (SPS); and (c) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions (i) to be provided in an applicable Safeguards Monitoring Report or (ii) subsequently agreed with ADB.

3. The EA shall undertake, at its own cost, all necessary actions to ensure that wastewater from the latrine adjacent to and upstream of the intake works for the Pursat water treatment plant does not create and potential contamination of the water source.

4. The EA shall undertake, at its own cost, all necessary actions to ensure that the old chemicals kept in storage at Sihanoukville water treatment plant are neutralized and disposed of safely. The Borrower shall through the EA furnish ADB with appropriate documentary evidence to demonstrate that the chemicals have been disposed of safely, prior to the commencement of any project activities at the water treatment plant.

#### UXO Clearance

5. The Borrower shall cause the EA not to issue a notice to proceed for Works, until it has been confirmed in writing, in form and substance acceptable to ADB, by the relevant entity or government agency with requisite authority that the related construction site is free and clear from unexploded ordnance.

#### Land Acquisition and Resettlement

6. The Borrower shall ensure that no land acquisition and resettlement is required for the Project during its implementation and that all Project-related activities and Project facilities remain within existing rights-of-way. In the event of any unforeseen land acquisition or resettlement needs for any part or component of the Project, the Borrower shall ensure and cause the EA to promptly inform ADB of such need and to undertake additional land acquisition and involuntary resettlement due diligence with the preparation of a requisite resettlement plan, as applicable, in accordance with the Borrower's applicable laws and regulations and ADB's SPS.

Indigenous Peoples

7. The Borrower shall cause the EA to ensure that the preparation, design, construction, implementation and operation of the Project and Project facilities do not have any adverse impacts on the indigenous peoples, within the meaning of SPS. In the event that the Project does have such impact, the Borrower shall cause the EA to take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with ADB's SPS.

Bidding documents and civil works contracts

8. The Borrower shall cause EA to ensure that all bidding documents and contracts for civil works contain provisions that require contractors to: (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and any corrective or preventative actions set forth in the respective Safeguard Monitoring Report or subsequently agreed with ADB; (b) provision a budget for all such environmental and social measures; (c) promptly provide the EA with a written notice of any unanticipated environmental and social risks or impacts that arise during construction, implementation or operation of the project that were not considered in the IEE or the EMP; and (d) fully reinstate local infrastructure and facilities affected by the Project to their pre-project condition as early as possible and no later than completion of construction.

Human and Financial Resources to Implement Safeguards Requirements

9. The Borrower shall cause the EA to make available necessary budgetary and human resources to fully implement the EMP.

10. The Borrower shall cause the EA to ensure that (a) a reputable environmental expert is contracted to conduct periodic environmental impact monitoring; and (b) the capacity-building program described in the EMP is implemented as planned.

Safeguard Monitoring and Reporting

11. The Borrower shall cause the EA to do the following:

- (a) submit semi-annual Safeguard Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) review any changes to the project design that may potentially cause negative environmental or social impacts, and in consultation with ADB, revise environmental or social monitoring and mitigation measures as necessary to assure full safeguard compliance. The EA will provide to ADB within 60 days, justification for any proposed changes to the mitigation measures required during design, construction, and operations, if any changes to the IEE must be implemented for safety or emergency reasons; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP promptly after becoming aware of the breach.

Prohibited List of Investments

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

Health and Labor Standards

13. The Borrower shall cause the EA to ensure that civil works contractors engaged under the Project (i) comply with all applicable labor laws and core labor standards; (ii) use their best efforts to employ and train women and local people, including disadvantaged people; (iii) provide equal pay to men and women for work of equal type; (iv) provide and adequately equip first-aid, health and sanitation, and personal hygiene facilities for male and female workers at the Project site; (v) conduct an information and education campaign on sexually transmitted diseases and HIV/AIDS for construction workers as part of the health and safety program during Project implementation; and (vi) abstain from child labor. Relevant contracts financed under the Project must include specific clauses on these undertakings.

Gender and Development

14. The Borrower shall cause the EA to ensure that (a) the gender action plan (GAP) in form and substance agreed with ADB are implemented in a timely manner over the Project period; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in such GAP; (c) adequate resources are allocated for these purposes; 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.

15. The Borrower shall ensure that the principles of gender equity aimed at increasing Project benefits and impacts on women in the Project area, consistent with ADB's Policy on Gender and Development (1998), are followed during implementation of the Project, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Project area to participate in the design and implementation of Project activities.

Counterpart Support

16. The Borrower shall cause the EA to ensure that the counterpart funding required for successful Project implementation is timely allocated and provided. The Borrower shall cause the EA to adequately staff and equip a Project implementation unit in a manner acceptable to ADB.

Good Governance

17. The Borrower and the EA shall (i) 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 (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

18. The Borrower and the EA 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 EA and PIAs and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Operational covenants

19. 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.

20. The Borrower shall cause the EA 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.

21. The Borrower shall cause PWW to consolidate and improve its operational sustainability by ensuring that commencing no later than 2018 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.

22. The Borrower and the EA shall ensure that: (a) commencing no later than 2015 fiscal year, PWWs (other than the one at Stung Treng) achieve an aggregate tariff collection rate from all customers of 85%% for full recovery of O&M expenses plus depreciation and taxes (if any); (b) commencing no later than 2018 fiscal year, PWWs (other than the one at Stung Treng) achieve an aggregate tariff collection rate from all customers of 100% for full recovery of O&M expenses plus depreciation and taxes (if any); and (c) commencing no later than 2022 fiscal year, PWWs (including the one at Stung Treng) achieve an aggregate tariff collection rate from all customers of 100% for full recovery of O&M expenses plus depreciation, plus debt servicing, plus 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.

23. 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 Project completion.

24. In order to facilitate and improve operational and financial sustainability of relevant PWW, the Borrower through the EA shall ensure that PWWs (other than the one at Stung Treng) prepare, in accordance with prudent business practice, annual business plans commencing no later than 2015 fiscal year, and the PWW at Stung Treng no later than the Project completion.

25. The Borrower shall cause the EA and PIAs to improve operational sustainability by ensuring that a dedicated NRW section is established at each PIA and that each PIA's NRW levels are reduced to less than 15% by 2019, as compared with a baseline determined, not later than 2015, 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 appropriate financial and operational performance standards for SRWSA by 2016 and for other water supply enterprises by 2019.

28. 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 2018.

#### Grievance Redress Mechanisms

29. The Borrower shall cause the EA to ensure that separate safeguards grievance redress mechanisms acceptable to ADB are established in accordance with the provisions of the EMP and within the timeframes specified in the relevant EMP, to consider safeguards complaints.

30. The Borrower shall further cause the EA to ensure that within 12 months following the Loan effectiveness, a grievance redress mechanism, acceptable to ADB, is established for non-safeguards complaints.