
GRANT NUMBER 0156-CAM(SF)

GRANT AGREEMENT
(Special Operations)

(Second Rural Water Supply and Sanitation Sector Project)

between

KINGDOM OF CAMBODIA

and

ASIAN DEVELOPMENT BANK

DATED 17 SEPTEMBER 2009

GAS:CAM 38560

GRANT AGREEMENT (Special Operations)

GRANT AGREEMENT dated 17 September 2009 between KINGDOM OF CAMBODIA (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement; and

(B) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and Its Recipients dated February 2007, as amended from time to time;

(b) "D&D" means the Recipient's decentralization and deconcentration process approved under the Royal Decree No. NS/RKM/0508/017, dated 22 August 2008;

(c) "DORD" means the District Office of Rural Development within the Recipient's MRD and any successors thereto;

(d) "Goods" means equipment and materials to be financed out of the proceeds of the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(e) "IEE" means the Initial Environment Examination approved by the Recipient on 28 July 2009 and accepted by ADB;

(f) "improved water supply facilities" means a drinking water source that: (i) is designed to protect the water from outside contamination, and in particular from fecal matters; (ii) supplies minimum quantity of 20 liters per capita per day; and (iii) is available within 150 meters from the user's dwelling;

(g) "LARF" means the land acquisition and resettlement framework approved by the Recipient on 28 July 2009 and accepted by ADB;

(h) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook dated January 2007, as amended from time to time;

(i) "MRD" means the Recipient's Ministry of Rural Development or any successor thereto;

(j) "NGO" means non-governmental organization;

(k) "O&M" means operation and maintenance;

(l) "Participating Provinces" means the provinces of Kampong Chhnang, Pursat, Battambang, Banteay Meanchey, Siem Reap, and Kampong Thom where Project activities will be carried out;

(m) "PCU" means the Project Coordination Unit established in accordance with paragraph 2 of Schedule 4 to this Grant Agreement;

(n) "PDRD" means the Provincial Department of Rural Development within the Recipient's MRD or any successor thereto;

(o) "PPMS" means the Project performance management system;

(p) "PPTs" means PDRD Project Teams established in each Participating Province for the implementation of the Project as detailed in Paragraph 4 of Schedule 4 to this Grant Agreement;

(q) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(r) "Procurement Plan" means the procurement plan for the Project dated 14 August 2009 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

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

(t) "Project Facilities" means water supply and sanitation facilities and includes deep or shallow wells, protected ponds with filtration, community-managed water pipe systems, rainwater harvesting systems, public and household latrines, and other water supply and sanitation related Works to be constructed, rehabilitated, or upgraded and the equipment to be purchased pursuant to this Grant Agreement;

(u) "PSC" means the Project Steering Committee established in accordance with paragraph 3 of Schedule 4 to this Grant Agreement;

(v) "RAP" means any of the resettlement action plans to be developed by the MRD in accordance with the LARF and submitted to ADB for approval;

(w) "RWSS" means rural water supply and sanitation;

(x) "RWSS committees" means any or all of the RWSS committees established for the Project at the village level in the Participating Provinces with one representative for rural water supply from each WSUG and one (1) representative for sanitation from each WSUG;

(y) "Subproject" means a subproject to be undertaken under the Project at the commune level in Participating Provinces and financed out of the Grant proceeds, for developing new, or rehabilitating existing, Project Facilities, as well as associated activities;

(z) "TSRWSSP" means the Tonle Sap Rural Water Supply and Sanitation Sector Project funded under a grant from ADB to the Recipient (Grant No. 0018);

(aa) "VDCs" means any or all of the village development committees of the Recipient;

(bb) "Works" means construction or civil works to be financed out of the proceeds of the Grant, 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

(cc) "WSUGs" means any or all of the water and sanitation user groups established at the village level in the Participating Provinces.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of twenty one million Dollars (\$21,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient 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 Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant 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 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2015 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient 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 six (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 Grant proceeds and compliance with the financial covenants of this Grant 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 Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient 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 Recipient unless the Recipient shall otherwise agree.

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

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Economy and Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

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

For the Recipient

Ministry of Economy and Finance
Royal Government of Cambodia
Phnom Penh, Cambodia

Facsimile Number:

+855 23 427798
+855 23 428424.

For ADB

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

Facsimile Numbers:

+632 636 2444
+632 636 2228.


IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant 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.

KINGDOM OF CAMBODIA

By 

H.E. KEAT CHHON
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

C. LAWRENCE GREENWOOD JR.
Vice President (Operations 2)

SCHEDULE 1

Description of the Project

1. The Project aims to support the Recipient to achieve its Cambodia Millennium Development Goal (CMDG) targets of 50% water supply and 30% sanitation by 2015, and its long-term sector targets of 100% water supply and 100% sanitation coverage for rural people by 2025. The Project scope includes the provision of improved water supply and sanitation services for about 377,000 rural residents, of which 290,000 people will benefit from improved sanitation facilities in about 400 villages in 40 communes. The 40 communes are located in 16 districts in Participating Provinces. The Project will cover 100% villages in each commune and will aim to achieve 100% water supply and 75% physical sanitation coverage in each commune.

2. The Project comprises five (5) outputs to be carried out in each of the villages in the Participating Provinces:

Output 1: Improved community health and hygiene practices

- (i) support to increase community mobilization and action by developing ownership in technology choice, planning, and implementation of improved village RWSS facilities and in household water management and hygiene education;
- (ii) preparation of village water supply and sanitation plans;
- (iii) formation and training of WSUGs in O&M and repair of RWSS facilities;
- (iv) strengthening community groups and individuals for effective delivery of health and hygiene messages by choosing individuals that are considered champions or natural leaders by their peers and training them as lead facilitators for peer-to-peer behavior change efforts in safe water use, improved sanitation and proper hygiene, with at least 50% of all lead facilitators being female; and
- (v) improving household management of water supply and sanitation by integrating elements of community-led total sanitation (CLTS) into the overall village engagement process to focus on RWSS and hygiene by educating WSUGs, villages, communes, schools, and other social groups on (a) safe water management at the source, during transportation, and in the household; and (b) stopping open defecation, encouraging proper use and maintenance of household latrines, and promoting personal hygiene practices like hand washing and body cleaning.

Output 2: Rehabilitated, upgraded and developed water supply facilities

- (i) rehabilitation or upgrading of existing water supply points to improved water supply facilities;

- (ii) developing new improved water supply facilities; and
- (iii) improving monitoring of water quality for all water supply facilities rehabilitated, improved or developed by conducting one (1) 16-parameter testing and three (3) annual 6-parameter water quality tests.

Output 3: Improved public and household sanitation

- (i) construction of public latrines at schools, and health facilities (five (5) per commune) with separate areas for men and women (i.e., two (2)-latrine block for men and two (2)-latrine block for women); and
- (ii) the provision of household latrines by (a) promoting informed choice of sanitation facilities based on a range of options; and (b) providing project support equivalent to seventy five Dollars (\$75) per household for the construction of the latrine substructure, based on the current costing of an improved dry pit latrine with a concrete ring lined pit.

Output 4: Strengthened sector planning and development

- (i) improving monitoring and supervision of RWSS facilities by maintaining and upgrading the RWSS database that was established by the TSRWSSP in the five (5) TSRWSSP provinces, and establishing the database in Banteay Meanchey province;
- (ii) support to the water and sanitation sectoral working group's (WATSAN) sector coordination meetings;
- (iii) strengthening private sector involvement in RWSS development through training in technical and management fields, including (a) on-job training for improved well drilling technology to well drilling contractors; and (b) support to small entrepreneurs for local manufacturing of precast concrete components through establishment of a small contractor base at commune level for the construction of protected dug wells and rain water storage tanks, knowledge sharing on PVC suction pump technology, and capacity development of WSUGs with support from commune based mechanics on repair and maintenance of all types of hand pumps; and
- (iv) improving RWSS monitoring and evaluation for health outcomes by training monitoring and evaluation officers within MRD, PDRD, and commune councils for effective collection of data.

Output 5: Improved capacity for Project implementation

- (i) Project orientation workshops at the national and sub-national levels (e.g., district integration workshop) to inform key stakeholders about the Project design and eligibility of communes to participate in the Project; and

- (ii) provision of capacity development program for MRD, PDRDs, DORDs, commune councils, RWSS committees, and WSUGs focusing on improving Project implementation practices, including social and gender awareness training, planning and budgeting training, accounting and bookkeeping and other types of Project implementation training. WSUGs' and RWSS committees' capacity will be developed in water and sanitation service management and delivery.

3. The Project also includes the provision of consultants and is expected to be completed by 30 June 2015.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant 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 Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall (i) establish, immediately after the Effective Date, a deposit account at the National Bank of Cambodia; (ii) cause MRD to establish, immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB; and (iii) cause each PDRD Project Team director to establish, immediately after the Effective Date, a Second Generation Imprest Account (SGIA), in each Participating Province, at a commercial bank acceptable to ADB. The

imprest account and each of the SGIA shall be established, managed, replenished and liquidated in accordance with Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The currency of the imprest account shall be Dollars. The amount to be deposited into the imprest account shall be equivalent to the estimated expenditure to be financed through the imprest account for the next six (6) months of Project implementation, but in any event shall not exceed two million one hundred thousand Dollars (\$2,100,000). The amount to be deposited into each of the SGIAs, from the initial deposit into the imprest account, shall be equivalent to six (6) months' estimated expenditure, but in any event shall not exceed three hundred thousand Dollars (\$300,000).

(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 Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed fifty thousand Dollars (\$50,000).

Conditions for Withdrawal from Grant Proceeds

6. Notwithstanding any other provision of this Grant Agreement, no disbursement of Grant proceeds shall be made to the imprest account including the SGIA:

(a) if a misprocurement has been found by ADB or procurement has been identified as irregular, until such misprocurement or other irregularity has been corrected by the PCU and/or the concerned Participating Province to the satisfaction of the Recipient and ADB;

(b) until the MRD three (3)-year budget strategy plan for 2010 shall have (i) listed rural water and sanitation sector as a priority sector; and (ii) prioritized rehabilitation and upgrading of existing water supply facilities;

(c) until an international monitoring and evaluation NGO shall have been recruited to (i) conduct baseline, midterm and final surveys; (ii) develop and implement a monitoring and evaluation capacity development program for the Project based on the PPMS; and (iii) conduct a final Project evaluation; and

(d) until the PDRD Director in each Participating Province shall have completed a review of the rehabilitation needs in their respective provinces for existing water supply facilities and public sanitation facilities and submitted the findings of the review to the PCU and ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT ACCOUNT (Second Rural Water Supply and Sanitation Sector Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated (\$)		Percentage and Basis for Withdrawal from the Grant Account
		Category	Subcategory	
1	Works	11,813,000		
1A	Rehabilitated or Upgraded Water Supply Points		2,640,000	92 percent of total expenditure
1B	New Improved Water Supply Points		4,785,000	89 percent of total expenditure
1C	Construction of Public Toilets		158,000	81 percent of total expenditure
1D	Construction of Household Toilets		4,230,000	88 percent of total expenditure
2	Equipment	143,000		100 percent of total expenditure*
3	Environment Mitigation	184,000		92 percent of total expenditure
4	Workshops	232,000		92 percent of total expenditure
5	Consulting Services	3,997,000		100 percent of total expenditure*
6	Recurrent Costs	1,025,000		92 percent of total expenditure
7	Unallocated	3,606,000		
	Total	21,000,000		

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

SCHEDULE 3

Provisions on Procurement and Consulting Services

A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Grant 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 Grant 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:

National Competitive Bidding
Shopping
Community Participation in Procurement

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

4. National Competitive Bidding. The Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Recipient's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Recipient and ADB.
5. Community Participation in Procurement. The Recipient may use community participation in procurement for Works contracts for construction of household latrines in accordance with the agreed procedures set out in the Procurement Plan.

C. Conditions for Award of Contract

6. The Recipient shall not award any Works contracts financed under the Grant until the relevant IEE and a RAP, if any, have been approved by the Recipient and ADB; and objections (if any) raised by Project affected people have been addressed and compensation, as per the Project LARF/RAP, has been given to the Project affected people.

D. Selection of Consulting Services

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

8. The Recipient shall apply the Quality Based Selection or QCBS for selecting and engaging (i) the international or national NGOs' services for assisting in Project management, technical issues, community development, and training; and (ii) international NGO's services for Project monitoring and evaluation.

9. The Recipient shall recruit, as needed, the individual consultants for RWSS engineering services and community development facilitators' services in accordance with procedures acceptable to ADB for recruiting individual consultants.

E. Industrial or Intellectual Property Rights

10. (a) The Recipient 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 Recipient 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.

11. The Recipient 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

12. First Works and Goods contract procured under national competitive bidding and contracts for consulting services shall be subject to prior review by ADB. All other contracts shall be subject to the post review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan. Procurement of all Works contracts with a total value of fifty thousand Dollars (\$50,000) equivalent or more shall require the presence of a PCU member on the PDRD's procurement committee and shall be submitted for ADB's approval.

SCHEDULE 4

Execution of Project and Operation of Project Facilities; Financial Matters

Project Implementation and Coordination

1. Project Execution Agency. MRD shall be the EA for the Project responsible for the overall implementation and coordination of the Project.
2. Project Coordination Unit. The project management unit (PMU) for the TSRWSSP has been expanded, with additional staff and resources, into a PCU within the Department of Rural Water Supply in MRD. The PCU will operate in the same way as the PMU for the TSRWSSP. The PCU shall be responsible for: (i) policy and implementation coordination between MRD and other national level agencies, provincial agencies, international development agencies, the private sector, and ADB; (ii) overall Project planning and coordination; (iii) setting standards for technical design, construction and quality of services; (iv) review and implementation of the PPMS; (v) participation of procurement committees in the provinces for contract packages in excess of fifty thousand Dollars (\$50,000); (vi) supporting the awareness campaign on water use, sanitation and hygiene education; (vii) standardization and collation of Project reports; and (viii) advertising, and providing information to the private sector on Project business opportunities.
3. Project Steering Committee. The PSC already established under the TSRWSSP shall be used as the PSC for providing oversight to the Project. The PSC shall continue to be chaired by Secretary of State of MRD and shall include members from MRD departments (Rural Water Supply, Rural Health Care, Community Development, Training, Planning, and Administration and Staff responsible for gender, and six (6) PDRD Directors). PSC shall meet every three (3) months to coordinate Project activities. Representatives from the Recipient's Ministry of Economy and Finance, Ministry of Health, Ministry of Education, Youth and Sport, and Council of Agriculture and Rural Development shall be invited to attend PSC meetings, as needed. The EA shall ensure that the MRD representatives that attend the meetings of National Committee for Sub-national Democratic Development, coordinated by Ministry of Interior, also attend the PSC meetings.
4. PDRD Project Teams (PPTs). The existing project implementation units (PIUs) developed under the five provinces of TSRWSSSP as expanded with additional staff and resources and renamed as PPTs and the new PPT for Banteay Meanchey shall be responsible for: (i) liaising with commune councils and WSUGs; (ii) selecting of subproject communes; (iii) preparing of provincial Project implementation plans; (iv) carrying out subproject feasibility studies and preparation of subproject feasibility reports (including commune gender action plans) that will include technical design, appraisal, bidding documents for Works (if required, and safeguards reports including land acquisition, environmental screening reports and initial environmental examinations, if necessary); (v) procuring of Works; (vi) establishing a procurement committee, chaired by the PDRD director with members drawn from PDRD staff; (vii) implementing land acquisition, resettlement, environmental and gender activities; (viii) providing technical advice to communities for selection and rehabilitation, improvement or development of water supply and sanitation facilities and their subsequent operation and maintenance; (ix) implementing the awareness campaign on water use, sanitation and hygiene education; (x) collecting, monitoring and evaluation data and entry to computerized database; and (xi) report preparation. Each PPT

shall also submit to PCU: (a) an annual training plan with an estimated budget, number of participants, and type of trainings within the first quarter of each year; and (b) a short report on the training, number of participants by sex, and outcomes of the training together with the new annual training plan prior to undertaking subsequent training activities.

Subproject Selection Procedure and Criteria

5. The Recipient shall ensure that the subproject selection criteria and procedures as set in paragraphs 6-9 below are followed.

6. Expression of Interest. Commune councils of the short-listed communes shall submit an expression of interest at the district integration workshop or directly to the PDRDs, including: (i) current population coverage in all the villages in the commune; (ii) population characteristics (male-female, ethnic/religious minorities, and poverty rates); (iii) existing RWSS coverage in each village; (iv) confirmation that all villages are classified as rural villages; (v) confirmation that no other development partner is currently providing support in the villages within the commune; and (vi) agreement by the villages to participate in the Project.

7. Order of Project Support. Once approved, the order of project support to prepare a subproject feasibility report will be determined by the PCU depending on geographical coherence. At any one time the Project shall select between six (6) to ten (10) communes, depending on the population size of each commune.

8. Subproject Feasibility Report. After the selection of the communes by MRD and ADB, the Project will support the communes and villages to prepare a subproject feasibility report, including sections on: (i) physical description of the subproject area; (ii) a summary of demographic information including a summary of existing water supply and sanitation facilities, household practices and health and hygiene, a summary of rehabilitation and upgrading water supply facilities in each of the villages, a summary of the socio-economic situation in the subproject area; (iii) a costed summary of work proposed at the subproject; (iv) benefits and economic justification of water supply facilities with comment on affordability and willingness of households to contribute to capital costs and O&M; and (v) comment on environmental and social safeguards. In addition, annexes to the feasibility report will include: (a) findings of the household survey conducted in the subproject area; (b) subproject interventions with cost estimates; (c) an economic and financial analysis; and (d) a gender action plan. If found necessary following the subproject feasibility study, a further support will be provided to develop an initial environmental examination and a draft resettlement action plan.

9. Eligibility Criteria. After receiving a subproject feasibility report, each respective PDRD will appraise the report against eligibility criteria including: (i) the subproject feasibility report (a) shows that the subproject is feasible and has no significant negative social or environmental impacts and no significant resettlement or land acquisition; (b) demonstrates clear prioritization to the rehabilitation and upgrading of water points (as per the agreed guidelines); and (c) adopts with beneficiary and commune council concurrence, the least-cost option for improved water supply facilities, and includes a detailed assessment and plan for rehabilitation; (ii) cluster villages with urban characteristics are excluded from the subproject within the commune; (iii) subproject feasibility report has been shared at provincial rural development committee's (or its equivalent) meeting and agreed to by commune councils and villages; (iv) all rural villages in the commune agree to participate in the Project and within each rural village at least 90% of households agree to

participate with the Project and its ideals; (v) in all rural villages agreement is reached to establish a WSUG for the management of all communal water supply facilities, and adopt the existing guidelines for WSUGs; (vi) over 90% of households in each village agree to participate in the subproject's awareness and hygiene education activities, participate in the preparation of the village water supply and sanitation plan, select and implement the chosen types of water supply and sanitation facilities, contribute to water supply and sanitation facilities in kind and/or cash, elect its WSUG, contribute to O&M of water supply facilities by paying fees to WSUG, and maintain their household water supply and sanitation facilities; (vii) the commune council has prioritized a need for improved water supply and sanitation facilities in commune plans forwarded to the provincial level; and (viii) compliance of villages and communes with Project readiness criteria, including: (a) establishment of a RWSS committee; and (b) appointment of at least two (2) key focal persons in the commune council committees and up to eight (8) focal persons in each village, (including the village head) who agree to receive training, act as facilitators and participate fully in community mobilization, hygiene education and other subproject activities.

10. Eligibility Criteria for Rehabilitation and Upgrading of Water Supply Facilities. The Recipient shall ensure that rehabilitation and upgrading shall only be undertaken if, as a result of the rehabilitation or upgrading, (i) the facility can be converted into an improved water supply facility category; and (ii) cost of rehabilitation or upgrading, except in the case of work undertaken at ponds, should not exceed 30% of the cost of a new improved water supply facility.

Operations and Maintenance

11. O&M of water supply facilities. The MRD shall cause PDRDs to ensure that (i) the contribution of WSUGs, to the Project cost, at least covers the cost of O&M of the water supply facilities; and (ii) technical support is provided to the village communities in the Project areas to ensure continued O&M of the water supply facilities beyond Project period.

12. O&M of sanitation facilities. The MRD shall cause PDRD to ensure that prior to the construction of public latrines in each village, PDRD signs an agreement with the WSUG, for each school or health facility, outlining (i) the terms and conditions of the arrangement; (ii) cost sharing principles; (iii) WSUG's responsibility to carry out hygiene awareness campaigns in the village communities; and (iv) detailed plan for continued O&M of the sanitation facilities beyond Project period.

Establishment of Strategies, Guidelines and Committees

13. Establishment of the VDCs. The Recipient shall approve, within 12 months of Effective Date, a Royal Decree and Sub-Decree on the establishment of VDCs.

14. Approval of Rural Water Supply, Sanitation, and Hygiene (RWSSH) Strategy 2010-2025 and Implementation Guidelines. The Recipient shall ensure that MRD approves the new RWSSH strategy 2010-2025 within 30 months of the Effective Date, and the implementation guidelines within 36 months of the Effective Date.

15. Review and approval of the WSUG Guidelines. Within 24 months of the Effective Date, MRD shall revise and approve the guidelines on the establishment of WSUGs including, but not limited to, (i) the organization and registration; (ii) legal statutes, rights and responsibilities of a WSUG and its members; and (iii) the election and composition of

WSUGs board, to the satisfaction of ADB. The roles and responsibilities of the RWSS committee, its membership, key functions and its relation to VDCs shall also be included in the revised WSUG guidelines.

16. Prioritization of RWSS sector. The MRD shall ensure that its three (3)-year budget strategy plan for submission to the Recipient for annual budget allocations is (i) based on provincial assessments; (ii) lists rural water and sanitation sector as a priority sector; and (iii) prioritizes rehabilitation and upgrading of existing water facilities.

Other Matters

17. Counterpart Financing. The Recipient shall ensure that the counterpart financing necessary for the Project is provided in time, and that MRD, through PDRDs, make available all funds and resources necessary for construction and O&M of the Project on a timely basis. The Recipient shall further ensure that additional counterpart funding is available to cover any funding shortfalls that may occur during Project implementation.

18. Project Implementation and Fund Flows. The Recipient shall, and shall cause MRD to ensure, that the implementation arrangements and funds flow mechanisms, agreed between the Recipient and ADB, shall remain the same throughout the Project implementation period and shall not be affected by the Recipient's decentralization and deconcentration processes.

19. Accounting, Auditing and Reporting. Without limitation to the overall application of Section 4.02 of this Grant Agreement, MRD shall ensure that (i) audit of the Project accounts by an independent auditor acceptable to ADB is timely undertaken by using the international accounting and auditing standards; (ii) consolidated audit reports are submitted to ADB within 6 months of the close of the Recipient's fiscal year; and (iii) the audit opinion includes: (a) an assessment of the adequacy of accounting and internal control systems regarding Project expenditures and transactions to ensure safe custody of Project-financed assets; (b) a determination as to whether the Recipient, MRD, and participating provinces have maintained adequate documentation for all financial transactions, specifically including the statement of expenditure and imprest account procedures; and (c) confirmation of compliance with the Project financial management system and ADB's requirements for Project management.

20. MRD shall, and shall cause PDRD to ensure, that PPTs submit quarterly reports and data to the PCU within 15 days of the end of each quarter. MRD shall further ensure that the PCU (i) collects and consolidates all Project progress reports, site reports, technical and financial reports and submit them to ADB; and (ii) prepares quarterly progress reports within 30 days of the end of each quarter, a midterm Project evaluation report, and an overall Project completion report. The quarterly report shall include (i) a narrative description of progress made during the reporting period; (ii) modifications, if any, to the implementation schedule; (iii) details of land use and resettlement; (iv) information on the environmental screening; (v) information on poverty and social development activities, including gender; (vi) major Project activities by PCU, PPTs, and NGOs; (vii) financial and procurement-related information; (viii) problems experienced and remedial actions proposed; (ix) the work to be carried out during the upcoming reporting period; and (x) a summary of expenditures during the quarter, year-to-date expenditures, and total expenditures to date.

21. Project Performance Management System. PPMS developed under the TSRWSSP shall be upgraded, within 12 months of the Effective Date, to ensure that it meets the performance and safeguard reporting needs of the Project. MRD shall and shall cause PDRD to ensure that PPTs implement and update the PPMS in consultation with the local communities 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; (iv) ensure compliance with social safeguards; and (v) measure the Project's benefits. Annual PPMS reports shall be prepared by PPT then consolidated by the PCU and submitted to ADB.

22. Project Review. MRD and ADB shall conduct joint Project reviews at least twice a year and a comprehensive Project review about 30 months after the Effective Date. The comprehensive Project review shall evaluate (i) the actual progress of each Project output in each province; (ii) implementation arrangements and procedures within the Recipient's D&D process; (iii) role of VDCs in the furthering Project implementation (i.e., coordinating village level activities) following the approval of the Royal Decree and sub-decree on the establishment of VDCs; (iv) activity schedules with focus on targets, type of technologies promoted, rehabilitation of water supply facilities, upgrading of existing water supply facilities; (v) procurement procedures; (vi) progress and effectiveness of capacity development programs; (vii) feedback from NGO surveys and PPMS activities; (viii) the functioning and performance of the PCU and PPTs; (ix) the performance of consultants and NGOs; (x) the financial performance and cost recovery of WSUGs; and (xi) effectiveness of safeguard procedures.

23. Governance and Anticorruption. MRD shall ensure that (i) EA's capacity is strengthened to comply with the Project administration memorandum as agreed with ADB; (ii) a Project website is established within 12 months of the Effective Date to disclose Project information including procurement contracts, bidding procedures, list of goods and services procured, and grievance redress procedures; (iii) the existing system of notice board display of information at the commune council offices, including display of information on contracts, list of participating bidders, name of the winning bidder, basic details on bidding procedures, contract award, and list of goods and services procured, is used or new similar system is developed for the Project; (iv) communities are adequately informed about the date and location of selected events in the procurement process; and (v) grievance redresses mechanism is established at the PCU and PPT levels in each Participating Province to (a) review and address grievances of Project stakeholders, in relation to either the Project, any of the service providers, or any person responsible for carrying out the Project; and (b) set the threshold criteria and procedures for handling such grievances, for proactively responding to them, and for providing the stakeholders with notice of the chosen mechanism/action. MRD shall further ensure that the PCU or PPT provides a formal reply, to any complaint, within 20 working days of its receipt, and report such grievances in their progress reports to the Recipient and ADB.

24. Gender. MRD shall ensure that the implementation of the gender action plan agreed by the Recipient and ADB including, but not limited to, ensuring that (i) at least 40% of each WSUG board is female; and (ii) 50% of WSUG board members trained in water supply O&M are women. MRD shall ensure that community mobilization contracts with the NGO require that (i) at least one (1) of each three (3)-person NGO team is female; (ii) the training carried out by the NGO team and the PPTs, as part of output 1, is directed towards the poor and vulnerable, including at least 40% of women; and (iii) at least 40% of all hygiene and sanitation education participants are male.

25. Environment. MRD shall ensure that its laws and regulations governing environmental impact assessments, as well as ADB's *Environment Policy* (2002), are followed. If there are any discrepancies between the Recipient's laws and regulations and ADB's *Environment Policy*, the latter shall apply. Each PPT shall conduct an environmental assessment for each subproject based on the Project environmental assessment and review framework (EARF). The Recipient shall and shall cause MRD to further ensure that environmental assessment (i) is based on the procedures set forth in the EARF; (ii) conforms with ADB's *Environment Policy* requirements; (iii) include details of local consultation carried out; and (iv) is submitted to ADB for approval prior to Works contracts being awarded for the subproject. MRD shall provide certification that unexploded ordnance has been cleared before commencement of Works.

26. Land Acquisition and Resettlement. MRD shall ensure that Project RAP, if any, are approved by ADB prior to the award of Works contracts for clusters of subprojects, in accordance with the Project LARF, Recipient's laws, regulations, and procedures, and ADB's requirements as defined in ADB's *Involuntary Resettlement Policy* (1995). In case of discrepancies between Recipient's laws, regulations, and procedures and ADB's requirements, the latter shall apply.

27. Ethnic and Religious Minorities. MRD shall ensure that (i) full participation of ethnic and religious minorities is promoted in Project activities, including, among other things, the capacity development and training activities; (ii) the needs of the ethnic and religious minorities are appropriately met especially in the areas with a high proportion of ethnic minority people; (iii) the WSUG board has reasonable representation from the ethnic and religious minority groups; and (iv) all activities are consistent with ADB's *Policy on Indigenous Peoples* (1998).

28. Labor Standards. MRD shall ensure that the construction contractors (i) provide timely payment of wages and safe working conditions to all workers and are monitored by the PCU and PPTs; (ii) promote women's employment, where appropriate; (iii) pay equal wages to men and women employees for same kind of work; (iv) do not employ child labor as required by the relevant laws and regulations of the Recipient; (v) maximize the employment of local poor people who meet the job and efficiency requirements for construction and maintenance of the Project; and (vi) include specific provisions to give effect to this clause in the Works contracts and strictly monitor its compliance.

29. Health Risks. MRD shall ensure that (i) Works contractors disseminate information on the risks of socially and sexually transmitted infections, including HIV transmission, to their employees and temporary laborers during Project implementation; and (ii) specific clauses are included in the Works contracts to give effect to this clause and strictly monitored.