
LOAN NUMBER 3389-PHI

LOAN AGREEMENT
(Ordinary Operations)

(Water District Development Sector Project)

between

ASIAN DEVELOPMENT BANK

and

LOCAL WATER UTILITIES ADMINISTRATION

DATED 19 May 2016

PHI 41665

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 19 May 2016 between ASIAN DEVELOPMENT BANK ("ADB") and LOCAL WATER UTILITIES ADMINISTRATION ("Borrower").

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 loan is to be guaranteed by the Republic of the Philippines ("Guarantor") under the terms of the Guarantee Agreement of even date herewith between the Guarantor and ADB;

(C) the Borrower has also applied to the Urban Financing Partnership Facility "UFPF" for a grant in the amount equivalent to two million Dollars (\$2,000,000) for the purpose described in paragraph 2(b) of Schedule 1 to this Loan Agreement (the "UFPF Grant"), and UFPF has agreed to provide the amount, to be administered by ADB;

(D) ADB has agreed to administer the UFPF Grant upon the terms and conditions set forth in the Externally Financed Grant Agreement between the Borrower and ADB of even date herewith ("UFPF Grant Agreement"); and

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

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("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 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit; Maturity Premium.

(a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the

effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

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 referred to in paragraph 3 of Schedule 1 to this Loan Agreement;

(c) "EARF" means the environmental assessment and review framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(d) "EMP" means an environmental management plan for a Subproject, including any update thereto, incorporated in the IEE for that Subproject;

(e) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(f) "GAP" means the gender action plan attached to the PAM, containing gender measures to be undertaken during Project implementation;

(g) "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;

(h) "IEE" means an initial environmental examination for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;

(i) "Indigenous Peoples Plan" or "IPP" means an indigenous peoples plan for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the IPPF and cleared by ADB;

(j) "Indigenous Peoples Planning Framework" or "IPPF" means the indigenous peoples planning framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

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

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

(m) "LGUs" mean the political subdivisions of the Guarantor at the provincial, city, municipal or barangay level;

(n) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(o) "PAM" means the project administration manual for the Project dated 10 February 2016 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 the Project management unit established for the purposes of the Project and described in the PAM;

(q) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(r) "Procurement Plan" means the procurement plan for the Project dated 10 February 2016 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;

(s) "Project facilities" means the Subproject facilities to be provided, constructed, operated, upgraded and maintained under the Project;

(t) "Resettlement Framework" or "RF" means the resettlement framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(t) "Resettlement Plan" or "RP" means each resettlement plan for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the RF and cleared by ADB;

(u) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of, and compliance with, the EMPs, the RPs and the IPPs (as applicable), including any corrective and preventative actions;

(v) "SPS" means ADB's Safeguard Policy Statement (2009);

(w) "Subloan" means a loan made, or proposed to be made, by the Borrower out of the proceeds of the Loan to a WD for a Subproject under a Subloan Agreement;

(x) "Subloan Agreement" means the Borrower's standard financial assistance contract for loans (as amended from time to time) and entered into from time to time between the Borrower and a WD to finance a Subproject (together the "Subloan Agreements");

(y) "Subproject" means a specific subproject under the Project that meets the screening criteria set forth in paragraph 5 of Schedule 5 to this Loan Agreement;

(z) "Subproject facilities" means, in respect of a Subproject, the facilities to be provided, constructed, operated, upgraded and maintained under that Subproject;

(aa) "Water District" or "WD" means a water district which is responsible for the carrying out of a Subproject; and

(bb) "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. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of sixty million Dollars (\$60,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 19 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 1 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

(a) LIBOR;

(b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and

- (c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on September and March in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) 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.

(b) The Borrower shall onlend to the WDs at least 85% of the Loan proceeds through Subloans under Subloan Agreements on terms and conditions satisfactory to ADB with a maximum repayment period of 25 years.

(c) The Subloan Agreements shall be without prejudice to, and without limitation on, the obligations of the Borrower under 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. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

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. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 October 2022 or such other date as may from time to time be agreed between ADB and the Borrower.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out and shall cause the WDs to carry out each Subproject with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Project, the Borrower shall perform or cause to be performed, all the obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available or cause to be made available, promptly as needed the funds, facilities, services, land, and other resources required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Subprojects to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB, as applicable. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. The Borrower shall ensure that the activities of its departments with respect to the carrying out of the Project are conducted and coordinated in accordance with sound administrative policies and procedures, and shall cause the WDs to do the same for their respective Subproject facilities.

Section 4.05. (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) 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, the Borrower, each WD and the Borrower's and WD'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 4.06. The Borrower shall (i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards on auditing or the national equivalent acceptable to ADB; and (iii) furnish to ADB, no later than one month of their approval by the relevant authority, copies of such audited financial statements and audit report, 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.

Section 4.07. The Borrower shall enable ADB's representatives to inspect the Project, any WD, any Subproject, the Goods and Works, and any relevant records and documents.

Section 4.08. The Borrower shall ensure that any facilities relevant to the Project are operated, maintained and repaired in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

(a) any WD shall have failed to perform any of its material obligations under the Subloan Agreement to which it is a party and, following discussion between the Borrower and ADB, it is determined that such failure could materially and adversely affect the Borrower's ability to perform its obligations under this Loan Agreement as they relate to compliance with ADB's policies on safeguards, procurement, consulting services, governance and anticorruption and combating money laundering;

(b) the terms and conditions of any Subloan Agreement shall have been materially amended, abrogated or waived without the prior approval of ADB and such amendment, abrogation or waiver could materially and adversely affect the Borrower's ability to perform its obligations under this Loan Agreement as they relate to compliance with ADB's policies on safeguards, procurement, consulting services, governance and anticorruption and combating money laundering; and

(c) the Borrower shall have failed to perform any of its obligations under the UFPF Grant Agreement.

Section 5.02. The following are specified as additional events for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

(a) the UFPF Grant Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Borrower, and shall have become legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement; and

(b) the Guarantee Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Guarantor, and shall have become legally binding upon the Guarantor in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. 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 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Administrator of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Local Water Utilities Administration
MWSS-LWUA Complex – LWUA Building
Katipunan Road
Balara, Diliman
Quezon City, Philippines

Facsimile Number:

(632) 922-3434.

For ADB


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

Facsimile Numbers:

(632) 636-2444
(632) 636-2228.

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.

LOCAL WATER UTILITIES ADMINISTRATION

By 
ANDRES F. IBARRA
Administrator

ASIAN DEVELOPMENT BANK

By 
RICHARD S.M. BOLT
Country Director
Philippines Country Office

SCHEDULE 1**Description of the Project**

1. The objective of the Project is to increase access to water supply and sanitation services in the communities served by Water Districts.
2. The Project shall comprise:
 - (a) extension and improvement of the water supply system operated by Water Districts, including construction and/or rehabilitation of water source intakes, wells, reservoirs, transmission and distribution pipelines; and
 - (b) construction of sanitation facilities to be operated by Water Districts.
3. The Project includes the provision of Consulting Services to provide assistance in Project implementation.
4. The Project is expected to be completed by 30 April 2022.

SCHEDULE 2

Amortization Schedule

(Water District Development Sector Project)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 September 2022	2.631579
15 March 2023	2.631579
15 September 2023	2.631579
15 March 2024	2.631579
15 September 2024	2.631579
15 March 2025	2.631579
15 September 2025	2.631579
15 March 2026	2.631579
15 September 2026	2.631579
15 March 2027	2.631579
15 September 2027	2.631579
15 March 2028	2.631579
15 September 2028	2.631579
15 March 2029	2.631579
15 September 2029	2.631579
15 March 2030	2.631579
15 September 2030	2.631579
15 March 2031	2.631579
15 September 2031	2.631579
15 March 2032	2.631579
15 September 2032	2.631579
15 March 2033	2.631579
15 September 2033	2.631579
15 March 2034	2.631579
15 September 2034	2.631579
15 March 2035	2.631579
15 September 2035	2.631579
15 March 2036	2.631579

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 September 2036	2.631579
15 March 2037	2.631579
15 September 2037	2.631579
15 March 2038	2.631579
15 September 2038	2.631579
15 March 2039	2.631579
15 September 2039	2.631579
15 March 2040	2.631579
15 September 2040	2.631579
15 March 2041	2.631577
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

- (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal

in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

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 and Commitment Charges

3. The amount allocated to Category 3 is for financing interest and commitment charges 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 and commitment charges.

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.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Water District Development Sector Project)				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Works	44,845,694		
1A	Source Development		1,881,569	100% of total expenditure claimed*
1B	Transmission and Distribution		39,543,231	100% of total expenditure claimed*
1C	Non-revenue Water		1,262,062	100% of total expenditure claimed*
1D	Septic Treatment Plant		1,467,355	54% of total expenditure claimed*
1E	Vacuum Trucks		691,477	57% of total expenditure claimed*
2	Consulting Services	4,818,842		
2A	Source Development		206,426	100% of total expenditure claimed*
2B	Transmission and Distribution		4,313,683	100% of total expenditure claimed*
2C	Non-revenue Water		138,671	100% of total expenditure claimed*
2D	Septic Treatment Plant		160,062	54% of total expenditure claimed*
3	Interest and Commitment Charges	5,778,591		100% of amounts due
4	Unallocated	4,556,873		
	Total	60,000,000		

* 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. 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; and
- (b) 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 not award any Works contract for a Subproject which involves environmental impacts until the Borrower has:

- (a) obtained the appropriate environmental compliance document from the Environmental Management Bureau of the Guarantor's Department of Environment and Natural Resources; and
- (b) incorporated the relevant provisions from the EMP into the Works contract.

7. The Borrower shall not award any Works contract involving involuntary resettlement impacts for a Subproject until the Borrower has prepared and submitted to ADB the

final RP for such Subproject based on the Subproject's detailed design, and obtained ADB's clearance of such RP.

8. The Borrower shall not award any Works contract for a Subproject which involves impacts on indigenous peoples until the Borrower has prepared and submitted to ADB the final IPP and obtained ADB's clearance of such IPP.

Consulting Services

9. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

Industrial or Intellectual Property Rights

10. (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) hereinabove.

11. 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

12. Contracts procured under international competitive bidding procedures, the first three contracts procured under national competitive bidding procedures for Goods, the first three contracts procured under national competitive bidding procedures for Works 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 and Other 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.
2. The Borrower shall ensure that the PMU is equipped with qualified staff, reasonable office space, equipment, and adequate financial resources required for implementation of the Project throughout Project implementation.
3. The Borrower shall undertake regular monitoring to ensure that each WD complies with its obligations set forth in this Loan Agreement and under its Subloan Agreement.

Subproject Screening Criteria

4. The Borrower shall screen each of the proposed Subprojects according to the applicable criteria set forth in paragraph 5 of this Schedule, as may be revised from time to time with the agreement of the Borrower and ADB. If required under paragraphs 13 and 14 below, the Subproject shall be submitted for approval by ADB. In determining whether each proposed Subproject meets the screening criteria for each proposed Subproject, the Borrower shall prepare and (if required under paragraphs 13 and 14 below) submit an appraisal report to ADB, which shall describe its findings and conclusion, together with relevant supporting data, on each of the criteria set forth in paragraph 5 of this Schedule.

5. Each WD and Subproject proposal shall be screened against the following criteria:

- (a) the Borrower shall have confirmed that (i) the WD meets the Borrower's credit criteria; (ii) the WD is ready to implement the proposed Subproject based on a formal request for a loan from the WD to the Borrower as evidenced by a board resolution; (iii) the WD offers a minimum charge that complies with the Borrower's guidelines for lifeline tariffs and initiatives to provide poor households with affordable access to piped water supply; and (iv) the water supply Subproject involves a non-revenue water reduction and control program.
- (b) a feasibility report shall have been prepared, which shows that: (i) the proposed Subproject meets the Borrower's technical, economic, financial, institutional requirements for the Project; (ii) the proposed Subproject has been classified as Category "B" or "C" according to ADB's environmental classification, as Category "B" or "C" according to ADB's resettlement classification, and as Category "B" or "C" according to ADB's indigenous peoples classification; (iii) a satisfactory detailed engineering design, concept design or program of works has been reviewed and

recommended for approval by the relevant department manager of the Borrower; and (iv) the proposed Subproject has a financial rate of return greater than the weighted average cost of capital; (v) potential and adequate sources of water supply for the proposed water supply Subproject have been identified; and (vi) water quality testing at the raw source has been undertaken in accordance with applicable standards and the tests must confirm that the presence of chemicals or hazardous substances at the raw source are in accordance with Guarantor's water quality standards;

- (c) the Subproject is supported by the requisite national documentary requirements such as endorsement by the National Economic and Development Authority's Regional Development Council or the Department of Environment and Natural Resources Environmental Management Bureau;
- (d) the Borrower has approved the RPs, IPPs, IEE and EMPs (if applicable) for the proposed Subproject and has agreed to cause the WD to implement the aforementioned plans in accordance with the policies of the Borrower and ADB; and
- (e) the proposed Subproject does not include expenditures for any of the activities or items set out in Appendix 5 of the SPS.

6. Documentation relating to the screening and appraisal of a proposed Subproject shall be retained by the Borrower and made available to ADB upon request. ADB may, from time to time, carry out ex post facto audits of selected Subprojects.

Corporate Matters and Reporting Requirements

7. The Borrower shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

8. The Borrower shall at all times conduct its business in accordance with sound applicable technical, financial, and business practices, and under the supervision of competent and experienced management and personnel.

9. Except as ADB may otherwise agree, the Borrower shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Loan Agreement.

10. The Borrower shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its constitutional documents, which, if implemented, could adversely affect the carrying out of the Project. The Borrower shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

11. The Borrower shall maintain records and accounts adequate to record the progress of each Subproject (including the costs thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the Borrower.

12. The Borrower shall furnish to ADB all such reports and information as ADB shall reasonably request concerning the WDs, the Subprojects (including the costs thereof), and the Subloans.

Subloans

13. Whenever the Borrower proposes to make a Subloan in an amount exceeding the amount of \$2,000,000 equivalent or such other sum as shall from time to time be agreed between ADB and the Borrower, the Borrower shall, before requesting a withdrawal, submit to ADB an application for approval of such Subloan. Such application shall be in a form satisfactory to ADB, and shall contain a description and appraisal of the Subproject, the terms and conditions of the proposed Subloan, confirmation of compliance with the screening criteria set forth in paragraph 5 of Schedule 5 to this Loan Agreement and such other information as ADB shall reasonably request. A Subloan shall be deemed to exceed the equivalent of the amount specified in or agreed pursuant to this subsection if the amount of such Subloan, when added to the amount of any other Subloan or Subloans previously made or authorized for the same Subproject, exceeds the equivalent of the amount so specified or agreed.

14. In respect of the first five (5) Subloans, the Borrower shall, before requesting a withdrawal, submit to ADB an application for approval of each such Subloan. Such application shall be in a form satisfactory to ADB, and shall contain a description and appraisal of the Subproject, the terms and conditions of the proposed Subloan, confirmation of compliance with the screening criteria set forth in paragraph 5 of Schedule 5 to this Loan Agreement and such other information as ADB shall reasonably request.

Subloan Agreements

15. Prior to the proceeds of any part of the Loan being applied to the financing of expenditures on a Subproject, the Borrower shall enter into a Subloan Agreement with the relevant WD for that Subproject providing inter alia for the relending of part of the proceeds of the Loan, the carrying out by the WD of the Subproject activities described in paragraph 2 of Schedule 1 to this Loan Agreement, and the rights of the Borrower and ADB with respect thereto. Such Subloan Agreement shall include the terms and conditions set out in paragraph 17 below, and shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement.

16. Except as ADB may otherwise agree, the Borrower shall ensure that the proceeds of the Loan are used only for making Subloans to WDs for Subprojects and shall be applied exclusively to the cost of Goods, Works and Consulting Services and other items of expenditure required to carry out such Subprojects.

17. The Borrower shall ensure that the Subloan Agreement for each Subloan contains the following provisions, which may be amended by the Borrower from time to time:

- (a) the proceeds of the Subloan shall be used only for procurement of 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;
- (b) the Goods, Works and Consulting Services shall be used exclusively in the carrying out of the Subproject;
- (c) ADB and the Borrower shall each have the right to inspect such Goods and Works, the WD, the Subproject, and any relevant records and documents;
- (d) ADB and the Borrower shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works and Consulting Services, the Subproject, the WD and other related matters;
- (e) in the carrying out of the Subproject and operation of the Subproject facilities, the WD shall perform all other obligations set forth in Schedule 5 of this Loan Agreement to the extent that they are applicable to the WD and shall do all such acts and execute all such documents as the Borrower considers may be necessary or desirable to enable the Borrower to perform or cause to be performed, all its obligations set forth in this Loan Agreement.

18. Without limiting the rights of the Borrower under the Subloan Agreement (including the exercise of any right to withhold consent) the Borrower shall take all actions which shall be necessary on its part to enable each WD to perform its obligations under its Subloan Agreement.

19. The Borrower shall promptly and effectively exercise its rights in relation to each Subproject and Subloan Agreement in such manner as to protect the interests of ADB and the Borrower and to accomplish the purposes of the Loan.

20. No rights or obligations under a Subloan Agreement shall be assigned, amended, abrogated or waived by the Borrower without the prior concurrence of ADB unless such assignment, amendment, abrogation or waiver: (i) could not be reasonably expected to materially and adversely affect the interests of the Borrower or its compliance with ADB's policies on safeguards, procurement, consulting services, governance and anticorruption and money-laundering; (ii) could not be reasonably expected to jeopardize the prospects of successful implementation of the relevant Subproject or the Borrower's ability to comply with its obligations under this Loan Agreement; and (iii) would not have the effect of extending the term of the Subloan beyond 25 years.

Lending Policies

21. The Borrower shall ensure that its lending policies promote: (i) full-cost pricing including setting a price per unit of water that covers all the costs involved in treating water and delivering it to the customer and ensure each WD completes annual reviews of the level and

structure of its water tariffs and sanitation facilities; (ii) affordability to low-income households including ensuring the minimum charge for monthly water consumption should meet the Borrower's guidelines for low-income households in the serviced area; (iii) non-revenue water reduction and control; and (iv) awareness of the importance of sanitation and hygiene.

Loan Collection Efficiency

22. The Borrower shall continue to upgrade its loan collection system, review and, if necessary, revise its debt relief policies and establish a remedial asset management group (or equivalent) within 24 months of the Effective Date, subject to receipt of relevant approvals. Further, the Borrower shall take all necessary steps to ensure that its non-performing loans as a percentage of its total outstanding receivables portfolio averages less than 30% by financial year-end 2016.

Financial Covenants

23. The Borrower shall notify ADB if the Borrower incurs any consolidated debt, where if after the incurrence of such debt, the ratio of consolidated debt of the Borrower to consolidated equity of the Borrower is greater than 2.5 to 1.

24. The Borrower shall notify ADB if the ratio of total available cash assets of the Borrower to current liabilities of the Borrower is less than or equal to 1 to 1.

25. For the purposes of paragraphs 23 and 24:

- (a) the term "consolidated debt" means any aggregate outstanding indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred;
- (b) debt shall be deemed to be incurred: (i) under a loan contract or agreement, or conditional sale or transfer or financing lease agreement or other instrument providing for such debt or for the modification of its terms of payment of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into. Financial liabilities incurred by the Borrower as a lessee under finance leasing agreements will also be included as debt;
- (c) the term "consolidated equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities;
- (d) whenever 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 currency is, at the time of 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 ADB;

- (e) the term "total available cash assets" means cash and all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year;
- (f) the term "currency liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes and dividends.

Management Plan

26. The Borrower shall ensure that by no later than 1 year of the Effective Date:

- (a) a detailed business plan has been developed and cleared by senior management of the Borrower to ensure that LWUA remains relevant in serving its dual role as specialized lender and as a provider of institutional development assistance to WDs. The Borrower shall afford ADB an adequate opportunity to review and comment on the plan prior to taking any action thereon. The plan will set out:
 - (i) a human resources mapping and strengthening program that will include measures to identify the number and skill sets of personnel required, to assess existing staff, reassign staff as required and identify staff development needs, and to recruit additional qualified personnel as required;
 - (ii) a program with milestones for addressing the Borrower's funding constraints, competition from other lenders, enhancing its internal Risk Assessment Group, analyzing its non-performing loans, ageing of all significant non-performing loans, reducing its non-performing loans and increasing the efficiency of accounts receivables collection; and
 - (iii) a strategic review of how LWUA delivers its services, to identify opportunities to reengineer existing systems and procedures, to best serve LWUA's updated business plan;
- (b) a centralized accounting information system, tailored to suit the Borrower's business, has been developed and operationalized.

27. The Borrower shall establish and maintain sound financial management systems in accordance with ADB's Guidelines on the Financial Management and Analysis of Projects, including the establishment of separate project accounts and the maintenance of minimum balances to ensure smooth cash flow and the timely settlement of Project construction liabilities and future debt servicing.

Environment

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

Land Acquisition and Involuntary Resettlement

29. The Borrower shall ensure that all land and all rights-of-way required for each Subproject and the Subproject facilities 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 Guarantor relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the RF; and (d) all measures and requirements set forth in the respective RP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

30. Without limiting the application of the Involuntary Resettlement Safeguards, the RF or the respective RP, the Borrower shall ensure that no physical or economic displacement takes place in connection with a Subproject until:

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

Indigenous Peoples

31. The Borrower shall ensure that the preparation, design, construction, implementation and operation of the Project, each Subproject and the Subproject facilities comply with (a) all applicable laws and regulations of the Guarantor relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) the IPPF; and (d) all measures and requirements set forth in the respective IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

32. The Borrower shall make available or cause each WD to make available necessary budgetary and human resources to fully implement and monitor compliance with the respective EMP, RP and IPP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

33. 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 respective IEE, EMP, RP and IPP (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 Subproject that were not considered in the IEE, the EMP, the RP or the IPP; and
- (d) fully reinstate pathways, other local infrastructure to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

34. The Borrower shall do the following:

- (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose 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 any Subproject that were not considered in the respective EIA/IEE, EMP, RP or IPP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in any EMP, RP or IPP promptly after becoming aware of the breach.

Prohibited List of Investments

35. The Borrower shall and shall cause WDs to 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

36. The Borrower shall ensure that all bidding documents for Works shall include provisions to require the contractors to: (i) prioritize employment of women and the poor to at least the percentages of the labor force as set out in the GAP; (ii) provide equal pay for equal work, regardless of gender, age, ethnicity or any other factors; (iii) provide the timely payment of wages; (iv) maximize the employment of local people who meet the job and efficiency requirements for Subproject construction, operation and maintenance and in that regard, not discriminate against people based on age, provided they are capable of performing the work; (v) advertise labor requirements in a timely manner prior to recruitment, in a venue that can reasonably be expected to be seen by interested men and women, regardless of age or

ethnicity; (vi) provide workers with a written contract; (vii) provide such workers with adequate on-the-job training and safety training; (viii) comply with core labor standards and the applicable labor laws and regulations, including stipulations related to employment; (ix) not employ child labor; and (x) maintain records of labor employment (including the name, ethnicity, age, gender, working time and payment of wages) and ensure that such records are included in summary form in the project performance management system.

Health

37. The Borrower shall ensure that the preparation, construction, operation and maintenance of each of the Subproject facilities complies with all applicable laws and regulations of the Guarantor relating to health and safety.

Gender and Development

38. The Borrower shall ensure that (a) it complies with all relevant laws and regulations related to gender actions including Republic Act No. 7192 (known as the "Women in Development and Nation-Building Act" which was passed on February 12, 1992), Executive Order No. 273 (known as "Approving and Adopting the Philippine Plan for Gender-Responsive Development, 1995 to 2025" which was passed on September 8, 1995, and Joint Circular No. 2004-1 issued by the Department of Budget and Management (DBM), the National Economic and Development Authority (NEDA) and the National Commission on the Role of Filipino Women which prescribes guidelines and procedures for the formulation and submission of agency annual GAD plans and budgets, and GAD accomplishment reports; (b) the GAP is implemented in accordance with its terms including the designation of an employee to monitor GAP implementation by the Borrower and the participating WDs (including preparation of six monthly GAP progress reports which are part of the semi-annual Safeguards Monitoring Reports); (c) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (d) adequate resources are allocated from the Borrower's Gender and Development budget to fund implementation of the GAP; and (e) key gender outcome and output targets are met including, but not limited to: (i) at least 30% of the Borrower's staff are female and in addition, at least 30% of all managerial positions in the PMU are female; (ii) at least 30% of beneficiaries receiving capacity development to enhance the sustainability of WDs' water and sanitation operations under the Project are female and at least 50% of beneficiaries receiving sanitation information, education and communications training under the Project are female; and (iii) encourage at least 30% of staff of participating WDs are female and encourage at least 2 members of each Board of a WD are female, of which one is a representative of a women's organization.

39. The Borrower shall ensure that in any year during Project implementation (the "Relevant Year") in respect of expenditures related to Works for a Subproject, that it has allocated a sufficient amount from its annual Gender and Development budget to finance activities under the GAP for that Relevant Year. Such letter shall provide a brief breakdown of the amounts allocated to finance GAP activities in the Relevant Year in the context of the overall Gender and Development budget for that year.

Public Awareness

40. The Borrower shall cause each WD to undertake a public awareness campaign through information disclosure, education and consultation on its Subproject(s) and its benefits including but not limited to information related to RPs, EMPs, IPPs and GAP.

Counterpart Support

41. The Borrower shall, and shall cause the WDs to, ensure that counterpart funding is provided in a timely manner. To this end, the Borrower shall ensure timely preparation and submission of annual budgets and requests for disbursement of counterpart funds necessary for Project implementation (including for land acquisition and resettlement activities) and take all measures necessary or appropriate for the prompt disbursement of such funds.

Governance and Anticorruption

42. The Borrower shall and shall ensure that each WD complies with ADB's Anticorruption Policy (1998, as amended to date). The Borrower: (i) acknowledges ADB's right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; and (ii) agrees to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, the Borrower shall ensure that (i) periodic inspections of the Subproject contractors' activities related to fund withdrawals and settlements are carried out; (ii) relevant provisions of ADB's Anticorruption Policy are included in all bidding documents for each Subproject; and (iii) contracts financed under the Project include provisions specifying the right of ADB to audit and examine the records and accounts of any WD, the contractors, suppliers, consultants, and other service providers as they relate to the Project. Individuals/entities on ADB's anticorruption debarment lists are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Project.

43. If the Borrower or ADB is or becomes aware or has a reasonable suspicion that any employee or officer of the Borrower or any WD has engaged in corrupt or fraudulent practices (as defined in ADB's Anticorruption Policy) under or in connection with the Project, the Loan, any Subproject or any Subloan, the Borrower shall take such timely and appropriate action satisfactory to ADB to investigate and/or remedy the situation.

44. The Borrower shall: (i) ensure that it meets its obligations under its performance agreement with the Governance Commission for Government Owned or Controlled Corporations; (ii) conduct annual workshops on corporate governance, anticorruption and anti-money laundering for its employees and the general managers of participating WDs and shall cause participating WDs to conduct the same workshops for its employees; (iii) ensure that any member of the Borrower's management team, board of directors or other individuals responsible for making key decisions in respect of the Borrower's operations and affairs (each a "Key Person") who has been convicted of any criminal, administrative or other offence under the laws and regulations of the Borrower is not involved in the Project or with the PMU; (iv) promptly upon becoming aware, disclose to ADB all cases where any Key Person is or comes under criminal, administrative or other investigation which would call into question the Key Person's integrity and adherence to the highest standard of ethics under ADB's Anticorruption Policy, so that a view can be taken whether they remain involved in the Project or with the PMU; and (v)

ensure that no related entities of the Borrower or its employees are engaged to provide any Consulting Services or other services in connection with the Project.

45. In addition to these requirements, to deter corruption and increase transparency, the Borrower shall create a link for the Project on its website within 2 months of the Effective Date, accessible by the general public, to disclose various information concerning the Project including general information about the Project, public procurements related to the Project, Project progress and contact details in English and Filipino. The website shall also provide a link to ADB's Integrity Unit (<http://www.adb.org/Integrity/complaint.asp>) for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project, any Subproject and Project or Subproject activities. For each contract, the website shall include information on, among others, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods/services, including Consulting Services, procured. The Borrower shall permit any bidder to request an explanation as to why a bid was unsuccessful and the Borrower shall respond within 20 working days. The website shall be updated within 2 weeks after: (i) each award of contract, and (ii) each submission of the semi-annual Safeguards Monitoring Report to ADB.

Combating Money Laundering

46. The Borrower shall:

- (a) comply with applicable laws and regulations of the Guarantor on combating money laundering and financing of terrorism and ensure that Loan proceeds are not used, directly or indirectly, in money laundering;
- (b) formulate and implement internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
- (c) promptly inform the Guarantor and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs the Borrower of its concern that there has been such an alleged violation, the Borrower shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.