
LOAN NUMBER 2265-BAN(SF)

LOAN AGREEMENT
(Special Operations)

(Secondary Towns Water Supply and Sanitation Sector Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

ASIAN DEVELOPMENT BANK

DATED 08 November 2006

LAS:BAN 36297

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 08 November 2006 between PEOPLE'S REPUBLIC OF BANGLADESH (the "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 Borrower has also applied to the OFID (as defined in Section 1.02(k) of this Loan Agreement) for a loan in an amount equivalent to nine million dollars (\$9,000,000) for the purposes of financing a portion of the Project; and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "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. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "CBOs" means community-based organizations;

(b) "Consulting Guidelines" means "Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers" dated April 2006, as amended from time to time;

(c) "DPHE" means the Department of Public Health Engineering under the Borrower's Ministry of Local Government, Rural Development and Cooperatives;

(d) "ERD" means the Economic Relations Division under the Borrower's Ministry of Finance, and any successor thereto;

(e) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, and including related services such as transportation, insurance,

installation, commissioning, training, and initial maintenance, but excluding consulting services;

- (f) "LGD" means Local Government Division;
- (g) "LGED" means Local Government Engineering Department under the Borrower's Ministry of Local Government, Rural Development and Cooperatives;
- (h) "MLGRD&C" means the Borrower's Ministry of Local Government, Rural Development and Cooperatives and any successor thereto;
- (i) "MOF" means the Borrower's Ministry of Finance and any successor thereto;
- (j) "NGOs" means non-governmental organizations;
- (k) "OFID" means the OPEC Fund for International Development;
- (l) "OFID Loan" means the loan in the amount of \$9,000,000 to be provided by OFID under the terms and conditions described in paragraph 21 of Schedule 5 to this Loan Agreement;
- (m) "PIU" means each of the Project Implementation Units established in each of the participating Pourashavas, as described in paragraph 4 of Schedule 5 to this Loan Agreement;
- (n) "PMU" means the Project Management Unit established within DPHE, as described in paragraph 2 of Schedule 5 to this Loan Agreement;
- (o) "Pourashava" means the secondary level town in the territory of the Borrower;
- (p) "PPRC" means the Pourashava Performance Review Committee established within LGD, as described in paragraph 6 of Schedule 5 to this Loan Agreement;
- (q) "Procurement Guidelines" means the "Procurement Guidelines" dated April 2006, as amended from time to time;
- (r) "Procurement Plan" means the procurement plan for the Project to be agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and paragraphs 4 and 5 of Schedule 4 to this Loan Agreement;
- (s) "Project Executing Agency" for the purposes, and within the meaning, of the Loan Regulations means DPHE, or any successor thereto acceptable to ADB, which is responsible for overall technical supervision and execution of the Project;
- (t) "Project facilities" means the facilities, equipment and vehicles provided under the Project;

(u) "PSC" means the Project Steering Committee established by the Borrower, as described in paragraph 3 of Schedule 5 to this Loan Agreement;

(v) "PWSS" means the pourashava water supply section;

(w) "SDP-WSSB" means the Sector Development Programme-Water and Sanitation Sector of Bangladesh;

(x) "Subloan" means a loan proposed to be made by the Borrower out of the proceeds of the Loan to eligible Pourashavas for the purpose of financing 50% of piped water schemes' construction cost;

(y) "Subproject" means a specific development project to be financed under a Subloan and/or a grant and carried out by an eligible Pourashava for the construction and rehabilitation of one or more subcomponent for infrastructure, which satisfies the criteria set out in paragraph 7 of Schedule 5 to this Loan Agreement;

(z) "Subproject Agreement" means an Agreement between DPHE and the eligible Pourashava in respect of a Subproject;

(aa) "Subsidiary Loan Agreement" means an Agreement between MOF and the eligible Pourashava in respect of a Subloan;

(bb) "TLCC" means town level coordinating committee;

(cc) "WASA" means the Water Supply and Sewerage Authorities;

(dd) "Works" means construction or civil works to be financed out of the proceeds of the Loan, and 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

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

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twenty seven million five hundred eighty eight thousand Special Drawing Rights (SDR27,588,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (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 paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the 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 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 Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. 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.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works and consulting services and other items of expenditure shall be 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, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. 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, Works which are produced in and supplied from 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 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2013 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. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including 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 imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods financed out of the proceeds of the Loan, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. 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 Borrower shall have established a Project Management Unit (PMU) in accordance with paragraph 2 of Schedule 5 to this Loan Agreement, and shall have appointed the Project Director (PD) together with all of the agreed key technical, accounting and financial staff;

(b) The Borrower shall have established a Project Steering Committee (PSC), in accordance with paragraph 3 of Schedule 5 to this Loan Agreement; and

(c) The Borrower shall have submitted to ADB, a draft Subproject Agreement and a draft Subsidiary Loan Agreement, in the form and substance acceptable to ADB.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The ERD, within the MOF, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

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

Facsimile Number:

+880 2 811 3088.

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 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 and to be delivered at the principal office of ADB, as of the day and year first above written.

PEOPLE'S REPUBLIC OF
BANGLADESH

By 
RAFIQUL ISLAM

Authorized Representative

RAFIQUL ISLAM

Secretary

Economic Relations Division

Ministry of Finance

Govt. of the People's Republic of Bangladesh

ASIAN DEVELOPMENT BANK

By 

HUA DU

Country Director

Bangladesh Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is to improve the living conditions and health standards of the communities in the participating secondary towns (Pourashavas) and improve sustainability of Pourashava-level water utilities.
2. The Project consists of the following components:

Part A: Water Supply Improvements

The component will cover rehabilitation, development and expansion of water sources, water treatment facilities and piped water systems in selected Pourashavas. The component will be implemented in two phases:

(a) Phase One:

Rehabilitate and restore existing water supply system:

- (i) refurbish and/or replace pipelines, water treatment facilities and pumps;
- (ii) complete metering of piped water system;
- (iii) provide additional household connections within the existing coverage area;
- (iv) require Pourashavas to adopt sustainable tariff levels; and
- (v) conduct public awareness campaigns on the benefits of metering.

(b) Phase Two:

Only Pourashavas that meet the performance and reform criteria shall qualify for funding for the following activities in Phase Two:

- (i) expand piped water supply systems' capacity and geographic coverage area;
- (ii) provide metered standpipes along the pipe network;
- (iii) provide arsenic-free water through safe water points; and
- (iv) form and train water user groups to collect user fees, operate and manage the community water supply facilities.

Part B: Sanitation Improvements

- (a) Conduct public awareness campaigns to improve sanitation and reduce waterborne diseases incidence.
- (b) Provide technical advice and guidance for sanitary latrine construction.
- (c) Construct community, school and public latrines.

Part C: Institutional Development

- (a) Institutional Strengthening of DPHE:
 - (i) provide support to DPHE in managing and implementing the sector Project;
 - (ii) assist in institutionalizing DPHE's role as a technical support agency to the pourashava water supply and sanitation (PWSS) sections;
 - (iii) strengthen DPHE's Training Center by:
 - (a) developing a 5-year training program;
 - (b) developing a trainers pool;
 - (c) designing training curricula/courses for DPHE, Pourashavas, and other users; and
 - (d) delivering initial training courses.
 - (iv) provide training and equipment to establish a geographic and management information section.
- (b) Institutional Strengthening of Pourashavas:
 - (i) provide computer software and hardware to PWSS;
 - (ii) provide support to PWSS to institutionalize double entry accounting;
 - (iii) provide training to Pourashava staff in accounting and financial management, operations, and management of water supply systems, and tariffs setting, billing, and collection;
 - (iv) establish town-level water and sanitation coordination committees;
 - (v) provide support to institutionalize community engagement processes;
 - (vi) provide support to the Pourashavas to improve its capacity to tender, execute, and manage contracts for infrastructure improvements; and
 - (vii) provide support to Pourashavas that choose to pursue the establishment of a public limited company (PLC) to replace PWSS.
- (c) Project Management and Implementation Support:

Provide consulting services in:

 - (i) project management and monitoring;
 - (ii) planning and design of Subprojects;
 - (iii) contract structuring, tendering, execution, and management;
 - (iv) construction supervision;
 - (v) preparation of health education program;
 - (vi) preparation of the tariff awareness program; and
 - (vii) planning of pourashava and DPHE capacity building programs.

(d) Project Performance Monitoring and Evaluation

Provision of consulting services to define Project Performance Monitoring and Evaluation (PPME) program and identify indicators and methodologies for monitoring Project benefits.

3. The Project is expected to be completed by 31 December 2012.

SCHEDULE 2

Amortization Schedule (Secondary Towns Water Supply and Sanitation Sector Project)

<u>Payment Due Date</u>	<u>Payment of Principal</u> <u>(Expressed in SDR)</u>
15-Apr-2015	574,750.00
15-Oct-2015	574,750.00
15-Apr-2016	574,750.00
15-Oct-2016	574,750.00
15-Apr-2017	574,750.00
15-Oct-2017	574,750.00
15-Apr-2018	574,750.00
15-Oct-2018	574,750.00
15-Apr-2019	574,750.00
15-Oct-2019	574,750.00
15-Apr-2020	574,750.00
15-Oct-2020	574,750.00
15-Apr-2021	574,750.00
15-Oct-2021	574,750.00
15-Apr-2022	574,750.00
15-Oct-2022	574,750.00
15-Apr-2023	574,750.00
15-Oct-2023	574,750.00
15-Apr-2024	574,750.00
15-Oct-2024	574,750.00
15-Apr-2025	574,750.00
15-Oct-2025	574,750.00
15-Apr-2026	574,750.00
15-Oct-2026	574,750.00
15-Apr-2027	574,750.00
15-Oct-2027	574,750.00
15-Apr-2028	574,750.00
15-Oct-2028	574,750.00
15-Apr-2029	574,750.00
15-Oct-2029	574,750.00
15-Apr-2030	574,750.00
15-Oct-2030	574,750.00
15-Apr-2031	574,750.00
15-Oct-2031	574,750.00
15-Apr-2032	574,750.00
15-Oct-2032	574,750.00
15-Apr-2033	574,750.00
15-Oct-2033	574,750.00
15-Apr-2034	574,750.00
15-Oct-2034	574,750.00
15-Apr-2035	574,750.00
15-Oct-2035	574,750.00

<u>Payment Due Date</u>	<u>Payment of Principal</u> <u>(Expressed in SDR)</u>
15-Apr-2036	574,750.00
15-Oct-2036	574,750.00
15-Apr-2037	574,750.00
15-Oct-2037	574,750.00
15-Apr-2038	574,750.00
15-Oct-2038	574,750.00
TOTAL	27,588,000.00

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**Interest Charge

1. 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 charge on the loan during implementation period.

Imprest Account; Statement of Expenditures

2. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at Bangladesh Bank. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be in Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, and (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

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

B. Procurement for 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:

International Competitive Bidding
National Competitive Bidding
Community Participation in Procurement

4. Terms of and Updates to the Procurement Plan. The Borrower and ADB have agreed upon an indicative procurement plan dated 9 September 2006. Upon finalization of the Subprojects in course of implementation of the Project, the Borrower shall prepare, and submit to ADB for approval, the Procurement Plan in accordance with the Procurement Guidelines and the Consulting Guidelines. The Borrower shall update the Procurement Plan as needed throughout implementation of the Project, so that each such subsequent Procurement Plan is provided to ADB upon each anniversary of the Effective Date.
5. Effectiveness of Procurement Plan. The Procurement Plan, and any updates thereto, shall become effective on the date of approval by ADB and shall supersede the immediately preceding Procurement Plan upon that date.
6. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of 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.
7. National Competitive Bidding. No procurement activity may be undertaken under National Competitive Bidding until ADB and the Borrower have agreed in writing on any necessary modifications or clarifications to ensure consistency with ADB's Procurement Guidelines. Such modifications or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Loan Agreement.
8. Community Participation in Procurement. The Borrower may use community participation in procurement for Works contracts for community water points and community

latrines, each costing not more than \$10,000 in accordance with the procedures to be agreed and set out in the Procurement Plan.

C. Conditions for Award of Contract

9. The Borrower shall not award any Works contracts financed under the Loan until ADB has reviewed and approved the Resettlement Plan prepared for a Subproject in accordance with paragraph 20 of Schedule 5 to this Loan Agreement.

D. Selection of Consulting Services

10. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

11. The Borrower shall apply the following method for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Consultants' Qualifications Selection for community participation for sanitation improvements.

E. Industrial or Intellectual Property Rights

12. (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.

13. 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.

F. ADB's Review of Procurement Decisions

14. All 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 to be specified in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency (EA)

1. DPHE shall be the EA and shall be responsible for the overall technical supervision and execution of the Project.

Project Management Unit (PMU)

2. A PMU shall be established within DPHE and shall be headed by a full-time Project Director (PD). The PMU shall be responsible for (i) preparing project implementation plan; (ii) managing the selection of eligible Pourashavas; (iii) supervising the preparation of feasibility studies, design, Subproject appraisal reports and construction supervision, (iv) providing support to Pourashavas in tendering and executing contracts; (v) managing DPHE's and Pourashavas' training and capacity building program; (vi) monitoring and supervising project management activities; (vii) organizing monitoring and evaluation activities; (viii) preparing project progress reports and project completion report; and (ix) ensuring full compliance with ADB's safeguards policies.

Project Steering Committee (PSC)

3. A PSC shall be established and shall be responsible for providing policy guidance and overall coordination in Project implementation. The PSC shall be chaired by the Secretary of LGD and shall consist of DPHE's Chief Engineer; PMU's PD; representatives from the ERD and the Finance Division of MOF; the Planning Commission; the Implementation, Monitoring and Evaluation Division (IMED); Ministry of Health and Family Welfare; Ministry of Environment; LGED; the Power Development Board; Bangladesh Telephone and Telegraph Board (BTTB) and Pourashava Chairpersons. The PSC shall meet at least twice a year, to coordinate and resolve issues in Project implementation.

Project Implementing Unit (PIU)

4. A PIU shall be established in each of the participating Pourashavas. The PIU shall be headed by the Pourashava Chairperson and shall be staffed by PWSS and DPHE staff. The PIU shall be responsible for coordinating all activities at the local level and for engaging town-level committees. In particular the PIU shall be responsible for (i) procuring and managing civil works at Pourashava level; (ii) managing all local NGOs and CBOs in implementing the health and hygiene education programs, constructing community sanitation facilities, as well as constructing community water points; (iii) coordinating with PMU and ensuring that all interventions are in accordance with the Pourashava's needs; (iv) maintaining and managing all Pourashava level contracts, accounts, and other project management matters to ensure full compliance with ADB's and Borrower's guidelines; and (v) ensuring effective engagement of the community on all Project related matters.

5. The Borrower shall provide counterpart funds for the Project implementation on time. The Borrower shall make timely submission of annual budgetary appropriation

request and ensure prompt disbursement of appropriated funds during each year of Project implementation.

Pourashava Performance Review Committee (PPRC)

6. A PPRC shall be established within LGD and shall be responsible for evaluating each of the Pourashavas' performance and eligibility for Phase 2, in accordance with the paragraph 8 of this Schedule 5 to the Loan Agreement. PPRC shall be chaired by the Secretary of LGD and consists of Chief Engineer of DPHE, Joint Secretary of LGD (water supply), Director General of LGD, representatives from the Planning Commission, ERD and IMED. The PD shall act as the member secretary to the PPRC. ADB may participate in PPRC meetings as observer.

Subproject Selection Criteria

7. The Borrower and DPHE shall ensure that Subprojects shall be selected in accordance with the following process:

Each of the Pourashavas shall meet the following initial screening criteria:

- (a) classified as secondary towns (Class A and B) and important small commercial towns;
- (b) have a current population of over 50,000; and
- (c) have not received any external assistance for water supply improvements worth over Tk 50 million since 1998.

Pourashavas meeting the initial screening criteria will be ranked based on:

- (a) the need for piped water supply improvements;
- (b) sanitary latrine coverage below 60%;
- (c) quality of available water resources, and the need for treatment;
- (d) poverty incidence of 30% or higher;
- (e) incidence of waterborne diseases, such as diarrhea and dysentery, of more than 5% of the population per year; and
- (f) demonstrated institutional commitment to improving the sustainability of WSS operations.

Qualified Pourashavas have to meet the following criteria to be eligible for Subproject under Phase 1:

- (a) the rehabilitation cost is not more than \$500 per connection;
- (b) the proposed Subproject is not classified as Category A for involuntary resettlement according to ADB resettlement policy; and
- (c) the proposed Subproject is not classified as Category A for environmental impacts according to ADB requirements; and
- (d) the proposed Subproject satisfies the environmental subproject selection criteria in the Project's EARP.

Conditions for Phase 2

8. The Borrower shall ensure that only eligible Pourashavas shall be included in and receive funding for Phase 2. To be eligible, a Pourashava shall demonstrate that it has successfully managed Phase 1 and meet the performance criteria that has been prepared and agreed between the Borrower and ADB. A Pourashava that fails to meet all criteria by the end of Phase 1 shall be given 6-month period to improve its performance. A Pourashava that fails to demonstrate its commitment to reform and the sustainability of its water supply systems shall not receive funding for Phase 2.

On-lending

9. Part of the Loan proceeds shall be provided to each of the participating Pourashavas in a blend of grant and loan. The Borrower shall ensure that for piped water schemes, 50% of construction cost shall be provided as a loan at an interest of 7% for 20 years, including a 5-year grace period and 50% shall be provided as a grant. For the community water supply and sanitation component, 100% of construction cost shall be a grant.

Subproject Agreement and Subsidiary Loan Agreement

10. The Borrower shall enter into a Subproject Agreement and a Subsidiary Loan Agreement with each participating Pourashava, on terms and conditions satisfactory to ADB. Pourashavas that are eligible to receive funding under Phase 2, shall enter into a second Subsidiary Loan Agreement with the Borrower.

Human Resource Development Center

11. Not later than 18 months after the loan Effective Date, the Borrower shall have established and institutionalized a human resource development center and/or a training center at DPHE and shall have appointed all of the key staff.

Tariff Reform Plan

12. The Borrower shall cause each of the participating Pourashavas to adopt a tariff reform plan. The first major tariff revision shall be implemented before the end of Phase 1. Fulfillment of this requirement shall be a condition to receive funding under Phase 2. Each Pourashava shall have fully metered piped water supply systems in the project towns and shall carry out a public awareness campaign on the need for metering and tariff changes.

Anticorruption Policy and Transparency Measures

13. The Borrower shall institute, maintain, and comply with internal procedures and controls following international best practice standards for the purpose of preventing corruption or money laundering activities or the financing of terrorism and shall refrain from engaging in such activities. The Borrower shall allow ADB to investigate any violation or potential violation of these undertakings. All contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

14. The Borrower shall create a Project website to disclose information about various matters on the Project. The website shall include, among others, information on procurement, including, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods/services procured.

Project Performance Monitoring and Evaluation (PPME)

15. The Borrower shall cause each participating Pourashava to carry out PPME program with guidance from the PMU. Each of the PIUs shall be responsible for ensuring that a comprehensive program for PPME, acceptable to ADB, is carried out to (i) examine the Project's technical performance; (ii) evaluate the delivery of the planned facilities; (iii) assess the achievement of the Project's objectives; and (iv) measure the Project's social and economic benefits.

16. Not later than six months after the loan Effective Date, the PMU shall conduct initial baseline physical and socioeconomic surveys and submit a detailed implementation plan for monitoring performance and for preparing benchmark information to ADB, for its review and concurrence. Annually PPME reports shall be prepared by each PIU, consolidated by the PMU and submitted to ADB.

Project Review

17. A joint review shall be conducted by ADB and the Borrower at least twice a year. ADB and the Borrower shall undertake a comprehensive review at the end of the rehabilitation phase. A midterm review shall be carried out within thirty six months from Effective Date. The reviews shall include a detailed evaluation of the Project scope, implementation arrangements, and achievement of scheduled targets. It shall also assess progress on Pourashava reform criteria compliance, institutional development, Subproject implementation, and the performance of consultants and the EA.

Gender

18. To ensure that women benefit equally from the Project and interventions avoid gender bias, the Borrower and DPHE shall ensure that the Project is carried out in accordance with ADB's *Policy on Gender and Development (1998)* and the gender strategy contained in the Gender Action plan that has been prepared and agreed between the Borrower and ADB.

Environment

19. The Borrower shall ensure that it shall not approve any Subproject that involves significant environmental impacts according to ADB's *Environmental Policy (2002)* and *Environmental Assessment Guidelines (2003)*. The design, construction, operation and implementation of all Subproject facilities shall be carried out in accordance with the environmental assessment and review procedures and IEEs for sample Subprojects agreed between the Borrower and ADB, and complies with the Borrower's environmental laws and regulations and ADB's *Environment Policy (2002)*. Any adverse environmental impacts arising from the construction, operation and implementation of Subproject facilities shall be

minimized by implementing the environmental mitigation and management measures, and other recommendations specified in environmental assessment reports. The Borrower shall ensure the satisfactory preparation and implementation of the asbestos management plan and other safety plans, and that qualified and competent personnel shall be recruited to carry out the work. The Borrower shall ensure environmental requirements shall be incorporated in bidding documents and civil works contracts.

Involuntary Resettlement

20. The Borrower and DPHE shall ensure that it shall not approve any Subproject that involves significant involuntary resettlement according to ADB's *Policy on Involuntary Resettlement* (1995). The Borrower shall further ensure that all land and right-of-way required for the Project shall be made available in a timely manner and adequate compensations shall be paid to affected people prior to any civil works contract's award. Any involuntary resettlement shall be carried out in accordance with the Resettlement Framework (RF) agreed upon between the Borrower and ADB, and ADB's *Policy on Involuntary Resettlement* (1995). A Resettlement Plan (RP) shall be prepared for each Subproject involving land acquisition or resettlement and shall be submitted to ADB for review and approval prior to any related civil works contract's award. The RPs, that have been prepared and agreed by the Borrower and ADB, for the 4 sample Subprojects, shall be updated and provided to ADB for review and approval following detailed design and prior to civil work contracts' award. Draft RPs and draft updated RPs shall be disclosed to affected people prior to submission to ADB for review and approval.

Indigenous Peoples

21. Although the Project does not envisage any adverse impact on indigenous peoples, the Borrower and DPHE shall ensure that Subprojects shall be prepared and implemented in accordance with ADB's *Policy on Indigenous Peoples* (1998), in order to increase the quality and access of water supply and sanitation received by indigenous peoples.

OFID Loan

22. It is envisaged that OFID will provide a loan of \$9,000,000 to the Borrower, with a term of 20 years, including a grace period of 5 years, an interest of 1% and a service charge of 1% per annum. In the event OFID Loan materializes, the Borrower shall ensure that the proceeds of the OFID Loan shall be used primarily for civil works in 3 to 4 Pourashavas. In the event OFID Loan does not materialize, the number of the participating Pourashavas shall be reduced.