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GRANT NUMBER 0122-KGZ(SF)  
(Supplementary to Loan No. 1742-KGZ)

GRANT AGREEMENT  
(Special Operations)

(Community-Based Infrastructure Services Sector Project - Supplementary)

between

KYRGYZ REPUBLIC

and

ASIAN DEVELOPMENT BANK

DATED 24 NOVEMBER 2008

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GAS:KGZ 31197

## **GRANT AGREEMENT (Special Operations)**

GRANT AGREEMENT dated 24 November 2008 between KYRGYZ REPUBLIC (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

### WHEREAS

(A) by a Loan Agreement dated 1 September 2000 (Loan No. 1742-KGZ: Community-Based Infrastructure Services Sector Project) between the Recipient and ADB, as amended by a letter of agreement dated 19 December 2007 (the "Initial Loan Agreement"), ADB had made to the Recipient a loan of twenty-seven million two hundred and eighty-nine thousand Special Drawing Rights (SDR 27,289,000) from ADB's Special Funds resources for the purposes of the project described in Schedule 1 to the Initial Loan Agreement (the "Initial Project");

(B) the Recipient has applied to ADB for a supplementary grant for the purpose of financing cost overruns and change in scope in relation to the Initial Project, as described in Schedule 1 to this Grant Agreement (the "Project"); and

(C) ADB has agreed to provide a supplementary grant to the Recipient from ADB's Special Funds resources for the purposes of the Project 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) "AOK" or "Ayil Okmoto" means the local self-government at the village level;
- (b) "CDWUUs" means the community drinking water users' unions;

(c) “Consulting Guidelines” means ADB’s Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated February 2007, as amended from time to time;

(d) “DRWS” means the Department of Rural Water Supply of the Recipient;

(e) “EARF” means the environmental assessment and review framework prepared for the Project in accordance with ADB’s *Environment Policy* (2002) and the applicable laws of the Recipient, and set out in Appendix 4 of the RRP;

(f) “EMP” means environmental management plan prepared or to be prepared for each Subproject and set out in the IEE;

(g) “Goods” means materials and equipment to be financed out of the proceeds of the Grant, and includes ancillary services rendered under a contract for the supply of these materials and equipment, such as transportation, insurance, installation, commissioning, training, and initial maintenance;

(h) “IEE” means the initial environmental examination prepared or to be prepared for each Subproject in accordance with the EARF;

(i) “MAWR” means the Ministry of Agriculture and Water Resources of the Recipient;

(j) “MOF” means the Ministry of Finance of the Recipient;

(k) “NALSG” means the National Agency of Local Self-Government of the Recipient;

(l) “PIU” means each of the existing oblast Project implementation units as more fully described in paragraph 1 of Schedule 4 to the Grant Agreement;

(m) “PMU” means the Project management unit established by the Recipient within the DRWS as more fully described in paragraph 1 of Schedule 4 to the Grant Agreement;

(n) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;

(o) “Procurement Plan” means the procurement plan for the Project dated 26 September 2008 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;

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

(q) “Resettlement Framework” means the resettlement framework in respect of voluntary land donation for community development works prepared in

accordance with ADB's *Involuntary Resettlement Policy* (1995) and the applicable laws of the Recipient, and set out in Appendix 5 of the RRP;

(r) "RRP" means ADB's Report and Recommendation of the President to the Board of Directors for this Project;

(s) "Subproject" means an infrastructure rehabilitation or upgradation subproject included, or proposed to be included, in the Project in accordance with the selection criteria and procedures referred to in Appendix 11 of the RRP; and

(t) "Works" means construction or civil works to be financed out of the proceeds of the Grant, and includes ancillary services rendered under a contract to perform these works, such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## **ARTICLE II**

### **The 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 thirty million Dollars (\$30,000,000).

## **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 the allocation of amounts of the Grant among different categories of such Goods, Works and consulting services 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 30 June 2013 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 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 and 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**

### **Initial Loan Agreement**

Section 5.01. The Recipient and ADB have agreed to amend the Initial Loan Agreement as hereinafter set forth:

- (a) Section 1.02 (h) of the Initial Loan Agreement is amended to the extent that the Project Executing Agency shall mean DRWS instead of MAWR.
- (b) Schedule 1 to the Initial Loan Agreement is amended to the extent that: paragraph 2, Part A, (i) (b) and (c), and paragraph 2, Part A, (ii) shall be deleted.

## **ARTICLE VI**

### **Suspension and Cancellation**

Section 6.01. The following is specified as an additional event for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations: the Recipient shall have failed to perform any of its obligations under the Initial Loan Agreement.

## **ARTICLE VII**

### **Effectiveness**

Section 7.01. A date sixty (60) 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 VIII**

### **Miscellaneous**

Section 8.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

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

For the Recipient

Ministry of Finance  
58, Erkindik Avenue  
Bishkek 720040  
Kyrgyz Republic

Facsimile Number:

(996) 312-661-955  
(996) 312-661-645.

For ADB

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

Facsimile Numbers:

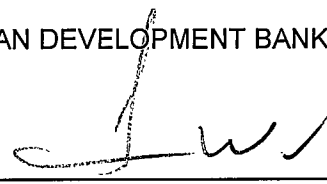
(632) 636-2444  
(632) 636-2484.

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.

KYRGYZ REPUBLIC

By   
TAJIKAN KALIMBETOVA  
Minister of Finance

ASIAN DEVELOPMENT BANK

By   
LAN WU  
Country Director  
Kyrgyz Resident Mission

## **SCHEDULE 1**

### **Description of the Project**

1. The objective of the Project is to finance cost overruns and change in scope in relation to the Initial Project, thereby supporting the overall objective of improving the living and health conditions in selected rural communities through provision of basic infrastructure services and strengthening of institutional capacity for delivery of such services.
2. The Project shall comprise the following:
  - (i) Rehabilitation and upgradation of rural water supply and sanitation services in the remaining Subprojects under the Initial Project through (a) simplification of the Subproject selection criteria; (b) improvements in technical design criteria; and (c) improvements in implementation arrangements;
  - (ii) Rectification works; and provision of operation and maintenance equipment;
  - (iii) Provision of training and capacity development programs to the staff of DRWS, the local governments, and CDWUUs;
  - (iv) Provision of consulting services for community mobilization, technical design and supervision; and
  - (v) Provision of support for Project management and monitoring.
3. The Project is expected to be completed by 31 December 2012.

## 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 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, and consulting services shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

#### Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, an imprest account at a bank acceptable to ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between

the Recipient and ADB. The currency of the imprest account shall be Dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant 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 the Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment that may be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Community-Based Infrastructure Services Sector Project - Supplementary)</b>				
<b>CATEGORY</b>				<b>ADB FINANCING</b>
<b>Number</b>	<b>Item</b>	<b>Amount Allocated</b>		<b>Percentage and Basis for Withdrawal from the Grant Account</b>
		<b>Category</b>	<b>Subcategory</b>	
1	Works	21,800,000		
1A	Water Supply and Sanitation		19,800,000	93 percent of total expenditure*
1B	Rectification Works		2,000,000	100 percent of total expenditure*
2	Equipment and Material	3,000,000		
2A	Water Supply and Sanitation		1,000,000	100 percent of total expenditure*
2B	Rectification Works		2,000,000	100 percent of total expenditure*
3	Vehicles	150,000		100 percent of total expenditure*
4	Training and Capacity Building	1,500,000		
4A	Community Awareness and Participation Program		500,000	100 percent of total expenditure*
4B	Hygiene and Sanitation Education Program		500,000	100 percent of total expenditure*
4C	Asset Management and Strengthening Program		500,000	100 percent of total expenditure*
5	Consulting Services	1,500,000		100 percent of total expenditure*
6	Project Management	1,200,000		
6A	PMU and PIU staff salaries		600,000	34 percent of total expenditure*
6B	Office Management Expenses (printing, stationery and office operating costs)		600,000	100 percent of total expenditure*
7	Unallocated	850,000		
	Total	30,000,000		

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

### SCHEDULE 3

#### Procurement of Goods, Works, and Consulting Services

##### **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.

##### **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
Shopping
Direct Contracting

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. The Recipient 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.
5. 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.

##### **Conditions for Award of Contract**

6. The Recipient shall not award any Works contracts financed under the Grant until the Subproject has been selected and approved in compliance with paragraph 6 of Schedule 4 to this Grant Agreement.

**Selection of Consulting Services**

7. Except as ADB may otherwise agree, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.

8. The Recipient may recruit the individual consultants for services set out in paragraph 2(iv) of Schedule 1 to this Grant Agreement in accordance with procedures acceptable to ADB for recruiting individual consultants.

**Industrial or Intellectual Property Rights**

9. (a) The Recipient shall ensure that none of the Goods or Works (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) 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.

10. 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.

**ADB's Review of Procurement Decisions**

11. 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 Recipient and ADB and set forth in the Procurement Plan.

## SCHEDULE 4

### Execution of Project and Other Matters

#### Implementation Arrangements

1. The Recipient shall make all possible efforts to retain the existing PMU under the DRWS and its key staff to manage and administer the Project, subject to the following:
  - (i) A Project director shall head the PMU, and shall be supported by specialists in technical and engineering, institutional development and financial management.
  - (ii) The PMU shall recruit additional four water supply and sanitation specialists, an environment specialist, and a translator/interpreter.
  - (iii) Four PIUs already established in each of the four (4) oblasts (provinces) Chui, Jalal-Abad, Osh and Batken shall be responsible for Project implementation in the villages.
2. The Recipient shall make all possible efforts to ensure that the DRWS does not transfer any staff in the PMU and the PIUs during the Project implementation period.
3. The DRWS shall strengthen the capacity of the PMU and PIU staff for identifying subprojects, mobilizing the community, and forming and developing CDWUUs.
4. The Recipient shall cause the NALSG to (i) join the PIUs in the implementation of the Project, and (ii) seek participation, with the help of the PMU, of Ayil Okmotu and CDWUUs through the community awareness, hygiene and sanitation education, and asset management and strengthening programs.
5. Within three (3) months of the approval of the Grant by ADB, the Recipient shall cause the DRWS, NALSG, Ministry of Health, Ministry of Finance, and Ministry of Economic Development and Trade to establish a Project coordination committee, which shall meet at 6-monthly intervals or as earlier, if necessary, to oversee Project implementation and provide decision making support on all aspects of the Project.

#### Subproject Selection

6. The DRWS shall ensure that each proposed Subproject meets the Subproject selection criteria and the approval process as set out in Appendix 11 of the RRP.

#### Service Delivery

7. The DRWS shall continue to monitor the water quality of all the completed schemes under the Initial Project and the Subprojects at 6-monthly intervals, particularly after the monsoon season, and undertake timely measures to address any case of contamination.

8. The Recipient shall ensure that the DRWS establishes a suitable mechanism under the Project to finance the procurement of operations and maintenance equipment and water meters for the interested CDWUUs.

9. The DRWS shall ensure that the PMU (i) re-evaluates the performance of existing contractors and qualifies only those contractors who have performed well during the Initial Project implementation, and (ii) applies a more stringent criterion for the prequalification of new contractors.

10. The DRWS shall cause the PMU to ensure that comprehensive investigations are undertaken for the selection of sustainable water sources, and that the communities are involved in the identification and selection of water sources and the overall implementation of the Subprojects.

#### Operation and Maintenance

11. The Recipient shall ensure that the AOKs and CDWUUs operate and maintain the completed Subproject facilities for water supply and sanitation in accordance with sound administrative policies and procedures through efficient collection of user charges and other local taxes.

#### Tariffs

12. The Recipient shall ensure that the AOKs (i) conduct annual review of the level and structure of the water tariffs and furnish the results to ADB within one (1) month of completion of the review; (ii) revise the water tariffs as necessary to ensure that the revenues from water tariffs cover at least the operation and maintenance costs; and (iii) provide financial support, where necessary, to CDWUUs and ensure that service is efficiently delivered and the system does not experience breakdown.

#### Billing and Collection

13. The Recipient shall ensure that the AOKs and CDWUUs take appropriate measures to effect proper collection of outstanding water bills and protect their water resources and facilities through vigorous prosecution for violations such as water meter tampering or water theft.

#### Participation by Non-Governmental Organizations, Community-Based Organizations, and Women

14. The Recipient shall ensure that (i) relevant non-governmental organizations and community-based organizations are involved at all stages of Subproject planning, design, construction and operations and maintenance, and actively assist in the capacity-development, including health and hygiene aspects of the Project; (ii) women's community groups participate in all relevant Project-related decision-making activities; and (iii) adequate opportunities are provided for employment of women in AOKs and CDWUUs and for other activities under the Project .

### Land Acquisition: Voluntary Land Donation

15. The Recipient shall ensure, and cause DRWS to ensure, that (i) the Subprojects do not require any land acquisition or involuntary resettlement; and (ii) in the event any land acquisition or resettlement becomes necessary, or any potential impact on indigenous peoples is identified, a suitable resettlement plan is drawn up in consultation with the affected people, and approval of ADB, in accordance with the applicable laws of the Recipient, ADB's *Involuntary Resettlement Policy* (1995) and *Policy on Indigenous Peoples* (1998), and is implemented in accordance with its terms.

16. The Recipient shall ensure, and cause DRWS to ensure, that any voluntary donation of land made for community development works (such as water source development, overhead reservoir, water transmission line, and wastewater disposal works) is undertaken in compliance with the applicable laws of the Recipient, ADB's *Involuntary Resettlement Policy* (1995), and in accordance with the terms of the Resettlement Framework. The Recipient shall further ensure that it obtains consent letters, in the form attached to the Resettlement Framework, from all affected people under the Initial Project and this Project for voluntary donation of their lands.

### Environment

17. The Recipient shall ensure, and cause DRWS to ensure, that (i) the Subprojects are designed and implemented, and the Subproject facilities operated and maintained, in strict conformity with the applicable laws of the Recipient, and ADB's *Environment Policy* (2002); (ii) an IEE (or environmental impact assessment, if necessary) is undertaken for each Subproject in accordance with the EARF; (iii) IEE and EMP are submitted to ADB for prior approval for any Subproject costing \$300,000 or more; (iv) any adverse environmental impacts are minimized by implementing the mitigation measures and the monitoring program set out in the EMPs; (v) implementation of the EMPs and any violation of the environmental standards are reported to ADB semiannually; (vi) necessary governmental permits are obtained prior to commencement of civil works; (vii) EMPs are incorporated in the bidding documents and made a part of the civil works contracts; (viii) the implementation of the EMPs by the contractors is closely monitored; and (ix) annual reports are submitted to ADB on the implementation of EMPs.

### Anticorruption

18. The Recipient and DRWS acknowledge that ADB, consistent with its commitment to good governance, accountability and transparency, reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project, and shall (i) comply with ADB's *Anticorruption Policy* (1998, as amended to date); and (ii) cooperate with any such investigation and extend all necessary assistance, including access to all relevant books and records, and for engagement of independent experts who may be needed for satisfactory completion of such investigation.

19. The DRWS 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.

20. The DRWS shall ensure that it (i) oversees financial management of the Project based on the approved Guidelines on Administrative and Finance Management of the PMU approved by its order No. 9 of 22 February 2007; (ii) institutes a system of controls to ensure that all cash and banking transactions undergo four levels of checks -- accountant, financial manager, director-PMU and director general-DRWS; (iii) submits monthly and quarterly financial reports to the MOF and ADB to confirm compliance with accounting standards and fund utilization; (iv) submits all withdrawal applications for replenishment to the MOF and ADB with detailed information on current expenditures for the related period and that all supporting documents are confirmed by the director, PMU after verification by financial manager and PMU consultants; (v) manages and tallies financial data periodically on the "Software-1C" system at the PMU; (vi) has the Project accounts audited annually by the Chamber of Accounts and by an independent auditing firm (recruited on a competitive basis) and that audit recommendations are promptly complied with; (vii) requires the technical supervision consultant to provide third party quality assurance on construction practices, appropriate equipment and material usage by contractors, and apply adequate quality assurance and control measures during Project implementation; and (viii) requires the PMU staff and Project consultants to undergo training on ADB's Anticorruption Policy, to understand how and where fraud and corruption may occur, and learn possible measures to reduce such occurrences.

#### Counterpart funds

21. The Recipient shall ensure that adequate annual budgetary allocations are made and the counterpart funds made available to DRWS and the PMU in a timely manner.

#### Project Performance Monitoring

22. The Recipient shall ensure that the implementation of the Project, the benefits resulting from the Project, and the overall operations of the Project facilities are monitored and evaluated bi-annually. Within six (6) months of the Effective Date, the Recipient shall further refine the Project performance monitoring system, in a manner satisfactory to ADB, including the use of relevant financial and technical monitoring indicators and information.

#### Project Review

23. The Recipient and ADB shall review the progress under the Project bi-annually, and also undertake a comprehensive mid-term review two (2) years after the Effective Date. These reviews shall focus on the impact on poverty alleviation, implementation arrangements, community involvement, physical implementation, design and technology, operation and maintenance arrangements, institutional aspects including training, hygiene and sanitation education, and the role of women. The reviews shall also assess the Project's progress and achievement of its objectives, identify any problems encountered and recommend any required remedial measures.