
LOAN NUMBER 3061-PAL (SF)

LOAN AGREEMENT
(Special Operations)
(Koror-Airai Sanitation Project)

between

REPUBLIC OF PALAU

and

ASIAN DEVELOPMENT BANK

DATED 28 MARCH 2014

PAL 42439

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 28 March 2014 between REPUBLIC OF PALAU ("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 the Borrower and Palau Public Utilities Corporation ("PPUC"), and for this purpose the Borrower shall make available to PPUC the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB;

(C) by an agreement of even date herewith entered between ADB and the Borrower ("Ordinary Operations Loan Agreement"), ADB has agreed to provide to the Borrower a loan from ADB's ordinary capital resources for an amount of twenty six million nine hundred thousand Dollars (\$26,900,000); 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 PPUC;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

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

"Project Agreement" means the Project Agreement of even date herewith between ADB and PPUC.

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

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 Subsidiary Loan Agreement" means the agreement between the Borrower and PPUC in respect of the proceeds of the Loan relented under the Project as described in Section 3.01(a) of this Loan Agreement;

(b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);

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

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

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

(f) "Gender Action Plan" or "GAP" means a gender action plan prepared for the Project and agreed between the Borrower and ADB;

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

(i) "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;

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

(k) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2012, as amended from time to time);

(l) "MoF" means the Ministry of Finance of the Borrower;

(m) "OCR Subsidiary Loan Agreement" means the agreement between the Borrower and PPUC in respect of the proceeds of the loan under the Ordinary Operations Loan Agreement relented under the Project as described in Section 3.01(a) of that loan agreement;

(n) "PAM" means the project administration manual for the Project dated 16 August 2012 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;

(o) "Procurement Guidelines" means ADB's Procurement Guidelines (2010, as amended from time to time);

(p) "Procurement Plan" means the procurement plan for the Project dated 16 August 2012 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;

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

(r) "Project facilities" means the facilities to be constructed and the equipment to be provided and installed under the Project;

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

(t) "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, any resettlement plan and any indigenous peoples' plan (as applicable), including any corrective and preventative actions;

(u) "Subsidiary Loan Agreements" means the ADF Subsidiary Loan Agreement and the OCR Subsidiary Loan Agreement;

(v) "WSIP" means the Water Sector Improvement Program of the Borrower, which is a separate program being funded by ADB; and

(w) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to one million two hundred fifty eight thousand Special Drawing Rights (SDR1,258,000).

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

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

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 April and 1 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 PPUC under the ADF Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB. Except as ADB shall otherwise agree, the terms for relending the proceeds of the Loan shall substantially mirror the terms being provided under this Loan Agreement.

(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 31 August 2022 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 and the Project Agreement.

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

Section 4.03. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for the imprest account(s) and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other

information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

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

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable the 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 Agreements 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 Agreements 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 shall have failed to perform any of its obligations under the Ordinary Operations Loan Agreement;

(b) the Borrower or PPUC shall have failed to perform any of its obligations under the Subsidiary Loan Agreements and such breach shall not have been rectified within 60 days of notice thereof given by ADB to the Borrower or PPUC of its occurrence; and

(c) the Borrower's Utilities Consolidation Act, 2013 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.

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: if 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 Subsidiary Loan Agreements shall have been executed by the Borrower and PPUC in form and substance acceptable to ADB, and shall have become binding upon the parties thereto in accordance with their terms; and

(b) the Ordinary Operations Loan Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and all conditions precedent to its effectiveness, other than a condition requiring effectiveness of this Loan Agreement, shall have been fulfilled.

Section 6.02. The following are specified as additional matters, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB:

(a) the Subsidiary Loan Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and PPUC and are legally binding upon the Borrower and PPUC in accordance with their terms; and

(b) the Ordinary Operations Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. 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

Miscellaneous

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

The Minister
Ministry of Finance
P. O. Box 6011, Koror
Republic of Palau 96940

Facsimile Number:

+680 775-2605.

For ADB

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

Facsimile Numbers:

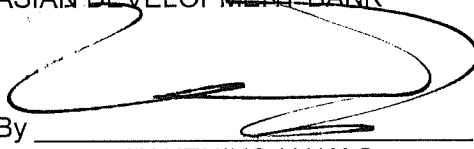
+63 2 636-2444
+63 2 636-2446.

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.

REPUBLIC OF PALAU

By  _____
ELBUCHHEL SADANG
Minister
Ministry of Finance

ASIAN DEVELOPMENT BANK


By _____
TAKEHIKO NAKAO
President

SCHEDULE 1

Description of the Project

1. The objective of the Project is to provide effective, efficient and sustainable sanitation services to Koror and Airai areas of the Borrower.
2. The Project shall comprise of:
 - a. **Sewage collection systems in Koror and Airai** – This includes rehabilitation and augmentation of the sewerage network in Koror to (i) minimize the frequency and severity of uncontrolled sewage overflows; (ii) reduce the energy requirements to operate the network; (iii) improve the operation of the network through real-time monitoring of sewage system parameters at key locations; and (iv) enable rapid response to disruptions in sewerage services. This further includes construction of sewerage network at Kesebelau (Airai) to connect the residential and commercial dwellings to a sewage treatment plant.
 - b. **Sewage treatment and disposal to meet Palau's environmental standards** – This includes construction of 2 sewage treatment plants in Koror and Airai and making provisions for treatment of sewage collected in Koror and Airai networks to tertiary standards at new sewage treatment plants. This further includes operation and management of the sewage treatment plants by the contractor for 4 years after the infrastructure is ready.
 - c. **Safe and hygienic public toilets in Koror** – This includes rehabilitation of 3 existing public toilets and construction of 3 more toilets in key locations in Koror's tourist precincts, all of which will be connected to the sewer system.
 - d. Consulting Services to manage and implement the above.
3. The Project is expected to be completed by 28 February 2022.

SCHEDULE 2

Amortization Schedule

(Koror-Airai Sanitation Project)

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Special Drawing Rights)*</u>
1 April 2021	26,208
1 October 2021	26,208
1 April 2022	26,208
1 October 2022	26,208
1 April 2023	26,208
1 October 2023	26,208
1 April 2024	26,208
1 October 2024	26,208
1 April 2025	26,208
1 October 2025	26,208
1 April 2026	26,208
1 October 2026	26,208
1 April 2027	26,208
1 October 2027	26,208
1 April 2028	26,208
1 October 2028	26,208
1 April 2029	26,208
1 October 2029	26,208
1 April 2030	26,208
1 October 2030	26,208
1 April 2031	26,208
1 October 2031	26,208
1 April 2032	26,208
1 October 2032	26,208
1 April 2033	26,208
1 October 2033	26,208
1 April 2034	26,208
1 October 2034	26,208
1 April 2035	26,208
1 October 2035	26,208
1 April 2036	26,208
1 October 2036	26,208
1 April 2037	26,208
1 October 2037	26,208
1 April 2038	26,208
1 October 2038	26,208
1 April 2039	26,208
1 October 2039	26,208
1 April 2040	26,208
1 October 2040	26,208
1 April 2041	26,208
1 October 2041	26,208

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Special Drawing Rights)*</u>
1 April 2042	26,208
1 October 2042	26,208
1 April 2043	26,208
1 October 2043	26,208
1 April 2044	26,208
1 October 2044	26,224
Total	1,258,000

* 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 2 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.

Conditions for Withdrawal

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Consultancy Services until:

- (a) the PPUC has made appointments of its operations manager; and
- (b) the Borrower has signed consulting contracts to support the WSIP activities using terms of reference agreed with ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Koror-Airai Sanitation Project)			
Number	Item	Total Amount Allocated for ADB Financing (SDR) Category	Basis for Withdrawal from the Loan Account
1	Consultancy Services#	957,000	45.4% of total expenditure claimed*
2	Financing Charges during implementation	69,000	100% of amount due
3	Unallocated	232,000	
	Total	1,258,000	

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

Subject to paragraph 6 of Schedule 3.

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

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the method of procurement set forth below:

International Competitive Bidding.

4. The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the method of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Conditions for Award of Contract

5. The Borrower shall not award any Works contracts until:
 - (a) the Environmental Quality Protection Board has granted the final approval of the IEE; and
 - (b) the Borrower has incorporated the relevant provisions from the EMP into the Works contract.
6. The Borrower shall not award any Works contract which involves involuntary resettlement impacts, until the Borrower has prepared and submitted to ADB the final resettlement plan based on the Project's detailed design, and obtained ADB's clearance of such resettlement plan.
7. The Borrower shall not award any Works contract which involves impact on indigenous peoples until the Borrower has prepared and submitted to ADB the final indigenous peoples' plan, and obtained ADB's clearance of such indigenous peoples' plan.

Consulting Services

8. 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

9. (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.

10. 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

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

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

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

Environment

2. The Borrower and PPUC 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 provisions in SPS relating to the environment; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in the safeguards monitoring report to be provided to ADB.

Involuntary Resettlement; Indigenous Peoples

3. The Borrower shall ensure that the Project does not have any indigenous peoples and involuntary resettlement impacts under the SPS. In the event that the Project does have any such impacts, the Borrower shall take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower and with the SPS.

Human and Financial Resources to Implement Safeguards Requirements

4. The Borrower shall make available, or cause the Project Executing Agency to make available, necessary budgetary and human resources to fully implement the EMP, any resettlement plan and any indigenous peoples' plan.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

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

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP, any resettlement plan and any indigenous peoples' plan (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in the safeguards monitoring report;
- (b) make available a budget for all such environmental and social measures;

- (c) provide the Borrower and PPUC with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, any resettlement plan and any indigenous peoples' plan;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

6. The Borrower shall do the following or cause PPUC 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, any resettlement plan and any indigenous peoples' plan, 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 the EMP, any resettlement plan or any indigenous peoples' plan promptly after becoming aware of the breach.

Prohibited List of Investments

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

Labor Standards

8. The Borrower and PPUC shall ensure that (a) civil works contractors comply with all applicable labor laws and regulations, 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; (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 shall be included in bidding documents.

Health

9. The Borrower and PPUC shall ensure that contractors provide adequately for the health and safety of construction workers and further ensure that bidding documents include measures on how contractors shall address this, including information and awareness raising activities for construction workers on sexually transmitted diseases, HIV/AIDS, and human trafficking.

Governance and Anticorruption

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

12. The Borrower and PPUC shall ensure that detailed information on project implementation is made readily available to the public through the Borrower's Ministry of Finance website and its bulletin boards. This shall include all relevant information and documents relating to procurement, including the list of participating bidders, name of the winning bidder, basic details on the bidding process adopted, amount of contract awarded and the list of goods and services procured.

Gender and Development

13. The Borrower and PPUC shall ensure that: (a) the GAP is implemented, the implementation is monitored and reported in a timely manner to ADB in accordance with the principles of ADB's Policy on Gender and Development (1998), and adequate resources are allocated for this purpose; (b) all targets under the GAP are achieved including (i) all consultations will have 50% female participation, and (ii) all efforts will be made to meet the labor force targets and requirements in the GAP; (c) progress in achieving the GAP targets are reflected in the Project progress reports and Project completion report through collection and compilation of sex-disaggregated data, wherever relevant; and (d) bidding documents include provisions as specified in the GAP.

Tariff Increases

14. The Borrower shall ensure, or cause PPUC to ensure, that the Project is implemented on a full-cost recovery basis and towards achieving this objective, and in line with the Borrower's commitments under the ADB-funded Water Sector Improvement Program, shall ensure tariffs are set such that the total revenue from billed services for water and sewage are projected to be \$5.8 million by the end of FY2014-2015.

Transfer of assets

15. The Borrower shall ensure that once all the contracts under the Project are awarded, PPUC shall assume responsibility for implementing the Project and shall own the assets to be created under the Project.