
LOAN NUMBER 3441-GEO

LOAN AGREEMENT
(Ordinary Operations)

(Urban Services Improvement Investment Program – Project 6)

between

GEORGIA

and

ASIAN DEVELOPMENT BANK

DATED December 15, 2015

GEO 43405

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated December 15, 2016 between GEORGIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 1 March 2011, as amended, between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Urban Services Improvement Investment Program;

(B) by a periodic financing request dated 1 June 2016, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) the Project will be carried out by UWSCG as the implementing agency, under the oversight of MRDI as the executing agency, and for this purpose the Borrower will make available to UWSCG the proceeds of the loan provided herein in accordance with the terms and conditions satisfactory to ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement between ADB and UWSCG;

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 2.01(50) is deleted and the following is substituted therefor:

"Project Agreement" means the Project Agreement between ADB and UWSCG.

(b) The term "Project Executing Agency" appearing in Sections 7.04(b), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "UWSCG".

- (c) 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.

- (d) 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.

- (e) 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 described in subparagraph 2(d) of Schedule 1 to this Loan Agreement;

(c) "EARF" means the Environmental Assessment and Review Framework for the Investment Program, including any update thereto, and agreed between the Borrower and ADB and incorporated by reference in the FFA;

(d) "EMP" means each Environmental Management Plan for the Project, including any update thereto, incorporated in an 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) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(g) "FFA" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(h) "FY" means the fiscal year of UWSCG;

(i) "GAP" means the Gender Action Plan for the Project, including any update thereto;

(j) "GNEWSRC" means the Georgia National Energy and Water Supply Regulatory Commission of the Borrower or any successor thereto;

(k) "IEE" means each Initial Environmental Examination for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;

(l) "Investment Program" means the Urban Services Improvement Investment Program;

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

(n) "MRDI" means the Ministry of Regional Development and Infrastructure of the Borrower;

(o) "PAM" means the project administration manual for the Project dated 19 September 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) "PFR" means the periodic financing request submitted or to be submitted by the Borrower, for the purposes of each loan under the Facility, and, for the purpose of this Loan Agreement means the periodic financing request dated 1 June 2016;

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

(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, including any corrective and preventative actions;

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

(v) "Subsidiary Loan Agreement" means the agreement among the Borrower (represented by its Ministry of Finance), MRDI and UWSCG referred to in Section 3.01(a) of this Loan Agreement;

(w) "UWSCG" means the United Water Supply Company of Georgia Limited Liability Company established under the laws and regulations of the Borrower with its current registered address at 76b, Vazha Pshavela Ave., Tbilisi 0186, Georgia, or any successor thereto acceptable to ADB;

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

(y) "WSS" means water supply and sanitation.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of ninety-nine million Dollars (\$99,000,000), 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 13 years, and a grace period as defined in subsection (c) hereinafter.

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

Section 2.02. The Borrower shall pay to ADB 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 0.20% 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 1 April and 1 October 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 relend the proceeds of the Loan to UWSCG under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms for relending the proceeds of the Loan shall include interest at the same per annum rate as is payable by the Borrower to ADB under this Loan Agreement (inclusive of foreign exchange risk) and a repayment period of 25 years including a grace period of 12 years.

(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. 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 30 September 2019 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out 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 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 make available, or cause to be made available, promptly as needed, and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

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

Section 4.04. 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 4.05. The Borrower shall take all actions which shall be necessary on its part to enable UWSCG 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 4.06. (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, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Effectiveness

Section 5.01. A date 60 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 VI

Miscellaneous

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Ministry of Finance
16 Gorgasali Street, 0114
Tbilisi, Georgia

Facsimile Number:

(99532) 2262 423.

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2301.

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.

GEORGIA

By



DIMITRY KUMSISHVILI
Minister of Finance

ASIAN DEVELOPMENT BANK

By



YESIM ELHAN-KAYALAR
Country Director
Georgia Resident Mission

SCHEDULE 1**Description of the Project**

1. The objective of the Investment Program and the Project is to improve water supply and sanitation services in secondary towns of Georgia.
2. The Project shall comprise:
 - Component 1 – Infrastructure Improvement
 - (a) construction of water and sewerage systems, including sewage treatment plant, in Marneuli;
 - (b) construction of sewerage system, including sewage treatment plant, in Bolnisi;
 - (c) rehabilitation and expansion of water supply system, and construction of a new sewage treatment plant, in Chiatura; and
 - Component 2 – Project Implementation Support
 - (d) provision of support to UWSCG for (i) project implementation and management; (ii) roll out of a public awareness program on water, hygiene and sanitation in Marneuli, Bolnisi and Chiatura; and (iii) establishment of customer care units in WSS services in Marneuli, Bolnisi and Chiatura, which are staffed by at least 30% women, that inform, educate and communicate on water, hygiene and sanitation.
3. The Project is described more fully in the PFR.
4. The Project is expected to be completed by 31 March 2019.

SCHEDULE 2

Amortization Schedule

(Urban Services Improvement Investment Program – Project 6)

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.

Date Payment Due	Installment Share (Expressed as a %)
1 April 2029	3.846154
1 October 2029	3.846154
1 April 2030	3.846154
1 October 2030	3.846154
1 April 2031	3.846154
1 October 2031	3.846154
1 April 2032	3.846154
1 October 2032	3.846154
1 April 2033	3.846154
1 October 2033	3.846154
1 April 2034	3.846154
1 October 2034	3.846154
1 April 2035	3.846154
1 October 2035	3.846154
1 April 2036	3.846154
1 October 2036	3.846154
1 April 2037	3.846154
1 October 2037	3.846154
1 April 2038	3.846154
1 October 2038	3.846154
1 April 2039	3.846154
1 October 2039	3.846154
1 April 2040	3.846154
1 October 2040	3.846154
1 April 2041	3.846154
1 October 2041	3.846150
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 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 2 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.

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12

months before the date of this Loan Agreement in connection with Works and Consulting Services, 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 the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, has been duly authorized and executed and delivered on behalf of the Borrower (represented by its Ministry of Finance), MRDI and UWSCG, and is legally binding upon such parties in accordance with its terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Urban Services Improvement Investment Program – Project 6)			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works and Consulting Services	96,000,000	84.75% of total expenditure claimed
2	Interest and Commitment Charges	3,000,000	100% of amounts due
	Total	99,000,000	

SCHEDULE 4**Procurement Works and Consulting Services**General

1. The procurement of 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.

Works

3. Except as ADB may otherwise agree, Works shall only be procured on the basis of International 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 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 cause UWSCG not to award any Works contract for the Project which involves environmental impacts until UWSCG has:
 - (a) obtained the final approval of the applicable IEE from the appropriate authority of the Borrower; and
 - (b) incorporated the relevant provisions from the applicable EMP into the Works contract.

Consulting Services

6. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall cause UWSCG to apply Quality- and Cost-Based Selection for selecting and engaging Consulting Services.
7. The Borrower shall cause UWSCG to apply the following methods for selecting and engaging the specified Consulting Services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Least-Cost Selection for auditing of financial statements for projects under the Investment Program.

Industrial or Intellectual Property Rights

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

(b) The Borrower shall cause to UWSCG to ensure that all contracts for the procurement of 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.

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

ADB's Review of Procurement Decisions

10. 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.

11. In the case of a contract for Works, which is subject to ADB's prior review, the Borrower shall cause UWSCG to seek ADB's prior approval of any modification or waiver of the terms and conditions of the contract, including:

- (a) granting an extension of the stipulated time for completion of a contract for a period of 1 month or more, or which is likely to require an extension of the Loan Closing Date; and
- (b) increases in aggregate of the original price by more than 5% (for the avoidance of doubt, such increase shall take into account any previous change under such contract).

12. In the case of a contract for Works, which is subject to ADB's post review, ADB shall review the required contract modification or waiver and respond to the Borrower as soon as practicable, but not later than 1 month after the receipt of the required document.

13. The Borrower shall cause UWSCG to provide to ADB copies of all time extensions, modifications or waivers to the contracts (including change orders) within 1 month following amendment of the contract.

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower and UWSCG 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, on one hand, and this Loan Agreement and/or the Project Agreement, on the other, the provisions of this Loan Agreement and/or the Project Agreement shall prevail.

Counterpart Funding and Resources

2. The Borrower shall ensure that: (a) the financial, technical and human resources which are necessary for the implementation of the Project are provided on a timely basis throughout the implementation of the Project; and (b) adequate funds are allocated for the maintenance of the infrastructure that is built, and the items that are procured, under the Project. Without limiting the generality of the foregoing, if the Project experiences cost overruns in excess of the proceeds of the Loan, the Borrower shall provide financial support to UWSCG towards any reasonable cost overruns in order to achieve the objective of the Project, unless otherwise agreed by the parties.

Construction Quality

3. The Borrower shall ensure that the Project is carried out in accordance with applicable standards and international best practice for design, technical specifications, construction supervision, quality control and project management.

Sector Development

4. The Borrower shall ensure that: (a) ADB is kept informed of the Borrower's policies and programs for the WSS sector that will materially affect the economic viability of the Project; and (b) best efforts are used to sustain and strengthen the WSS sector.

5. The Borrower shall take steps to strengthen GNEWSRC's regulatory function, including tariff setting and the regulation of service standards of service providers. The Borrower shall ensure that, in 2017, GNEWSRC will take the initial steps towards setting tariffs annually based on cost recovery principles, in particular to assure full recovery of operation and maintenance costs, taxes, depreciation of assets, and a return on capital based on socially equitable principles that ensure consumers will not pay for inefficient services.

6. Without limiting the Borrower's obligations under paragraph 5 above and paragraph 10 below, the Borrower shall provide to ADB (a) by 30 September 2017 a tariff adjustment plan; and (b) by 30 December of each of 2017, 2018, and 2019, the implementation report of the road map, and any ensuing variance from the targeted operating ratio of 1, per the operating ratio definition in paragraph 9 below.

7. The Borrower shall ensure that ADB's consent is obtained at least 3 months prior to the implementation of any of the following: (a) any change in the ownership or control of UWSCG or any asset, facility or structure rehabilitated, procured or constructed under the Project; or (b) any change to UWSCG's authority or functions, that may affect the implementation of the Project. The Borrower shall ensure that any such change is carried out in accordance with all applicable laws and regulations of the Borrower.

Financial Covenants

8. (a) By no later than 31 December 2016, the Borrower shall cause UWSCG to engage management and accounting professionals to assist UWSCG with (i) implementation of the financial-accounting operating procedures developed by the management consultant under Project 1 of the Investment Program; and (ii) preparing its revised annual financial statements for each fiscal year from 2011 to 2015 in accordance with International Financial Reporting Standards. The foregoing revised unaudited annual financial statements shall be submitted to ADB by no later than 30 November 2017. The Borrower shall cause UWSCG to undertake a "special audit", from either existing or separately engaged auditors (acceptable to ADB) on the above revised annual financial statements for fiscal years 2011 to 2015, with respective audit opinions and management letters (setting out any deficiencies in internal control and financial management systems identified in the course of the audit, if any), to be submitted to ADB no later than 30 April 2018. Promptly after submission of the foregoing special audit opinions to ADB, the Borrower shall cause the convening of a meeting, which shall include representatives of ADB and UWSCG, to deliberate the findings of the special audit, and any implications and required follow-on actions.

(b) In addition, the Borrower shall cause UWSCG to provide to ADB, by no later than 30 November 2016, interim financial statements, including any explanatory notes, of UWSCG as of and for the 6 months ended 30 June 2016 which shall show the position of the accumulated government subsidies received, utilized, prepaid, and recorded to date.

9. The Borrower shall cause UWSCG to attain an operating ratio of 1 by the end of 2019, and shall continue to maintain it less than 1 thereafter, and in accordance with the provisions of the FFA. The Borrower shall cause UWSCG to decrease UWSCG's operating ratio by 5% every year beginning 2015 in order to achieve an operating ratio of 1 by 2019 as set forth in the foregoing sentence. For the purposes of this paragraph 9, "operating ratio" shall mean the ratio of UWSCG's operating expenses over its operating revenue, with "operating expenses" meaning all expenses of UWSCG on operation and maintenance including staff salaries, cost of energy, chemicals and consumables, routine maintenance, spare parts, consumables, etc. but excluding capital expenditure, debt service obligations, amortizations and depreciation. "Operating revenue" means the revenue collected by UWSCG from the sale of water and other revenues excluding grants from the government.

10. Until such time as tariff increases or other sources of income make it possible for UWSCG to meet the operating ratio targets defined in paragraph 9 above from its own sources, the Borrower shall provide the funds necessary to meet the operating ratio of 1. In addition, the Borrower shall also ensure provision of adequate funds to UWSCG to enable UWSCG to meet all its debt obligations in any given period. Both operating ratio and debt

service coverage ratio levels for any given fiscal year shall be included as part of the audited entity financial statements of UWSCG submitted annually to ADB.

11. The Borrower shall cause UWSCG to improve its service delivery, and revenue collection from all domestic consumers and non-domestic consumers through continued attainment of minimum 90% revenue collection rate per annum from the FY 2015, and of an aggregate 95% by the end of FY 2019.

Environment

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

Land Acquisition and Involuntary Resettlement

13. The Borrower shall ensure, and shall cause UWSCG to ensure, that the Project does not have any involuntary resettlement impacts within the meaning of the SPS. In the event that the Project does have any such impact, the Borrower shall, and shall cause UWSCG to, take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower relating to involuntary resettlement and the SPS. For the avoidance of doubt, any land made available by the Borrower, or caused to be made available by the Borrower, in accordance with Section 4.02 of this Loan Agreement shall be subject to the provisions of this paragraph 13.

Indigenous Peoples

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

Human and Financial Resources to Implement Safeguards Requirements

15. The Borrower shall, and shall cause UWSCG to, make available necessary budgetary and human resources to fully implement the EMPs.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

16. The Borrower shall ensure, and cause UWSCG to ensure, that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the applicable IEE and EMP, and any corrective or preventative actions set out in a Safeguards Monitoring Report;

- (b) make available a budget for all such environmental and social measures;
- (c) provide UWSCG with a written notice of any unanticipated environmental risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the applicable IEE or EMP;
- (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

17. The Borrower shall, and shall cause UWSCG to, do the following:
- (a) submit semiannual Safeguards Monitoring Reports to ADB within 1 month of the end of each half of the calendar year and disclose relevant information from such reports to affected people 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 applicable IEE or EMP, 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 promptly after becoming aware of the breach.

Prohibited List of Investments

18. The Borrower shall ensure, and shall cause UWSCG 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 Standards and Health

19. The Borrower shall ensure, and shall cause UWSCG to ensure, that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include, and shall cause UWSCG to include, specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things, (a) comply with the Borrower's

applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

20. The Borrower shall, through MRDI, strictly monitor compliance with the requirements set forth in paragraph 19 above and provide ADB with regular reports.

Gender and Development

21. The Borrower shall ensure, and shall cause UWSCG to ensure, that: (a) the GAP is fully implemented and monitored in a timely manner in accordance with its terms, the related regulations of the Borrower, and ADB's Policy on Gender and Development (1998) and adequate resources are allocated for this purpose; (b) bidding documents include provisions as specified in the GAP, including equal pay to men and women for the same type of work and enabling working conditions for female workers; (c) progress in achieving the GAP targets are reflected in the Project progress reports and Project completion report; (d) targets under the GAP are achieved, including, but not limited to, (i) the training and involvement of local women non-governmental organizations and female community leaders in the distribution of information, education and communication material on water, hygiene and sanitation practices, customer rights and complaint mechanisms; (ii) at least 50% of the targeted women are reached by the public awareness program for water, hygiene and sanitation practices, customer rights and complaint mechanisms; (iii) at least 15% of the new positions created through the Project are set aside for women; and (iv) at least 30% of the staff at the customer care unit in the service center established by UWSCG are women.

Governance and Anticorruption

22. The Borrower and UWSCG 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.

23. The Borrower and UWSCG 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.

24. The Borrower shall cause UWSCG to disclose on its website information on (a) bidding procedures, bidders and contract awards; (b) the use of funds disbursed under the Project; (c) the physical progress of the Project; and (d) safeguard matters, including any environmental and/or social safeguard plans required to be prepared for the Project.