
LOAN NUMBER 3051-BAN(SF)

LOAN AGREEMENT
(Special Operations)

(Dhaka Environmentally Sustainable Water Supply Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

ASIAN DEVELOPMENT BANK

DATED 24 APRIL 2014

BAN 42173

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated 24 April 2014 between PEOPLE'S REPUBLIC OF BANGLADESH ("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 shall be carried out by Dhaka Water Supply and Sewerage Authority ("DWASA"), and for this purpose the Borrower shall make available to DWASA the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB;

(C) the Borrower has separately applied to *Agence Francaise de Developpement* ("AFD") and European Investment Bank ("EIB" and together with AFD, "the Cofinanciers") to finance the Project; and

(D) 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 DWASA;

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.

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) "ADF" means ADB's Asian Development Fund;

(b) "AFD financing agreement" means the financing agreement between the Borrower and AFD for the purpose of financing Part A under the Project;

(c) “Consulting Guidelines” means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(d) “Consulting Services” means the services to be financed out of the proceeds of the Loan as referred to in paragraph 2 of Schedule 1 to this Loan Agreement;

(e) “DNI” means distribution network improvement;

(f) “EIB financing agreement” means the financing agreement between the Borrower and EIB for the purpose of financing Part A under the Project;

(g) “Environmental Management Plan” or “EMP” means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;

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

(i) “GAP” means the gender action plan prepared for the Project, and agreed between the Borrower, DWASA and ADB;

(j) “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;

(k) “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;

(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) “LIC” means low income communities;

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

(o) “MLD” means million liters per day;

(p) “O&M” means operation and maintenance;

(q) “PAM” means the project administration manual for the Project dated 4 September 2013 and agreed between the Borrower, DWASA and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(r) “Part A” means Part A of the Project as described in Schedule 1 to this Loan Agreement;

(s) “PCU” means project coordination unit to be established at DWASA pursuant to the PAM;

(t) “PMU” means project management unit to be established at DWASA pursuant to the PAM;

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

(v) “Procurement Plan” means the procurement plan for the Project dated 4 September 2013 and agreed between the Borrower, DWASA and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(w) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means DWASA or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(x) “Project facilities” means all facilities and structures to be created as part of the Project;

(y) “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;

(z) “Resettlement Plan” or “RP” means the resettlement plan for the Project, including any updates thereto, prepared and submitted by the Borrower and cleared by ADB;

(aa) “Safeguard Policy Statement” or “SPS” means ADB’s Safeguard Policy Statement (2009);

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

(cc) “Subsidiary Loan Agreement” means the subsidiary loan agreement to be entered into between the Borrower and DWASA as stipulated under Section 3.01(a) of this Loan Agreement;

(dd) “Water Supply and Sewerage Authority Act” means the Borrower’s Water Supply and Sewerage Authority Act, 1996;

(ee) “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; and

(ff) “WTP” means water treatment plant.

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 one hundred sixty four million nine hundred eighty six thousand Special Drawing Rights (SDR164,986,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and 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 April and 15 October in each year.

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

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

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan together with other funds required for the Project to DWASA under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB.

(b) 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.

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

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

Section 4.03. 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.

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable the Project Executing Agency 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

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 8.01(m) of the Loan Regulations:

(a) the Borrower or DWASA shall have failed to perform any of its obligations under the Subsidiary Loan Agreement;

(b) the Water Supply and Sewerage Authority Act or any provision thereof shall have been repealed, suspended or amended in any manner which in the reasonable opinion of ADB shall or may adversely affect the carrying out of the Project or the operation of the Project facilities; and

(c) suspension provisions of any of the AFD financing agreement or EIB financing agreement shall have been invoked by the relevant financier.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) 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 9.01(f) of the Loan Regulations:

(a) the AFD financing agreement and EIB financing agreement shall have been duly executed and delivered on behalf of the parties thereto in form and substance satisfactory to ADB and all conditions precedent to their effectiveness shall have been fulfilled or arrangements satisfactory to ADB shall have been made for the fulfillment thereof; and

(b) ADB, EIB and AFD shall have agreed to the terms of their collaboration in respect of the Project in a manner satisfactory to ADB.

Section 6.02. 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 VII

Delegation of Authority

Section 7.01. The Borrower hereby designates the Project Executing Agency as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by the Project Executing Agency pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on the Project Executing Agency under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Senior Secretary or Secretary or any Additional Secretary, Joint Secretary or Joint Chief, Deputy Secretary or Deputy Chief, Senior Assistant Secretary or Senior Assistant Chief, Assistant Secretary or Assistant Chief of the Economic Relations Division of the Borrower's Ministry of Finance is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Economic Relations Division
Ministry of Finance
Government of the People's Republic of Bangladesh
Sher-e-Bangla Nagar
Dhaka 1207, Bangladesh

Facsimile Number:

+880 2 918-0788.

For ADB

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

Facsimile Numbers:

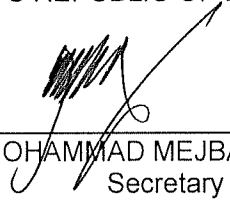
+63 2 636-2444

+63 2 636-2293.

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.

PEOPLE'S REPUBLIC OF BANGLADESH

By



MOHAMMAD MEJBAHUDDIN
Secretary
Economic Relations Division

ASIAN DEVELOPMENT BANK

By



KAZUHIKO HIGUCHI
Country Director
Bangladesh Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is to improve the reliability and security of water supply in Dhaka.

2. The Project shall comprise:

Part A: Development of new surface water supply system.

This includes:

(i) construction of a raw water intake facility at Meghna river with a capacity to provide approximately 2,000 MLD of raw water; and

(ii) construction of Gandharbpur WTP with a production capacity of approximately 500 MLD, including a raw water transmission pipeline from the intake to the Gandharbpur WTP, a treated water transmission pipeline from the Gandharbpur WTP to the injection point of the existing distribution network, and distribution reinforcements.

Part B: Strengthening of the distribution network.

This includes DNI implementation in zone 6 of the service area of DWASA, new or regularized connections at community or household levels in LICs in this zone, capacity strengthening of DWASA in engaging and supporting LICs and project preparation for DNI in zones 1 and 2 of the DWASA service area.

Part C: Project management and administration.

This includes support to PMU in DWASA for smooth and effective Project implementation and operation, including O&M after Project completion.

Consulting Services shall be provided to undertake the above.

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

SCHEDULE 2

Amortization Schedule

(Dhaka Environmentally Sustainable Water Supply Project)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 April 2019	4,124,700
15 October 2019	4,124,700
15 April 2020	4,124,700
15 October 2020	4,124,700
15 April 2021	4,124,700
15 October 2021	4,124,700
15 April 2022	4,124,700
15 October 2022	4,124,700
15 April 2023	4,124,700
15 October 2023	4,124,700
15 April 2024	4,124,700
15 October 2024	4,124,700
15 April 2025	4,124,700
15 October 2025	4,124,700
15 April 2026	4,124,700
15 October 2026	4,124,700
15 April 2027	4,124,700
15 October 2027	4,124,700
15 April 2028	4,124,700
15 October 2028	4,124,700
15 April 2029	4,124,700
15 October 2029	4,124,700
15 April 2030	4,124,700
15 October 2030	4,124,700
15 April 2031	4,124,700
15 October 2031	4,124,700
15 April 2032	4,124,700
15 October 2032	4,124,700
15 April 2033	4,124,700
15 October 2033	4,124,700
15 April 2034	4,124,700
15 October 2034	4,124,700
15 April 2035	4,124,700
15 October 2035	4,124,700
15 April 2036	4,124,700
15 October 2036	4,124,700
15 April 2037	4,124,700
15 October 2037	4,124,700
15 April 2038	4,124,700
15 October 2038	4,122,700
Total	164,986,000

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

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

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

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be 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 4 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.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than

12 months before the date of this Loan Agreement, subject to a maximum amount equivalent to 20% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until a Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered between the Borrower and DWASA and shall have become fully effective and legally binding on the parties thereto in accordance with its terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Dhaka Environmentally Sustainable Water Supply Project)				
Number	Item	Total Amount Allocated for ADB Financing SDR		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Civil Works and Equipment	121,351,000		
1A	Intake, raw water pipeline, and water treatment plant		22,808,000	16% of total expenditure claimed ^{*a}
1B	Treated water pipeline, tube- well and miscellaneous		73,907,000	100% of total expenditure claimed*
1C	Distribution network improvement		24,636,000	100% of total expenditure claimed*
2	Consulting and NGO services	14,605,000		100% of total expenditure claimed*
3	Incremental recurrent costs	2,006,000		100% of total expenditure claimed*
4	Interest charge	5,906,000		100% of amounts due
5	Unallocated	21,118,000		
	Total	164,986,000		

* Exclusive of taxes and duties and road cutting costs.

^a This package shall be jointly cofinanced with AFD and EIB. The percentage shall be adjusted at the time of contract award.

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) National Competitive Bidding; and
 - (c) Shopping.
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.

Domestic Preference

5. Except for the contract package for intake, raw water pipeline, and WTP, which is being financed jointly by ADB, AFD and EIB, and which shall not apply domestic preference principles under the Procurement Guidelines, the Project Executing Agency may grant a margin of preference in the evaluation of all other bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

National Competitive Bidding

6. 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.

Special Provision for Jointly Financed Contract Package

7. Notwithstanding the generality of Section 3.05 of this Loan Agreement, withdrawal from the Loan Account in respect of the contract package for intake, raw water

pipeline, and WTP may be made on account of expenditures relating to procurement and supplies relating to Goods, Works and Consulting Services from countries that are not developed member countries of ADB that have contributed to ADF resources or developing member countries of ADB.

Conditions for Issuance of Notice to Commence Works

8. The Borrower shall not issue a notice to commence Works under:
- (a) any Works contracts which involves environmental impacts until: (i) the Borrower's Department of Environment has granted the approval of the IEE (including approval of separate environmental impact assessment required to be prepared under Bangladesh law); and (ii) the Borrower has incorporated the relevant provisions from the EMP into the Works contract; and
 - (b) any Works contracts which involves involuntary resettlement impacts, until the Borrower has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

Consulting Services

9. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.
10. The Borrower shall apply the consultants' qualifications selection method for selecting and engaging Consulting Services for external monitoring of compliance with Involuntary Resettlement Safeguards.

Industrial or Intellectual Property Rights

11. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.
- (b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.
12. 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

13. 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 and the Project Executing Agency 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 and DWASA shall ensure that the PMU and the PCU engage sufficient full-time staff with adequate knowledge in the field of project management, financial management, engineering, construction supervision, procurement, construction and equipment inspection and testing, environmental and social safeguards, and gender and social development for the entire duration of the Project. DWASA shall keep the PMU and the PCU equipped with the necessary office space, facilities, equipment, support staff and management information systems for the duration of the Project.

Environment

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

Involuntary Resettlement

4. The Borrower and DWASA shall ensure, that all land and all rights-of-way required for the Project, and all Project 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 Borrower relating to land acquisition and involuntary resettlement; (b) Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in any Safeguards Monitoring Report.

5. Without limiting the application of the Involuntary Resettlement Safeguards or the RP, the Borrower and DWASA shall ensure that no physical or economic displacement takes place in connection with the Project until: (a) compensation and other entitlements, as relevant, have been provided to affected people in accordance with the RP; and (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Human and Financial Resources to Implement Safeguards Requirements

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

Safeguards – Related Provisions in Bidding Documents and Works Contracts

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

Safeguards Monitoring and Reporting

8. The Borrower shall do the following or cause DWASA to do the following:

- (a) submit semiannual 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 the Project that were not considered in the IEE, the EMP, and the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan in accordance with the SPS; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, or the RP promptly after becoming aware of the breach.

Prohibited List of Investments

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

Anticorruption Policy

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

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

12. The Borrower shall, or cause DWASA to, prepare and implement a robust code of conduct, acceptable to ADB, for the staff involved in the Project, ensuring, among others, that the staff members designated to the PMU or PCU do not have any conflict of interest in respect of any activities under the Project. The Borrower shall take necessary steps to further ensure that all applicable anticorruption laws of the Borrower which apply to public officers are vigorously enforced.

13. The Borrower shall, or cause DWASA to, announce the Project and business opportunities associated with the Project, as relevant, on its website. Such announcements, when dealing with contracts awarded, shall at least disclose: (a) the list of participating bidders; (b) the name of the winning bidder; (c) the amount of the contracts awarded; and (d) the services procured. In addition, DWASA shall establish a system of handling complaints, acceptable to ADB, to deal with any complaints received in relation to the contracts, their awards and their administration. DWASA shall start maintaining such a website within 2 months of Effectiveness Date.

Counterpart Funds

14. The Borrower shall make available through budgetary allocations or other means all counterpart funds required for the timely and effective implementation of the Project, including funds to mitigate unforeseen environmental and social impacts, and to meet additional costs arising from design changes, price escalation in construction or installation costs or other unforeseen circumstances.

Grievance Redress Mechanism

15. Within 6 months of Effectiveness Date, the Borrower shall establish and maintain a grievance redress committee with representation from all stakeholders in the Project facilities for the purpose of addressing any grievances, from affected peoples concerning land acquisition, environment and any other social issues, in a timely manner.

Labor Standards

16. The Borrower and DWASA shall ensure that (a) civil works contractors comply with all applicable labor laws and regulations of the Borrower, do not allow employment of child labor for construction and maintenance activities, encourage the employment of the poor, particularly women, and provide appropriate facilities for women and children in construction campsites, disseminate information on sexually transmitted diseases (including HIV/AIDS) and human trafficking to employees and local communities surrounding the project construction sites; (b) people directly affected by the Project are given priority to be employed by the Project; (c) contractors do not differentiate wages between men and women for work of equal value; and (d) specific clauses ensuring these are included in bidding documents.

Gender Action Plan

17. The Borrower and DWASA shall ensure that the GAP is effectively implemented to achieve its objectives in a timely manner over the entire Project period, and that adequate resources are allocated for this purpose.

O&M: Financial Sustainability

18. The Borrower shall ensure that DWASA maintains its financial sustainability by maintaining a debt service coverage ratio of at least 1.0, by making necessary adjustments in the relending terms to DWASA or through other means, as necessary, to allow DWASA to have sufficient funds for its O&M costs, enough to maintain all assets owned by it including those to be created under the Project.

19. The Borrower shall, by 31 December 2015, allow through changes in law and policy, as necessary, a yearly increment of tariff beyond 5% to facilitate DWASA to function towards full cost recovery, which shall be achieved by establishing an independent regulatory authority to regulate tariff through a transparent, predictable and independent mechanism, or other means acceptable to ADB.

Project Performance Management System

20. Within 12 months of the Effectiveness Date, DWASA shall establish a project performance management system satisfactory to ADB. The PMU shall ensure that baseline data corresponding to indicators and targets set out in the design and monitoring framework of the Project are gathered during detailed design stage, within 6 months of commencement of design work, disaggregated by income levels, sex, and ethnicity, where appropriate.

Project Implementation

21. The Borrower and DWASA shall keep ADB informed of their discussions with other agencies relating to investment projects in the water sector which may have implications for the implementation of the Project, including the Saidabad WTP, with a view to ensure that there is complementarity and no overlap of activities between the Project and projects funded by other development partners. Specifically, if civil works relating to the Saidabad WTP is initiated before the completion of the Project, DWASA shall ensure that

there is no overlap of construction in the same section of the pipeline corridor to avoid unnecessary complications.