



Project Administration Memorandum

Project Number: 32249
Loan Number: 2008-NEP (SF)
September 2003

NEP: Community Based Water Supply and Sanitation Sector Project

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 01 September 2003)

Currency Unit		Nepalese rupee (NRs)
NRs1.00	=	\$0.013405
\$1.00	=	NRs74.600

ABBREVIATIONS

ADB	–	Asian Development Bank
CBO	–	community-based organization
DDC	–	district development committee
DFID	–	Department for International Development
DWCC	–	district water coordinating committee
DWSS	–	Department of Water Supply and Sewerage
GCE	–	gender, caste and ethnicity
GIS	–	geographic information systems
HDI	–	human development index
IEE	–	initial environmental examination
LDO	–	Local Development Officer
LSGA	–	Local Self-Governance Act
M&E	–	monitoring and evaluation
MLD	–	Ministry of Local Development
MOF	–	Ministry of Finance
MPPW	–	Ministry of Physical Planning and Works
NGO	–	nongovernment organization
NPC	–	National Planning Commission
NPSC	–	National Project Steering Committee
O&M	–	operation and maintenance
PPMS	–	project performance management system
PMU	–	project management unit
RWSS	–	rural water supply and sanitation
SSG	–	sector stakeholder group
SOE	–	statement of expenditure
SWAp	–	sector wide approach
UNDP	–	United Nations Development Programme
VDC	–	village development committee
WSS	–	water supply and sanitation
WSST	–	water and sanitation support team
WUG	–	water users group
WUSC	–	water user and sanitation committee

NOTES

- (i) The fiscal year (FY) of the Government ends on 16 July. FY before a calendar year denotes the year in which the fiscal year ends. For example, FY 2002 begins on 15 July 2001 and ends on 16 July 2001.
- (ii) In this report, "\$" refers to US dollars.

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LOAN PROCESSING HISTORY

(a)	Approval of PPTA	13 March 2002
(b)	TA Completion	20 August 2003
(c)	Fact-Finding Mission	3-20 June 2003
(d)	Management Review Meeting	23 July 2003
(e)	Appraisal Mission	waived
(f)	Staff Review Committee Meeting	5 August 2003
(g)	Loan Negotiations	20-22 August 2003
(h)	Board Circulation	5 September 2003
(i)	Board Consideration and Approval	30 September 2003
(j)	Loan Agreement Signing	9 December 2003
(k)	Loan Effectiveness, including Conditions	

PROJECT FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Human development through sustainable improvement in the water supply and sanitation (WSS) sector</p>	<p>Measurable improvement in national water and sanitation availability for all residents of remote areas</p> <p>Improved sanitation and hygiene and health practices in local communities</p> <p>Reduced incidence of waterborne disease and child mortality due to diarrheal diseases</p>	<p>Geographic information system (GIS) mapping of implemented subprojects and updating of status on a biannual basis</p> <p>Reports and statistics from government agencies, donors, nongovernment organizations (NGOs) and health care statistics</p> <p>Local health or sub-health post statistics</p>	
<p>Purpose</p> <p>Provide improved WSS services through a community-based approach to support Government's poverty reduction and decentralization programs</p>	<p>3% national increase in availability of safe drinking water attributable to Project</p> <p>20% reduction in time spent collecting drinking water in participating communities</p> <p>Participating districts ranked in the lower half using district selection criteria</p> <p>Low sanitation risk status for all participating communities achieve (more than 50% coverage)</p> <p>50% reduction in incidence of waterborne disease in participating communities</p>	<p>Project performance management system (PPMS) and GIS mapping of implemented subprojects and updating of status on a biannual basis</p> <p>Initial site surveys and scheme completion reports</p> <p>Annually updated ranking using district selection criteria</p> <p>Initial site surveys and scheme completion reports</p> <p>Health impact study, local health or sub-health post statistics</p>	<p>Project areas remain safe and secure.</p> <p>Accurate data from other agencies used to establish the ranking is updated and available.</p> <p>Communities take advantage of sanitation revolving fund and subsidies for latrine construction.</p> <p>Households improve environmental health practices.</p>
<p>Outputs/Activities</p> <p>Component 1: Rural Water Supply and Sanitation</p> <p>Improved WSS facilities in remote poverty-afflicted districts</p>	<p>Approximately 1,200 water supply schemes are constructed by user communities.</p> <p>Approximately 30,000 household and school latrines are constructed.</p>	<p>Project progress reports and scheme completion reports</p> <p>Water user and sanitation committee (WUSC) files and scheme completion reports</p>	<p>Communities agree to project terms and conditions.</p> <p>Poor households participate in the sanitation revolving fund program.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>(i) Community to mobilize to apply for WSS schemes</p> <p>(ii) Communities to establish legally recognized WUSCs</p> <p>(iii) Communities to develop and sign community action plans (CAPs) for implementing WSS projects</p> <p>(iv) Community members to receive and apply training in support of sustainable operation of WSS</p> <p>(v) Communities to contribute to WSS construction in cash and kind according to ability to pay (ATP), not penalizing women, poorest, and marginalized groups</p> <p>(vi) WUSCs to implement WSS projects (procure materials and manage construction)</p> <p>(vii) WUSCs to establish revolving funds to provide credit for latrine construction</p> <p>(viii) Village development committees (VDC) and community leaders to train in planning, monitoring, and evaluating sanitation and hygiene improvement</p> <p>(ix) Project communities to implement health and sanitation improvement programs</p> <p>(x) Caste and ethnic minorities to benefit from improved WSS in proportion to community</p>	<p>Participating districts and communities within these districts are in most remote, sanitation/hygiene high-risk and poorest areas.</p> <p>1,500 communities apply for WSS projects.</p> <p>All participating communities establish WUSCs.</p> <p>All participating communities prepare and sign CAPs.</p> <p>All participating communities and their members receive WUSC training and health and hygiene education and awareness training.</p> <p>All project beneficiaries contribute in cash and kind to construction accounts and in cash to operation and maintenance accounts in accordance with community contribution policy.</p> <p>All participating communities procure materials, hire skilled labor, and otherwise manage and implement their WSS projects.</p> <p>All participating communities establish and use revolving funds.</p> <p>5 people in each community including the health promoter receive health and sanitation improvement training.</p> <p>Health and hygiene programs are implemented during the development and construction phases of community projects.</p> <p>Caste and ethnic minorities in all project communities receive improved WSS service.</p>	<p>District and community priority lists accompanied by associated selection criteria analysis</p> <p>District development committee (DDC) records and project management units (PMU) reports</p> <p>DDC records and PMU reports</p> <p>CAP copies, DDC, reports, and PMU reports</p> <p>WUSC and NGO reports to DDCs, and PMU reports</p> <p>WUSC records, DDC, reports, and PMU reports</p> <p>PMU monitoring and inspection visits, scheme completion reports, WUSC records, NGO reports, DDC records, and PMU reports</p> <p>WUSC records, NGO reports, DDC records, and PMU reports</p> <p>Survey of trained individuals, NGO reports, and participatory project evaluations</p> <p>Community surveys, NGO reports, DDC records, and PMU reports</p> <p>Community surveys, NGO reports, DDC records, and PMU reports</p>	<p>Subproject selection criteria are used with no national changes in DDC priorities.</p> <p>DDCs are able to implement the initial information "roadshow".</p> <p>Internal dissension within communities limit their ability to reach consensus agreements.</p> <p>Trained individuals do not remain in the community after training.</p> <p>Communities misrepresent their ability and willingness to pay so as to be included in the Project.</p> <p>Participating communities have the ability to pay and ability to contribute in kind.</p> <p>Trained individuals do not apply the training.</p> <p>Households in participating communities value latrines and are willing to borrow from the fund to construct them.</p> <p>Community members subvert gender, caste, and ethnicity program</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>proportions</p> <p>(xi) WUSCs to be composed of at least 50% women with at least one in a management position</p> <p>(xii) WUSCs with proportional caste and ethnic minority beneficiaries</p>	<p>At least 50% of WUSC members in all participating communities are female.</p> <p>Caste and ethnic minorities in all project communities are represented in WUSCs.</p>	<p>WUSC records, NGO reports, DDC records, and PMU reports</p> <p>WUSC records, NGO reports, DDC records, and PMU reports</p>	<p>aims after subproject completion.</p> <p>Not enough women are interested in participating, educational level of women bars them from certain positions, subsequent WUSC does not maintain the ratio.</p> <p>Communities consist of a mix of castes and ethnic groups or DDC priorities ensure that projects target caste and ethnic minorities.</p>
<p>Component 2: Institutional Strengthening</p> <p>Government capacity to manage community-based WSS projects increased</p> <p>(i) DDCs to apply selection criteria to prioritize requests for project assistance</p> <p>(ii) DDCs to complete technical, social, and financial evaluation for each participating community</p> <p>(iii) DDCs to establish capacity to engage and manage NGOs to support community-based project implementation</p>	<p>21 DDCs are capable of planning and managing community-based WSS projects.</p> <p>DWSS becomes a facilitator of sector activities.</p> <p>All participating communities are priority ranked and selected based on selection criteria.</p> <p>Appraisal reports for all participating communities are completed, with copies submitted to the PMU.</p> <p>Each DDC signs contracts with NGOs to assist each community during the development phase and tripartite contracts (DDC, NGO, and WUSC) during the implementation phase.</p>	<p>PMU evaluation reports and project mission reviews</p> <p>Project reviews and mid-term report</p> <p>DDC plans, criteria scoring sheets for each village, and PMU reports</p> <p>Copies of appraisal reports and PMU reports</p> <p>NGO contracts, DDC reports, and PMU reports</p>	<p>Widespread conflict does not break out in participating districts.</p> <p>Political considerations influence decisions and information “adjusted” to favor alter priorities.</p> <p>Security considerations and travel restrictions limit DDC ability to visit communities.</p> <p>DDCs do not have staff and are unable to create posts to manage NGOs; DDCs do not have sufficient per diem budget.</p> <p>Sufficient district NGO capacity does not exist and other NGOs cannot be induced to work in participating districts.</p>
<p>(iv) DDCs to complete knowledge, facilities, and practices (KFP) surveys</p>	<p>DDCs complete performance reports for each NGO at least twice per year and provide them to the NGO.</p> <p>KFP survey is completed in each district during the first and last year the district participates in the Project.</p>	<p>Performance reports provided to PMU and PMU prepared performance report summary</p> <p>District KFP reports and PMU summary report</p>	<p>Security and travel restrictions limit the ability to complete KFP work.</p>
<p>(v) DWSS to maintain a list of NGOs prequalified to assist communities.</p> <p>(vi) DWSS to orient interested NGOs to qualify them to assist</p>	<p>A list of prequalified NGOs is updated annually.</p> <p>DWSS provides orientation training to 20 NGOs annually.</p>	<p>The NGO list</p> <p>The orientation curricula and a list of participating NGOs with notations about</p>	<p>20 NGOs express interest and are willing to participate in the</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
communities.		which were prequalified	orientation.
(vii) DWSS to create or update community-based implementation sector manuals and guidelines and associated training packages	10 manuals and guidelines are created or updated and approved by Ministry of Physical Planning and Works (MPPW).	Copies of manuals and notification of approval	
(viii) DWSS to provide training and technical assistance to DDCs	DWSS gives training in use of manuals and guidelines to all participating DDCs.	Training curricula and training attendance sheets	DDCs send participants who will use the results of the training.
(ix) DWSS to monitor and evaluate project implementation	DWSS designs and implements PPMS with updated data twice a year.	Approved PPMS and updated PPMS reports	Security situation and travel restrictions limit ability of DWSS to get to the field.
(x) DWSS to complete special studies (UCS, KFP, etc.)	DWSS completes two special studies annually.	Approval for specific special studies and completed special studies	Sector stakeholder group (SSG) does not clearly specify special studies or their terms of reference.
(xi) MPPW to enact policy and strategy recommendations of the SSG	SSG meets at least twice annually with policy and strategy items on the agenda.	Minutes of SSG meetings and any policy or strategy working group meetings	SSG members participate in policy and strategy discussions and make considered recommendations.
(xii) MPPW/DWSS to rationalize DWSS staffing	A rationalization plan is developed, approved, and first implementation steps completed.	Copy of plan, copy of approval, PMU reports of implementation steps, and project reviews	MPPW/DWSS does not have the political will to act on recommendations.
Inputs			
Component 1: Rural Water Supply and Sanitation	Cost (\$'000)	Budget Category	Category Amount (\$'000)
Total Cost:	27.77		
Community Mobilization	1.88	International Consultants	0.00
RWSS Civil Works	24.72	Domestic Consultants	0.00
Health and Hygiene Education	1.13	NGO Contracts	1.86
Gender, caste, and ethnicity program	0.04	Civil Works	20.32
		Equipment and Materials	4.90
Component 2: Institutional Strengthening			
Total Cost:	3.11		
Strengthening DDCs	1.00	International Consultants	0.27
Central Government/DWSS Support and Strengthening	2.11	Domestic Consultants	2.00
		NGO Contracts	0
		Civil Works	0
		Equipment	0.11
		Materials	0.73

I. PROJECT DESCRIPTION

A. Objectives

1. The overall objective is to expand the coverage of improved water supply and sanitation facilities to underserved populations, especially to poor and remote areas, and to improve health and hygiene practices related to waterborne and sanitation-related diseases. The Project will (i) strengthen participating communities' capacity and capability to plan, co-finance, implement, manage, operate, and maintain improved WSS facilities; (ii) increase participation of all castes, ethnic minorities, and women; (iii) increase hygiene education through awareness campaigns; (iv) develop the capacity and capability of a wide range of sectoral support organizations, including NGOs/community-based organizations (CBOs), to provide efficient and cost-effective support to communities and local authorities; (v) support the implementation of the 1998 National Water Supply Sector Policy and the draft Rural Water Supply and Sanitation Sector Strategy and Action Plan (Supplementary Appendix C); and (vi) support and strengthen the Government's decentralization efforts by focusing project activities and decision making at the local authorities and community levels.

B. Sector Loan Approach

2. This Project has been formulated as a sector loan in line with the Government's 10th National Development Plan and decentralization strategy. ADB's sector loan modality was selected as the most appropriate method of financing the Project. ADB's sector loan criteria have been met: (i) as part of the Government's 10th Plan, the RWSS sector investment plan under the Project is well-conceived and appropriately formulated to meet priority needs of the sector; (ii) the sector institutions have the capability to implement the draft RWSS sector strategy; and (iii) sector policies are appropriate.

C. Components and Outputs

3. The Project intends to use a community-based, demand-driven approach to extend WSS facilities to approximately 1,200 communities in the 21 Districts prioritized by the Government, ADB, and major stakeholders. Selection of the project districts followed the prioritization set by the gender-adjusted human development index, existing WSS coverage, incidence of diarrhea and other waterborne diseases, presence of occupational castes and ethnic minorities, and remoteness from developed areas.¹ The Project has a rural water supply and sanitation component (the rural component) and an institutional strengthening component.

1. The Rural Component

4. The rural component will implement RWSS infrastructure (gravity, hand pump on tube well, piped with overhead tank, and rainwater systems) in 21 districts. Beneficiary communities will implement WSS subprojects with support from NGOs/CBOs, village development committees (VDCs) and DDCs. The Project will be demand-driven.

¹ Supplementary Appendix D lists the districts and gives the district selection criteria.

5. Equity and pro-poor considerations through targeted subsidies will be incorporated in the rural component,² based on subproject selection criteria applied by the Water and Sanitation Support Team (WSST) (Appendix 14). Direct subsidy for latrine construction is recommended for poor households as defined by indicators such as food insufficiency, households with female heads, wage laborers, or disability.

6. A demand-driven approach will be used to achieve institutional and financial sustainability of the project benefits. To achieve this end, the direct beneficiaries will be required to make minimal contributions to the Project to qualify for project funding. This minimum contribution (local counterpart funding) is as follows: (i) DDCs will be required to contribute up-front and in cash 10% of their locally generated annual revenue for the previous fiscal year; (ii) VDCs will contribute up-front and in cash 2.5% of the total cost of the construction of the schemes within the jurisdiction of the VDCs to the relevant water user and sanitation committee (WUSC)³ project accounts; and (iii) all communities wishing to participate in the Project will be required to contribute at least 20%⁴ with more than 1% of this 20% in cash. Communities must also be willing to take full managerial and financial responsibility for O&M. The Project requires that regular O&M costs be fully borne by the WUG members.

7. The rural component will include the following activities:

a. Community Mobilization and Capacity Building for Sustainability

8. The rural component focuses on developing ownership of the subprojects by the project beneficiaries, who will organize into WUGs and participate actively in design and implementation. The Project will train and assist communities to organize WUGs; develop their capacity to plan, construct, manage, operate, and maintain water supply schemes and sanitation facilities, and ensure the sustainability of water supply after project completion.⁵

9. The WUG will plan, build, manage and operate, and maintain their water supply and public sanitation facilities. This requirement will be made explicit to community members during initial community mobilization before any formal commitment by the Project, or the community. WUG members will receive training in the importance of O&M support, and guidelines for tariff setting and revenue collection to ensure that funds are available for O&M. The project management unit (PMU) will develop manuals to distribute to the DDCs and the WUGs. In addition, village maintenance workers, preferably married women (who are more likely to remain in the village), will be selected and trained to operate and maintain the facilities provided. To ensure that funds will be available for O&M and to foster the practice of tariff collection, communities must establish an O&M fund.

² Equity and pro-poor considerations are set out in the Government's Community Contribution in Water Supply and Sanitation Policy, 2002.

³ WUGs comprise the WUSC, which is the legal entity elected by and representing the WUGs.

⁴ For poor communities in remote inaccessible areas, the minimum contribution will be reduced to 10% as set out in the Government's Policy on Community Contribution, 2002.

⁵ Supplementary Appendix E describes the roles and responsibilities of the WUG and their elected WUSC.

b. Construction of Community Water Supply and Sanitation Facilities

10. The proposed Project will finance the construction by WUG of water supply schemes⁶ in approximately 1,200 communities,⁷ including the rehabilitation of approximately 250 existing schemes. The 1,200 schemes will be approximately 65% gravity, 23% tube well, 11% overhead tank, and 1% rainwater. The main technical options for water supply under the Project are (i) gravity pipe system (ii) rainwater harvesting (iii) piped systems with overhead tank and (iv) groundwater wells with hand pumps. The WUG will select the appropriate water supply technology from the options in the project technical guidelines.⁸

11. The Project will also (i) set up a Sanitation Revolving Fund to provide credit for construction of individual family latrines, and (ii) finance sanitation facilities for schools. Management and operation of the fund will reflect best practice as established by the Fund Board that uses this approach to support community sanitation. The Sanitation Revolving Fund will provide initial seed money for the community revolving fund and will be sufficient to provide credit to 25% of the households to build approximately 30,000 family latrines.⁹ The Project will provide subsidies of NRs5,000 in the terai and NRs3,000 in the hills to 10% of the poorest households in each community. The beneficiaries will choose among simple pit latrines, ventilated improved pit latrines, double pit latrines, and pour flush latrines.

12. The rural component will support the current National Water Supply Policy (1998) by making WUGs the center of implementation. The WUGs will register according to Water Resource Act 1992 to establish a WUSC. Each WUG will apply for a license under the terms of Water Supply Regulations 1998, after which it will be entitled to construct, operate, and maintain the scheme, and charge consumers for water provided to them. To ensure the sustainability and active participation of the community, the WUG will contribute to the scheme as follows: (i) at least 20% of the cost of the scheme¹⁰ with at least 1% of that 20% to be up-front in cash; and (ii) the estimated cost of 1 year of O&M of the scheme up-front in cash. With poor communities in remote inaccessible areas, the minimum contribution is reduced to 10%¹¹ under the terms in the national Community Contribution in Water Supply and Sanitation Policy, 2002.

c. Health and Hygiene Program

13. To maximize the health impact of project interventions, and to reduce the incidence of diarrhea and other waterborne diseases, the Project will adopt the hygiene improvement framework¹² and will (i) train and support DDCs, VDCs, and community

⁶ Includes water treatment to meet WHO water quality standard if required.

⁷ Can include ongoing Government schemes if they are in district plan and all project conditions have been met.

⁸ Supplementary Appendix F describes the project technical guidelines for the schemes.

⁹ Under the Sanitation Revolving Fund, the maximum credit for constructing a latrine will amount to NRs7,500 in the terai and NRs5,000 in the hills.

¹⁰ Including contribution in kind.

¹¹ Community contribution follows the requirements set out in the Government's Community Contribution in Water Supply and Sanitation Policy, 2002. Cost of airfreight transportation for equipment and materials will be excluded.

¹² The hygiene improvement framework provides an integrated approach that combines expanded access to hardware with hygiene promotion and supportive enabling environments to reduce diarrheal disease.

leaders in planning, monitoring, and evaluating of sanitation and hygiene improvement following the guidelines set out in the basic sanitation package¹³ developed by United Nations Children's Fund/DWSS; and (ii) implement for WUG members and beneficiary communities awareness programs in hygiene, health and sanitation practices. The Project will specifically incorporate gender-appropriate and user-friendly approaches for boys, girls, men and women, and out-of-school children.

d. Gender, Caste and Ethnic Minority Program

14. Traditionally, women, lower caste members, and ethnic minorities have not participated fully in community decision making. Some castes and ethnic minorities have had restricted access to WSS provided through projects. The rural component will implement training and awareness programs to increase active participation of disadvantaged groups and women in all project activities. As a condition for funding, communities will have to form a WUSC with at least a proportional representation of poor, castes, ethnic minority groups and with at least 50% of their executive and general members being women (of any caste or ethnic group). Proportional representation by the Project means that if, for example 30% of households in a community are Dalits, then at least 30% of the members of the WUSC must be Dalits (regardless of gender).

2. The Institutional Strengthening Component

15. The institutional component will support the implementation of the National Water Supply Sector Policy, 1998 and the draft National Sanitation Policy, 2002, in line with the Government's decentralization policies as set out in the LSGA. This component will assist Government institutions in the rural water sector to fully take on their new roles and responsibilities assigned under decentralization by strengthening DDCs capacity to provide WSS through a community-based demand-driven approach. The Project will also support MPPW to adopt the institutional changes required by the devolution of functions to DDCs.

a. Strengthening DDC Capacity to Provide Water Supply and Sanitation

16. The Project will train and give technical support to participating DDCs to allow them to plan, manage, monitor, and evaluate demand-driven community-based RWSS projects; and to implement and monitor gender and caste and ethnic minority groups programs, and health, hygiene, and sanitation awareness programs.

17. The Project will provide support to consolidate and develop materials, training packages and manuals focusing on community participation, O&M of RWSS, and gender, caste and ethnicity issues, which will be incorporated in the various training programs to be conducted at the district, village, and community levels. The Project will also provide for technical assistance to orient project staff and stakeholders on these issues and to monitor their progress to ensure that such issues are not overlooked during the various stages of the project and individual scheme cycle.

¹³ DWSS and the PMU will revise the basic sanitation package before implementing of the Health and Hygiene Program.

18. Project support to each DDC's WSST will be for a period of 4 years (two full subproject cycles) upon their satisfactory performance in meeting sector targets and successful progress in implementing and complying with project guidelines. Funding to DDCs in the first year for pilot subprojects will be in accordance with their annual plans and provision of the DDC contributions. Further funding for community mobilization and scheme construction in subsequent years will depend on the performance of each DDC. DDCs may continue to access project funds beyond two subproject cycles if their performance continues to be satisfactory. DDCs' performance will be monitored by the PMU, the MPPW Sector Monitoring and Evaluation Unit, and the RWSS sector stakeholder group.

b. Supporting the Decentralization Policy and DWSS

19. The Project will provide technical assistance for developing and implementing a strategy to improve human resource allocation in line with the new roles and responsibilities of DWSS defined under the RWSS sector strategy and action plan and in line with the LSGA. The Project will also (i) undertake a human resource review reflecting DWSS' new role and train DWSS in its new role, including developing and maintaining standardized databases of WSS facilities and services; (ii) rationalize and make consistent the National Water Supply Sector Policy, 1998 with the RWSS Sector Strategy and the existing policies and regulations affecting the RWSS sector; and (iii) give technical support to project implementation, such as the development of standards, manuals, and detailed technical guidelines for RWSS.

D. Special Features

20. **Ethnic Diversity.** All ethnic groups in the project area are significantly represented in the beneficiary population. The activities in the rural component pay particular attention to including all ethnic and caste groups so that benefits will accrue equally to all groups residing in the communities.

21. **Demand-Driven and Participatory Approach through NGOs/CBOs.** The rural component is based on a demand-driven participatory approach facilitated by NGOs to help the beneficiaries organize into WUGs and collectively take responsibility for implementation and O&M of the water systems. The counterpart NGOs work with the communities to raise awareness and introduce the project methodology. Communities are required to show their commitment by contributing 20% of the capital cost of schemes. The beneficiaries decide on the type of technology and, with the assistance of WSST and NGOs, take responsibility for designing and implementing the schemes. The Project provides the beneficiaries with training and practical experience in project and financial management, which will provide communities with the skills to initiate other community improvements.

22. **NGOs-Supported Community-Based Approach.** National and district-based NGOs are central to project implementation. NGOs will be engaged to provide awareness programs and train community members and their WUSCs. The NGOs will assist each participating community in planning and implementing construction activities and in monitoring and reporting on progress. This NGO-supported community-based approach reflects best practices in Nepal and is successful in there. Local and district-based NGOs and CBOs have remained active in the conflict areas over the past several years of the insurgency. Because they were not politically driven and were able to work

with both sides to help meet the needs of communities, NGOs are able to continue their social and local infrastructure development projects.

23. **Support to Decentralization.** The Project supports the Government's decentralization strategy and helps implement it by focusing project implementation at the district level and using NGOs and private sector organizations to assist with implementation at the community level. The DDC will receive training and assistance to develop their skills and to enhance their capacity to work with NGOs and CBOs using participatory, demand-driven approaches.

24. **Policy.** A unified program approach has been created by first developing the RWSS Sector Strategy and Action Plan through consultative stakeholder workshops that thoroughly involved the sector stakeholders at every step. This process resulted in several specific policy recommendations to update relevant sector policies and strategies. The Project assists ongoing policy reforms through support to the formal stakeholder group, which has a sector policy role. The Project also provides resources to enable DWSS to adapt to its new role in the sector.

II. COST ESTIMATES AND FINANCING PLAN

E. Cost Estimates

25. The project cost presented in Table 1 is based on an indicative 1,200 subprojects and other components as well as discussions with stakeholders and field visits. The total cost of the Project is estimated at \$35.7 million equivalent, including about \$2.3 million equivalent for duties and taxes. The foreign exchange cost is estimated at \$12.1 million, or about 34% of the total project cost, including \$0.7 million for interest on the ADB loan during construction. The local currency cost is estimated at \$23.6 million equivalent, about 66% of the total project cost. Detailed cost estimates are provided in Appendix 1.

Table 1: Project Cost by Component
(\$ million)

Project Component^a	Foreign Exchange	Local Currency	Total
A. Rural Water Supply and Sanitation	10.1	17.7	27.8
B. Institutional Strengthening	1.0	2.1	3.1
C. Incremental Administrative Costs	0.3	3.8	4.1
Interest during Construction	0.7	0.0	0.7
Total	12.1	23.6	35.7

^aIncludes taxes and duties.

Source: Asian Development Bank estimates.

F. Financing Plan

26. It is proposed that ADB provide a sector loan of \$24.0 million equivalent from its Special Funds resources, which will represent 67% of the total cost of the Project. The ADB loan will have a term of 32 years, including a grace period of 8 years; an interest rate charge of 1% per annum during the grace period and 1.5% per annum thereafter; and such other terms and conditions set forth in the Loan Agreement. ADB will cover 100% of the foreign exchange costs and part of the local currency costs. DDCs, VDCs, and the beneficiaries themselves will meet the balance of 32% of the intervention.

27. ADB will cover a portion of the costs relating to civil works, office equipment, consulting services, and training and public awareness and education campaigns, but will not include the salaries of regular project staff, procurement of vehicles¹⁴ (excluding motorcycles), rental of office space, and taxes and duties. The financing of the local currency cost by ADB is justified by the nature of the Project, which will address local poverty, gender concerns, caste and ethnic minorities, and environmental health issues in the project areas. The Government will disburse the funds to DDCs as a grant through budgetary allocation. The proposed financing plan is shown in Table 2.

Table 2: Financing Plan
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	%
Asian Development Bank	12.1	11.9	24.0	67
Government	0.0	7.7	7.7	22
Local authorities (DDC and VDC)	0.0	0.4	0.4	1
Beneficiaries	0.0	3.6	3.6	10
Total	12.1	23.6	35.7	100

DDC = district development committee; VDC = village development committee.

III. IMPLEMENTATION ARRANGEMENTS

G. Project Management

a. Central Level

28. The Ministry of Planning and Physical Works will be the Executing Agency. MPPW has delegated to DWSS authority to execute the Project. A PMU under DWSS will be established in Kathmandu to support the Project. A national project steering committee (NPSC), chaired by the secretary MPPW, who will be the sector coordinator, will guide the PMU and make all policy and strategic decisions. The Government will establish the sector stakeholder group¹⁵ chaired by the secretary MPPW, and will call for a meeting at least twice a year to ensure (i) coordination of sector reforms and interventions supported by external funds and the Government, and (ii) exchange of information.

29. The NPSC will provide overall coordination and guidance for the Project.¹⁶ During implementation, the NPSC will deal with policy matters as they arise, and coordinate with other ministries and agencies. It will meet every 3 months, or as often as necessary.

30. The PMU will be established within DWSS' Kathmandu office. An experienced project director at the level of a Class I officer with sector experience will be appointed to head the PMU for the duration of the Project. A core team of MPPW/DWSS

¹⁴ As per current ADB/Nepal policy on the use of motor vehicles.

¹⁵ The sector stakeholder group will include representatives of Ministry of Finance (MOF), Ministry of Local Development (MLD), National Planning Council (NPC), DWSS, Association of District Development Committees Nepal (ADDCN), Ministry of Health (MOH), Ministry of Water Resources, the Fund Board, ADB, World Bank, Department for International Development, UNICEF, Ministry of Foreign Affairs, Finland, Water Aid, Helvetas, the private sector, and others.

¹⁶ The National Project Steering Committee will be chaired by the Secretary of MPPW and will include the Director General of DWSS as member secretary and representatives from MOF, NPC, MPPW, MLD, MOH, Ministry of Water Resources, and the ADDCN.

counterparts, along with a team of international and domestic consultants, will assist the project director. Supported by the PMU, the project director will coordinate all activities under the Project; will be directly responsible for overall project management, monitoring, and supervision under the guidance of the director general of DWSS; and will report to the MPPW secretary.

31. The PMU will (i) prepare the overall project implementation plan and consolidated annual work plan; (ii) consolidate and develop training materials, policy manuals, and technical guidelines; (iii) assist eligible DDCs in preparing annual and periodic plans for the RWSS sector; (iv) provide management and technical support to DDCs; (v) monitor and supervise all project management activities; (vi) organize all monitoring and evaluation (M&E) activities; (vii) ensure satisfactory implementation of the gender action plan and caste and ethnic minority programs; (viii) liaise with the Monitoring and Evaluation Unit of MPPW; (ix) carry out financial management and reporting of project accounts; and (x) prepare necessary progress reports and the project completion report. The PMU will be properly staffed and assisted by consultants with expertise in gender and social development, institutional reform, finance and accounting, M&E, health and hygiene, water supply, and contract management.¹⁷

b. District Level

32. The DDCs will be the project implementation agency at district level. A WSST will be established in each district as soon as it enters into a project agreement with MPPW that delineates project implementation arrangements including consulting requirements. The WSST team leader will be a Class II officer with sector experience, and appointed by MPPW in consultation with of the DDC chairperson. The officer will report directly to the DDC chairperson. A core team of DDC counterpart staff of at least one water supply engineer, two overseers, one community development officer, and one accountant (full-time and for the duration of the Project), along with a team of domestic consultants (gender and social development, financial accounting, procurement and contract management, and M&E) will assist the WSST team leader. If the DDC is unable to provide the required counterpart staff, the DDC will request MPPW to depute staff.

33. A district water coordination committee (DWCC) chaired by the chairperson of the DDC will be established in each DDC to guide and coordinate the activities of DDCs, VDCs, and communities, and liaise with the PMU. Each participating VDC will be staffed by at least one full-time secretary for the duration of the project.

34. DDCs will contract NGOs, CBOs and consulting firms to initially contact communities potentially interested in participating in the Project. Interested communities, assisted by VDCs and NGOs/CBOs, will develop and submit applications for project assistance. These applications will be reviewed and prioritized by the DDC to be included in the district periodic and annual plans. NGOs/CBOs will (i) assist the selected communities to establish WUGs; (ii) guide communities through the creation of a community action plan; (iii) assist and train WUGs on planning, procurement, construction, management, O&M of water supply schemes; and (iv) increase awareness on gender, castes and ethnic minorities and implement a WUG strategy to ensure active participation of these groups and compliance with the proportional representation and gender targets. Consulting firms may be engaged to undertake specific tasks in support

¹⁷ Details of PMU and WSST responsibilities are in Supplementary Appendix G.

of the Project, such as technical and financial audits, training the DDCs and NGOs, and evaluations.

35. The PMU will procure equipment only for PMU-related activities. It will contract firms and NGOs for PMU-related activities and for activities to be carried out by the WSST. The WSST will procure equipment and materials for their respective activities and will assist WUSCs to contract all NGOs and firms required for supporting their activities. WUSCs will procure all materials and civil works for constructing the water and sanitation schemes.

36. At the start of the Project, the WSSTs will help the DDC formulate a budget for all project activities, with estimates for each year of implementation. The budgets will be reviewed by the PMU and ADB and updated annually. Expenditures will be recorded at source by the implementing WSST and the PMU. The PMU will be responsible for compiling project expenditures and the reports of expenditures submitted by WSSTs. It will report project expenditures monthly to MPPW and MOF, with copies to ADB, with quarterly and annual summaries.

II. IMPLEMENTATION SCHEDULE

37. The Project will be implemented over 6 years. The institutional component will start in the first quarter of 2004. Development and consolidation of manuals and technical guidelines will be completed by the end of the first year. The rural component will have five batches (1 pilot batch and 4 batches). Each batch will have three phases and an implementation period of 3 years. The pilot batch will have four districts with additional districts in the succeeding batches. During phase 1, the DDCs will prepare, in consultation with the VDCs and communities, their annual district plans for RWSS. In phase 2, they will begin mobilizing and training communities and form WUGs and register WUSCs. Community contribution will be collected during phase 2. During phase 3, DDCs will support and monitor the construction of water and sanitation schemes by WUGs. Each phase is expected to last from 6 months to a year. The 21 DDCs will be clustered into 5 groups as agreed with the Government. The project implementation schedule is in Appendix 2.

III. PROCUREMENT

38. Goods and services financed by the ADB loan will be procured in accordance with ADB's *Guidelines for Procurement* and the Government's procurement procedures acceptable to ADB. As contracts are expected to be small, international contractors are not likely to be interested and therefore international competitive bidding will not be required. All equipment and materials as well as service motorcycles will be procured through international shopping. Certain items may be procured under local competitive bidding procedures acceptable to ADB. Some equipment and vehicles packaged at a contract value of less than \$50,000 will be procured under direct purchase procedures. Civil works contracts of the rural component will be small with average value in the range of \$10,000 to \$15,000 equivalent and will follow ADB's community participation in procurement in the guidelines. The proposed procurement packages are in Appendix 5.

IV. CONSULTING SERVICES

39. Consulting services of 1,217 person-months are required to facilitate project implementation and to strengthen the institutional, administrative, and financial capacities of MPPW and DDCs. One consulting firm will provide consulting services for the PMU. International consultants will be involved in project management, capacity-building, and monitoring activities. The international and domestic consultants in the PMU will advise DWSS/MPPW on best international practices in designing strategies to implement the institutional strengthening component and the gender, caste, and ethnic and related social programs.

40. For the rural component, there will be 10 consulting contracts, 2 contracts per batch of districts.¹⁸ The PMU will contract suitable private sector organizations and/or NGOs to assist the DDCs in project management and implementation of social programs. The consultants (which can include NGOs/private sector organizations) to be financed under the loan will be recruited in accordance with ADB's *Guidelines on the Use of Consultants*, using a quality-and cost-based selection method and other arrangements satisfactory to ADB for engaging domestic consultants. Summary terms of reference for all consulting services are in Appendix 3.

41. The DDC will engage NGOs to facilitate community mobilization and carry out the health, hygiene, and sanitation campaigns. The WUSC will engage NGOs to help implement the water and sanitation schemes. The NGOs will be selected following criteria developed under the Project.¹⁹

V. DISBURSEMENT ARRANGEMENTS

42. To facilitate the timely release of loan proceeds and counterpart funds and to expedite implementation, the Government will, as a condition for loan effectiveness, open a WSS sector account at the Nepal Rastra Bank. Project funding (other than local counterpart funds) comprising (i) counterpart funds provided by the central Government, and (ii) ADB funding will be pooled at the sector account and then channeled to pay all costs of the Project (other than costs funded by the local counterpart funds) via the following routes: (a) to the district development funds (DDF) and then into each DDC's project operating account, and (b) into the PMU project operating account. From each DDC's project operating account, the funds will be used to pay incremental WSST salaries and wages and to give the WUSCs funds to pay the costs of the schemes. The funds that are paid to the PMU operating account will fund the operations of the PMU. The PMU will prepare disbursement projections, request budgetary allocations for the central counterpart funds, collect supporting documents, and prepare withdrawal applications and send them to ADB in accordance with ADB's *Loan Disbursement Handbook*. Central counterpart funds via this channeling arrangement will be allocated to the Project annually by the Government through "Red Book" allocations. ADB funding of the Project will periodically be disbursed from the ADB loan account into a subaccount of the sector account. The subaccount will be dedicated to operate de facto as an imprest account for the ADB funding of the Project. The imprest account will be

¹⁸ One package will include the regional social development specialist and M&E specialist for each batch of districts, and one package will include a financial accountant for each.

¹⁹ The selection criteria for prequalifying NGOs are in Supplementary Appendix H.

replenished as often as needed, subject to the following conditions: (i) the ADB loan is drawn in six payment milestone amounts, and disbursement of each amount will depend on satisfying the relevant project milestone conditions (Appendix 13); (ii) at no point may the balance of the account exceed the lesser of \$2.4 million or 6 months estimated expenditure. ADB will monitor the achievement of project milestones via the monitoring and progress reports submitted by the PMU and recommendations of the sector stakeholder group and the MPPW Monitoring and Evaluation Unit. ADB will only then approve the replenishment of the sector account.

43. To facilitate implementation the rural component and in keeping with the Government's policy on decentralization and the National Water Supply Sector Policy, a project operating account will be established in each DDC for the rural component immediately after its selection to participate in the Project. Irrespective of funding sources for the sector account, disbursements to each DDC will be made on the understanding that each disbursement may be expended in the following mix of uses: civil works, 65%; community building, 8%; gender, castes, and ethnic minority program, 12%; health and hygiene program, 4%; and project management, 11%. The project operating account will be established only after the Project-financed financial accountant and procurement specialist are fielded and the DDC accountant is appointed. The initial ceiling for each DDC project operating account will be set in accordance with the approved annual district plan and will not exceed \$100,000 equivalent.

44. For the rural component, when the WUG contributions have been satisfied, each DDC will deposit construction funds for subprojects into each of the relevant WUSCs project operating account as a grant. Before disbursing the DDC funds of to any WUSC, the WUSC will make the following contribution and commitments: (i) a cash contribution of at least 1% of the estimated construction cost of the scheme into the WUSC project operating account; (ii) 1 year's estimate of the O&M cost into the community's O&M account; (iii) a commitment to further contribute the balance (beyond any cash contribution) of the 20% of the cost of the scheme in kind.

45. The PMU will ensure that all project operating accounts are established, and will manage, replenish, and liquidate account balances in accordance with ADB's *Loan Disbursement Handbook* and with detailed arrangements agreed to by the Government and ADB. ADB's statement of expenditures (SOE) procedure will be used to liquidate advances from the subsector Account. The SOE ceiling per disbursement transaction is set at \$5,000 equivalent.

VI. ACCOUNTING, AUDITING, AND REPORTING

46. The Government will submit to ADB quarterly progress reports on project implementation following ADB's standard procedures. The PMU will obtain and consolidate relevant data from WSSTs. The WSSTs will prepare the project operating accounts and related financial statements, and records of the SOEs. The PMU will particularly address progress in meeting the performance targets defined under the sector loan modality. These progress reports will be the basis for directing further funding to the DDCs.

47. MPPW/PMU and the WSSTs will maintain accounts and records so that income and expenditures related to the Project are easily identified. They will be assisted by an

adequate number of suitably qualified accounting staff, including a senior financial manager. Additionally, a financial accountant will assist the PMU and WSSTs to establish the project accounting and recording systems, and to train staff to maintain them. The accounts and statements of expenditures and revenues related to the Project will be audited annually by an independent auditor acceptable to ADB.²⁰ WUSC accounts will be audited annually by the WSST/DDC and the DDC project operating account will be audited by the PMU as set forth in the project and subproject agreements. Audited financial statements and project accounts, together with the report of the auditor, will be submitted within 9 months of the close of the financial year. The annual audit will include the audit of the sector account and the operating accounts at DDC and PMU, and SOE procedure. A separate audit opinion on the use of the imprest account and SOE procedure should be included in the annual audit report. The PMU will also submit to ADB, within 3 months of the physical completion of the Project, a project completion report following standard ADB procedures. MPPW and the DDCs have been made aware of ADB's policy on delayed submission, and the requirement for satisfactory audited accounts of acceptable quality.

VII. PROJECT PERFORMANCE MONITORING AND EVALUATION

48. To ensure that subprojects are managed efficiently and that project benefits are maximized and reach target groups, a M&E program is included in the framework of ADB's project performance management system (PPMS). PPMS activities will be conducted periodically to gather information from multiple sources to determine whether inputs have rendered expected benefits to the target population. The PPMS will also seek to detect any deficiencies and discrepancies between the plan and execution of the Project so that timely corrections can be made to improve resource efficiency, benefits, outcomes, and impacts. Indicators to be monitored have been formulated and agreed upon with the Executing Agency. Selected indicators pertain to physical progress, project impact with disaggregated data to demonstrate benefits to the poor and targets of the gender, caste and ethnicity program, capacity-building activities, and institutional reform activities.²¹ The PMU will gather baseline physical and socioeconomic data in each of the 21 DDCs, submit a detailed implementation plan for monitoring performance, and prepare benchmark information for ADB's review and concurrence 3 months after work begins in a particular DDC. Thereafter, the PMU will submit annual M&E reports to ADB throughout project implementation.

VIII. PROJECT REVIEW

49. Because of the number of districts and components to be covered by the Project, the regular joint reviews at least twice a year by ADB and the Government will be supplemented by a comprehensive midterm review. The routine project reviews will cover the DDCs financial performance and staffing; implementation of the gender, caste, and ethnic minority programs; physical progress in project implementation; and capacity-building activities. The midterm review will allow the Government and ADB to monitor the Project closely and to make appropriate adjustments in the design and implementation

²⁰ ADB acknowledges that the auditor general of the Kingdom of Nepal is acceptable to it as an independent auditor for the project.

²¹ Details of these indicators are in Supplementary Appendix I.

arrangements, if necessary. The midterm review will (i) review the scope, design, and implementation arrangements of the Project; (ii) identify changes needed since project appraisal; (iii) assess implementation performance against project indicators; (iv) review and establish compliance with loan covenants; and (v) identify problems and constraints and, if necessary, recommend changes in the design or the implementation arrangements.

IX. PROJECT BENEFITS, IMPACTS, AND RISKS

A. Benefits and Impacts

50. Investments in RWSS will generate significant benefits for approximately 850,000 direct beneficiaries at the community level, for local authorities units (at district and village levels), and for central Government oversight and coordination in accordance with redefined roles for central Government departments and agencies. Benefits will include (i) poverty reduction in historically underdeveloped areas; (ii) improved conditions for gender, castes and socially excluded groups; (iii) improved community health and environmental condition; (iv) improved sector management; and (v) increased sector capacity.

1. Poverty Reduction in Historically Underdeveloped Areas

51. Nepal is a very poor country, currently ranked 143rd out of 175 countries on the UNDP human development index. Socioeconomic surveys²² reveal that household income for more than 85% of households in the 21 target districts is below \$48 per month. The Project focuses on poorer and more remote areas of western and northern Nepal, where RWSS and other rural infrastructure services have long been lacking. Good quality and reliable RWSS will help reduce poverty in poor rural communities in many ways. Additional income for project beneficiaries will accrue from (i) utilizing the saved time of women and girls for income-generating activities; (ii) improved family health and reduction in health-related expenditures; (iii) reducing missed workdays due to diarrheal disease in wage earners; and (iv) over the long run, reducing the missed school days for boys and girls. Households that currently use unacceptably low-quality water for drinking that leaves from polluted rivers or ponds will no longer spend so much on remedies for diarrhea and other waterborne diseases. Improved community health is also reflected in lower welfare costs and more resources available for community programs.

2. Gender, Castes and Excluded Ethnic Groups

52. The main project beneficiaries will be women and girls who now spend 4-5 hours per day fetching water, which is often of poor quality, from distant sources. The availability of water in or near their homes will save time and improve their (and their families') quality of life due to improved hygienic conditions. Women will be relieved from the stress and discomfort of hauling water, especially during illness and extreme weather. They will be able to spend time and energy on more productive social and economic activities including better child and house care and farm production activities such as tending livestock and poultry. By working with the ADB-financed Empowerment of Women Project (where project implementation overlaps) and its microcredit promotion activities will also enable communities, particularly women, to pursue income-generating activities. Girls, who share the responsibility for water collection, could then be enrolled

²² Socio-economic survey carried out by Nepal Water for Health under TA3844-NEP: Community Water Supply and Sanitation Project.

in schools. Men and boys will also benefit, but not to the same extent as women and girls.

53. Socially excluded castes and ethnic groups will be specifically targeted to receive benefits, rectifying historically inequitable access to many social services, including RWSS. Members of lower caste and excluded ethnic groups will be actively encouraged to participate in project training activities and RWSS management, thereby providing them with opportunities for education and facilities management that have historically been denied them.

3. Environmental and Health Improvement

54. Diarrheal and other waterborne diseases are endemic in Nepal. Infant mortality rates are unacceptably high. Typhoid is disturbingly common. All these indicators are generally worse in the remote or poorer areas targeted by this Project. Health benefits from improved water supply will be significant. Sanitation improvement will add significantly to health by helping isolate disease pathogens from the household and community environment. Studies have shown that regular use of improved sanitation facilities, coupled with hygiene and behavioral change, has a considerably greater health impact than just the provision of clean water. The project focus on hygiene and sanitation behavioral change, such as regularly using improved latrines, washing face and hands with soap (or suitable substitutes) at appropriate times will help ensure that these benefits are realized.

4. Institutional and Policy Impacts

55. The RWSS Sector Strategy supports the improvement of RWSS facilities and service delivery by establishing a commonly agreed-upon implementation approach. The consensus-building process confirmed that a community-based approach placing responsibility for RWSS implementation in the hands of communities with support from district and village government and NGOs should be adopted. This Project builds on the experience of other donors, adopting and supporting successful institutional arrangements and strengthening institutional capacity to plan, implement, and monitor RWSS projects in accordance with the Government's decentralization process and the community-based approach.

56. The Government's long-term governance strategy is based on decentralizing central Government roles, including responsibilities and authority for many services such as RWSS, to local authorities. The LSGA establishes the legal framework for decentralization. Districts and villages will develop the capacity to take on the new decentralized responsibilities. Capacity will be improved so that districts will be able to plan and manage sector activities, and support education and training for community-based projects. Participating communities, with NGO support, will be able to build their own RWSS facilities and establish the capacity to operate, maintain, and repair the systems.

57. The Project will also support institutional reform and capacity building within DWSS, the lead central Government agency in the sector. DWSS will improve its capacity to support the sector through coordination, technical support, training, and other sector facilitation activities while at the same time relinquishing direct implementation responsibility for the RWSS sector. Establishing a rational staffing pattern will be a component of the reform process.

5. Economic and Financial Analyses

58. ADB's *Guidelines for the Economic Analysis of Projects* was applied to five subprojects in the rural areas, covering five districts and with the application of every possible technical solution envisaged to be financed under the Project. The average economic internal rate of return (EIRR) for the five schemes is estimated at 68%; for the individual schemes, the EIRR ranged from 24% to 94%. The estimated EIRR for the Project as a whole is about 14%. The figure is conservative, as it does not include benefits derived from sanitation improvements and health benefits. Because the analysis is based on a five subproject sample, it is not representative of the substantial macro benefits arising from the intervention.

B. Risks

59. **Policy.** It is assumed that implementing the institutional reforms related to decentralization will continue. Institutional reforms in the RWSS sector are required to reflect the decentralization process and changing institutional roles. The institutional strengthening component is designed to support this momentum by strengthening the capacity of DWSS/MPPW to function as a sector facilitator and implement the RWSS Sector Strategy and Action Plan in coordination with other external agencies.

60. The risk is that the to-be-approved sector strategy is not acted on by Government agencies and other donors, and that the harmonization process does not continue. Another risk is that NGOs do not see their experiences incorporated into Government-supported projects.

61. **Institutional Capacity.** Insufficient institutional capacity, particularly at the local authorities level, poses a risk to the implementation of the rural component. Weak local NGO capacity and capability in remote and poorer districts could make it difficult to mobilize qualified NGOs there. The Project will train and support the DDCs to build their capacity and the capacity of district-based NGOs. In addition, the Government will provide the necessary budgetary allocations for the DDCs to have at least one water supply engineer, two overseers, one community development officer, and one accountant as counterpart to be trained and to work full-time on the Project.

62. **Local Administration.** The Project assumes a stable political and economic environment at the local level. The lack of locally elected officials at the DDC and VDC levels weakens the participatory decentralized approach and may reduce community trust. District and village authorities are currently being managed by civil servants. Dedicated civil servants (in a lot of cases informally supported by former elected officials) working at the district level (principally, local development officers) do make efforts to be responsive to community needs within the constraints imposed by the current district administration system. However, the pace of project implementation may be affected.

X. MAJOR LOAN COVENANTS

A. Specific Assurances

63. In addition to the standard assurances, the Government has given the following assurances which are incorporated in the legal documents:

- (i) Before each fiscal year, the Government, in consultation with relevant DDCs and the PMU, will prepare and agree on adequate annual budget for central counterpart funds for the fiscal year.
- (ii) By 16 or 17 July of each year, the Government will allocate central counterpart funds in the amount budgeted in accordance with paragraph (i) in respect of the subsequent fiscal year; and the Government will ensure DDC contributions and VDC contributions are paid to the relevant accounts.
- (iii) The Government will ensure that all nonoperating and operating project accounts at central and DDC level do not get frozen for the duration of the Project.
- (iv) The Government will ensure, and will cause MPPW and DDC to ensure, that each of the following implementation units is established and staffed to the satisfaction of ADB and maintained during the term of the Project:
 - (a) the PMU, by loan effectiveness;
 - (b) each WSST, not later than 1 month after selection of the relevant DDC;
 - (c) NPSC, not later than 1 month after loan effectiveness; and
 - (d) DWCC not later than 1 month after selection of the relevant DDC.
- (v) The Government will ensure that the sector stakeholder group meets at least twice a year.
- (vi) The Government will ensure that the Project develops an environmental checklist at planning stage in accordance with the Government's and ADB's environmental assessment guidelines, and, at all times throughout the implementation of the Project, adhere to ADB's environment policy and guidelines on environmental assessment procedures and involuntary resettlement policy.
- (vii) The Government will support the establishment and registration of WUGs in each project community, pursuant to the relevant bylaws permitting such groups to take legal ownership of, and plan, design, construct, and operate the relevant community water scheme.
- (viii) The Government will review and approve manuals and guidelines developed by the Project for the sector.
- (ix) The Government will ensure that, in selecting the project target communities, DDCs use the community selection criteria set out in Appendix 14.
- (x) The Government shall inform ADB promptly of any change of the director of the PMU or WSST team leader.
- (xi) The Government will ensure that funding made available by ADB to fund DDCs will be allocated and expended by each DDC as follows: civil works, no more than 65%; community building, less than 8%; gender, caste, and ethnic minorities program, no less than 12%; health and hygiene program, no less than 4%; and project management, no less than 11%.
- (xii) The Government agrees that no disbursement will be made from the loan account for any subproject or scheme that is in breach of the criteria pertaining to demand-driven, community-based RWSS subproject selection namely: poverty, remote location, and unserved or underserved in terms of RWSS coverage.

- (xiii) The Government will ensure that targets set out in the gender, caste and ethnic minorities plans are met by WUG, DDCs and the PMU.
- (xiv) The Government will ensure that before starting project activities in any community, and as a condition for funding by ADB of the relevant district's project activities, MPPW and the relevant DDC will enter into a project agreement, to be prepared by ADB, regulating the following matters:
 - (a) contribution of local counterpart funding;
 - (b) terms and conditions of release of funding from DDC to WUGs (including conditions relating to provision of DDC contribution);
 - (c) establishment and staffing of WSST; and
 - (d) auditing and reporting mechanism to PMU.
- (xv) The Government will ensure that, for works to be carried out in any community, the relevant DDC, the relevant VDC, and the WUG enter into a contract, acceptable in form and substance to ADB, regulating the following matters:
 - (a) provision of the VDC contribution and the WUG contribution;
 - (b) establishment of minimum specifications and standards for construction works to be performed by the WUG;
 - (c) establishment of minimum specifications and standards for the operation works to be performed by the WUG;
 - (d) establishment of environmental standards applicable to design, construction, and O&M of works;
 - (e) cooperation and coordination by WUG with relevant agencies of Government, including the PMU;
 - (f) project Implementation; and
 - (g) procurement requirements.
- (xvi) The government shall ensure that by end of Project implementation period, its Cabinet review its existing policy under which, depending in size of end-user population settlements, different government line agencies implement rural water supply and sanitation projects.

B. Conditions for Loan Effectiveness

64. The following are conditions for loan effectiveness:
- (i) The Government establishes and fully staffs the PMU, to the satisfaction of ADB, and maintains it during the term of the Project.
 - (ii) The Cabinet approves the RWSS sector strategy and its associated action plan.
 - (ii) The Government shall have confirmed that the Monitoring and Evaluation Unit under MPPW is operational.
 - (iii) The Government opens the sector account at the Nepal Rastra Bank.

C. Condition for Initial Disbursement

65. For the initial disbursement of ADB project funding, the Government approves the budget for project funding from central Government sources (central counterpart funds) for the first fiscal year and makes a budgetary allocation for the amount.

XI. KEY PERSONS INVOLVED IN THE PROJECT

- A. BANK STAFF
- | | | NAME |
|---|---|---|
| Director
Social Sectors Division (SASS)
South Asia Department | : | Mr. Edward M. Haugh, Jr. |
| Urban Development Specialist | : | Ms. Eva Mayerhofer
Tel. No. (632) 632 5359 |
| Principal Project Specialist/
PAU Head | : | Mr. Hiroyoshi Kurihara |
| Associate Project Analyst | : | Ms. Ma. Rosario Romasanta |
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| E-Mail Address | : | Ms. Eva Mayerhofer
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- B. ADB NEPAL RESIDENT MISSION (NRM)
- | | | |
|--|--|---|
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Nepal Resident Mission (NRM) | | Mr. Sultan Hafeez Rahman |
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Tel. No. (977-1)227779/227784/220305
Fax No. (977-1) 225063
Email: adbnrm@adb.org |
- A. EXECUTING AGENCY
- Ministry of Planning and Physical Works (MPPW) will be the Executing Agency. MPPW has delegated to Department of Water Supply and Sewerage (DWSS) authority to execute the Project.

Secretary, MPPW : Mr. Tirtha Raj Sharma

Project Manager : Mr. Hari Prasad Sharma

Address : Dept. of Water Supply & Sewerage
Ministry of Physical Planning and
Works
Panipokhari, Kathmandu

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cbwssp@yahoo.com

XIV. REFERENCE MATERIALS

A. Project-Related

- Report and Recommendation of the President to the Board of Directors for Loan 2008-NEP(SF)
- Loan Agreement between the Kingdom of Nepal and ADB

B. General

- Anticorruption Policy (2 July 1998)
- Anticorruption Policy: Description & Answers to Frequently Asked Questions (2000)
- Handbook on Management of Project Implementation (revised 1988)
- Regulations of the Asian Development Fund (dated 15 April 1997)
- Special Operations Loan Regulations (Applicable to Loans Made by ADB from its Special Funds Resources) (dated 7 December 1982)

C. Consultants

- Guidelines on the Use of Consultants by the ADB and Its Borrowers (April 2002)
- Handbook for Users of Consulting Services, Volume 1 (5th edition September 2002), Procedures and Practices
- Handbook for Users of Consulting Services, Volume 2 (May 2003), Recruitment of Consulting Services
- Templates – Recruitment of Firm (Team of Experts) for Loan Projects Using Quality and Cost-Based Selection (QCBS) Method

D. Procurement

- Guidelines for Procurement under ADB Loans (February 1999)
- Guide on Bid Evaluation (August 2000)
- Handbook on Policies, Practices and Procedures Relating to Procurement Under ADB Loans (Revised February 1990)
- Handbook on Problems in Procurement for Projects Financed by the ADB (Revised November 1987, reprinted October 1995)

- Standard Bidding Documents – Procurement of Goods (including related services)
Posted on the ADB website – can be downloaded as:
Single-Stage: One-Envelope
Single-Stage: Two-Envelope
Two-Stage: Two-Envelope
Two-Stage User’s Guide
- Guide on Prequalification of Civil Works Contractors (December 2001)
- Sample Bidding Documents – Procurement of Civil Works (Large Contracts) with Addendum (December 2002)
- Sample Bidding Documents – Procurement of Civil Works (Small Contracts) (January 2003)

E. Disbursement

- Loan Disbursement Handbook, January 2001

I. ANTICORRUPTION

47. The ADB Office of the General Auditor is the point of contact to report allegations of fraud and corruption among ADB financed projects or its staff. Within that office, the Anticorruption Unit is responsible for dealing with all matters related to allegations of fraud and corruption. Please refer to the ADB’s Anticorruption Policy Handbook. Anyone coming across evidence of corruption associated with the Project may contact the Anticorruption Unit by telephone, by facsimile, by mail, or by E-mail as follows:

Anticorruption Unit
Office of the General Auditor
Asian Development Bank
6 ADB Avenue, Mandaluyong City
0401 Metro Manila, Philippines

Postal Address	:	P.O. Box 789 0980 Manila, Philippines
Telephone	:	(63-2) 632-5004
Facsimile	:	(63-2) 636-2152
E-mail	:	anticorruption@adb.org

APPENDIXES

Number	Title
1	Project Cost Estimates
2	Implementation Schedule
3	Terms of Reference for Consulting Services
4	Guide for the Engagement of Consultants
5	Proposed Contract Packaging
6	Procurement Checklist
7	Disbursement Modalities (Statement of Expenditures, Imprest Fund)
8	Project Performance Report
9	Reporting Requirements
10	Format of Quarterly Progress Report
11	Format of Auditor's Opinion
12	Format for Borrower's Project Completion Report
13	Project Payment Milestone
14	Subproject Selection Criteria
15	Gender, Caste and Ethnicity Awareness and Empowerment Strategy

PROJECT COST ESTIMATES^a

(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. The Rural Component			
1. Civil Works WS	7.49	10.98	18.67
2. Equipment and Materials WS	0.93	3.47	4.40
3. Sanitation	0.75	1.10	1.85
4. Community Mobilization (NGO Contracts)	0.00	1.86	1.86
5. Community Mobilization (Materials)	0.00	0.02	0.02
6. Gender, Caste, and Ethnic Minority Program	0.00	0.04	0.04
7. Health and Hygiene Program	0.94	0.19	1.13
Subtotal (A)	10.11	17.66	27.77
B. Institutional Strengthening Component			
1. International Consultants	0.24	0.03	0.27
2. Domestic Consultants	0.00	2.00	2.00
3. Equipment	0.06	0.05	0.11
4. Materials	0.66	0.07	0.73
Subtotal (B)	0.96	2.15	3.11
C. Incremental Administrative Costs			
1. Counterpart Salaries – Technical	0.00	1.84	1.84
2. Counterpart Salaries – Support	0.00	0.51	0.51
3. Equipment/Vehicles	0.26	1.46	1.72
Subtotal (C)	0.26	3.81	4.07
Interest Charges During Construction^b	0.76	0.00	0.76
Total	12.09	23.62	35.71

NGO = nongovernment organization, WS = Water Supply.

^a Taxes and duties are included in the costs at the level of \$2.34 being 6.6% of the total project costs.^b Related to ADB loan financing.

Source: Asian Development Bank estimates.

IMPLEMENTATION SCHEDULE

Item	2004				2005				2006				2007				2008				2009					
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
A. Rural Water Supply and Sanitation Component																										
1. Pilot Batch Program	[Planning Phase]				[Development Phase]				[Implementation Phase]																	
a. Batch I Planning, Development, and Implementation	[Planning Phase]				[Development Phase]				[Implementation Phase]																	
b. Batch II Planning, Development, and Implementation					[Planning Phase]				[Development Phase]				[Implementation Phase]													
c. Batch III Planning, Development, and Implementation									[Planning Phase]				[Development Phase]				[Implementation Phase]									
d. Batch IV Planning, Development, and Implementation													[Planning Phase]				[Development Phase]									
B. Institutional Strengthening Component																										
1. Institutional Support to DWSS in its new role	[Solid Black Bar]																									
2. WSST and DDC Staff Trained For Each Batch	[Solid Black Bar]				[Solid Black Bar]				[Solid Black Bar]				[Solid Black Bar]				[Solid Black Bar]									
3. Planning Completed For Each Batch	[Hatched Bar]				[Hatched Bar]				[Hatched Bar]				[Hatched Bar]				[Hatched Bar]									
4. Provide Managerial Support to DWSS	[Solid Black Bar]																									
5. DDC Manages NGO Support To Communities	[Solid Black Bar]																									
6. Development Of Manuals And Guidelines	[Solid Black Bar]																									
7. Manuals And Guidelines Formally Approved					○																					
8. Provide Technical And Managerial Support To DDCs	[Solid Black Bar]																									
9. Review And Update Manuals And Guidelines					[Solid Black Bar]																					
10. Complete Required Research And Studies					[Solid Black Bar]																					
11. Reform Strategy Completed And Approved By MPPW	[Solid Black Bar]																									
12. Annual District Workshops	▼				▼				▼				▼				▼				▼					
13. SSG Meetings	▲				▲				▲				▲				▲				▲					
C. Project Management																										
1. Project Performance Management System	[Solid Black Bar]																									
2. Project Reporting	[Solid Black Bar]																									
3. Milestone Sets	I				II				III				IV				Va				Vb					
4. Project Review Missions	◇				◇				◇				◇				◇				◇					
6. Project Completion Report																								◆		✦

DDC = district development committee, MPPW = Ministry of Planning and Physical Works, NGO = nongovernment organization, SSG = sector stakeholder group, WSST = water and sanitation team.

Planning Phase
 Development Phase
 Implementation Phase
 Written Plans
 ○ Written Approval
 ▼ Meetings
 ▲ Workshops
 ◇ Reports
 ◆ Mid-term Review
 ✦ Final Report

CONSULTING SERVICES FOR PROJECT MANAGEMENT AND CAPACITY BUILDING

1. The consulting services will support the Project and build capacity in the Ministry of Physical Planning and Works, Department of Water Supply and Sewerage (DWSS), district development committee (DDC), nongovernment organizations (NGOs), community-based organizations (CBOs), water users group/water user and sanitation committee, and other sector support organizations. Consultant input covers broad areas of expertise to (i) develop detailed project and financial management guidelines, procedures, and training materials; (ii) develop gender, caste, and ethnicity (GCE) guidelines and offer training in their use; (iii) assist DWSS build the capacity to support sector development as it moves from being an implementor to being a facilitator in rural water supply and sanitation (RWSS); and (iv) strengthen the capacity of DDCs, their sectoral units, and NGOs/CBOs and private sector firms that will support communities to plan, implement, operate, and maintain RWSS facilities. The table gives the proposed consulting services.

Consultant Level and Position		Person-Months	
		Domestic	International
Central Level (PMU)			
1	Team Leader (RWSS Specialist)	72.0	
2	Gender and Social Development Specialist	60.0	
3	Financial Management and Accounting Specialist	72.0	
4	Hygiene and Sanitation Specialist	30.0	
5	Monitoring and Evaluation Specialist	40.0	
6	Contract Management Specialist	24.0	
7	Policy Specialist (Water)	9.0	
8	Environment Specialist	9.0	
9	Institutional Reform Specialist		3/3 ^a
10	Financial Management Specialist		3/1/0.5
11	Monitoring and Evaluation Specialist		3/1/0.5
12	Unallocated	20.0	
District Level (WSST)			
13	Financial Management and Procurement Specialist	400.0	
14	Regional Monitoring and Evaluation Specialists (1 per 5-district cluster, assuming 4 specialists in 21 districts)	183.0	
15	Regional Gender/Social Development Specialists (1 per 5-district cluster, assuming 4 specialists in 21 districts)	183.0	
16	Unallocated	100.0	
Totals		1,202.0	15

RWSS = rural water supply and sanitation.

^a Where the number of person-months is given as 6/4/2, that indicates 6 months in the first year of project implementation, 4 months in the second year, and 2 months in the third year.

A. Central Level Consultants

1. Team Leader/RWSS Specialist (Domestic)

1. The team leader will be a RWSS specialist. The specialist will assist the project management unit (PMU) and its project director to firmly establish the project institutional framework and administrative and management procedures according to Government/Asian Development Bank (ADB) guidelines. The team leader will (i) verify that bidding and contracting procedures reflect ADB/Government guidelines and are fair, open and transparent; (ii) help prepare and participate in project orientation workshops for PMU/water and sanitation support team (WSST) staff and consultants; (iii) develop work plans and coordinate activities of PMU consultants; (iv) assist the PMU to develop annual work plans, budgets, and schedules for project activities; (v) make visits to districts and communities involved in the project to monitor planning and implementation, and recommend ways to streamline procedures; (vi) regularly meet senior Government staff involved in the Project, including steering committee members and the sector stakeholder group (SSG), to solicit their active support of project activities; (vii) work with project staff/consultants to develop quality control and administrative transparency guidelines for all project levels; and (viii) assist the project director in other project matters as necessary, including producing project progress reports. The team leader should have an advanced degree in water supply and sanitation, with at least 10 years international experience designing and managing large-scale, community-based WSS and health projects.

2. The team leader in his capacity as a RWSS specialist will (i) review technical guidelines and catalogues from other RWSS programs and assist DWSS to compile project technical guidelines; (ii) develop quality control procedures, including technical specifications that can be easily implemented at district level and used by communities; (iii) assist in developing standard formats and steps for subproject appraisal, periodic M&E of schemes under implementation, and other related technical matters; (iv) review and comment on WSST subproject appraisal reports; (v) develop course outlines for project WSS training modules, and assist the WSST in conducting orientation and district-based training related to water supply issues; and (vi) direct the unit cost studies that will take place periodically throughout the Project.

3. In addition he will (i) review and analyze all water quality data collected from water sources in each of the 21 districts, using best practices; (ii) assist the PMU in developing a database of water quality on the RWSS schemes; (iii) develop a water quality monitoring program for RWSS schemes; (iv) advise on action to be taken by the DDCs and communities should sources be contaminated with arsenic, iron, fluoride, and/or calcium; (v) develop standard procedures for carrying out economic and financial appraisal of individual schemes/subprojects, and model procedures to assist the WUSCs in tariff determination and financial planning; (vi) assist the policy specialist in amending the National Water Supply Sector Policy, 1998 and the Draft National Sanitation Policy, 2000 to reflect the RWSS Sector Strategy and Action Plan.

2. Gender and Social Development Specialist (Domestic)

4. The specialist will (i) assist the PMU to develop and disseminate promotional materials, develop training programs, and initially train project staff and others in GCE awareness and methodologies to ensure full and equitable participation by gender, castes, and minority ethnic groups; (ii) review subproject/scheme planning, development, implementation, and postproject activities to ensure that each step addresses GCE; (iii) help integrate GCE modules into overall training programs; (iv) develop GCE monitoring indicators and processes to be used as part of

the project performance management system (PPMS) to ensure that GCE issues are properly addressed in all project activities; and (v) liaise with the Empowerment of Women Project to develop possible linkages with this project community women to enable them to access literacy, microcredit, and other services.

3. Financial Management and Accounting Specialist (Domestic)

5. The specialist will (i) monitor project financial disbursement and recommend ways to smooth Government administrative procedures for disbursement; (ii) develop operational guidelines on project financial matters using Government procedures and ADB formats; (iii) set up and maintain the project financial bookkeeping and accounting system at the central level; (iv) support WSSTs to establish uniform bookkeeping and financial accounts for each scheme/subproject; (v) assist WSSTs with the water supply specialist in conducting orientation and district-based training related to financial management for NGOs/CBOs and WUSCs; and (vi) monitor WUSC financial operations related to O&M, rehabilitation, and extension during and after scheme/subproject implementation.

4. Hygiene and Sanitation Specialist (Domestic)

6. The specialist will (i) lead in evaluating of various approaches currently used in community health, hygiene and sanitation, handwashing, and child survival approaches used in multilateral, bilateral, international, and local NGO projects in Nepal; (ii) based on the evaluation, fine-tune the details of the Basic Sanitation Package program proposed for this Project; (iii) develop operational guidelines/procedures on health sanitation and hygiene behavior change program for WSSTs and NGOs/CBOs and private sector groups working at the district and community level; (iv) refine and develop the various modules of the United Nations Children's Fund (UNICEF)/DWSS Basic Sanitation Package; (v) develop course outlines for the project health and sanitation-related training modules; (vi) assist DWSS to review and compile the catalog of affordable latrine options for each project district; (vii) assist in developing related information, education and communication (IEC) materials including Participatory Hygiene and Sanitation Transformation; and (viii) assist WSST in conducting orientation and district-based training related to health sanitation and hygiene behavior change.

5. Monitoring and Evaluation (M&E) Specialist (Domestic)

7. The specialist will (i) work with the Department for International Development-financed Monitoring and Evaluation Unit at MPPW to determine information needs for sector monitoring; (ii) establish monitoring parameters of project-related activities; (iii) oversee the establishment of a comprehensive monitoring database to meet both the requirements of the sectoral monitoring unit and the Project; (iv) develop monitoring procedures for district, NGOs, and community project participants; (v) orient and train district M&E staff in monitoring procedures; (vi) manage the M&E program, preparing periodic monitoring reports based on information collected at the district level; (vii) with other PMU staff, determine specific project evaluation requirements, developing terms of reference for independent evaluations as needed; and (viii) manage project evaluations, reviewing and approving reports prepared under contract to others.

6. Contract Management Specialist (Domestic)

8. The specialist will (i) develop model contracts and procedures for DDCs to recruit NGOs and private sector firms; (ii) develop detailed shortlisting and selection criteria for NGOs and private sector firms, and assist WSST to evaluate the skills and experience of candidate NGOs

and private firms in the selection process; (iii) train and assist to WSST in technical and cost proposal evaluation according to ADB and Government procedures; (iv) train WSSTs to use standard contracting procedures for consultants (NGOs/private sector firms), for goods and materials for construction, and to use the model contracts; (v) develop model procurement procedures for WUSC to procure goods and materials and keep appropriate records for subsequent monitoring, audits, collection, and use of water tariffs; (vi) liaise with the WSST regularly to solve specific contracting or selection problems in the districts.

7. Policy Specialist (Water) (Domestic)

9. The specialist will have extensive experience in water-related policies and will (i) work closely with the sector stakeholder group and individual sector stakeholders to review sector policies and strategies, and assess weaknesses or inconsistencies that need to be rectified; (ii) identify current policies that need revision to be compliant with current laws or are inconsistent with other policies; (iii) with the SSG, prepare specific time-based recommendations for amending the RWSS sector policy to improve the efficiency and impact of future sector projects.

8. Environment Specialist (Domestic)

10. The specialist will (i) develop guidelines for environmental screening of subprojects to be undertaken by the communities; (ii) develop an environmental checklist for the screening process based on environmental conditions of the different regions; (iii) catalogue environmental standards to be adhered to during design, construction, O&M for RWSS; (iv) train WSST staff and NGOs in environmental screening of RWSS schemes; and (v) liaise with water supply and policy specialists regarding inclusion of environmental issues in RWSS policy documents.

9. Institutional Reform Specialist (International)

11. The institutional reform specialist should have experience in public administration and will (i) carry out a human resource review of DWSS in line with the LSGA and the Civil Service Act, (ii) analyze the business processes of DWSS, (iii) perform a functionality assessment and prepare a human resource plan, (iv) prepare a training strategy for the staff taking on new roles and responsibilities and (v) prepare a financing plan to implement the human resource strategy.

10. Financial Management Specialist (International)

12. The specialist will (i) design and implement an accounting system capable of consolidating DDC implementation activities, (ii) create a management information system (MIS) that will capture all accounting data from the DDCs, (iii) design and implement an accounting system at the national PMU level to record and analyze the expenditures of the PMU, (iv) design and implement a reconciliation process for monitoring and analyzing receipts and expenditures from the WSS sector account at the Nepal Rastra Bank, (v) design financial reporting systems that meet both Government needs and ADB requirements, (vi) carry out adequate skills transfer to domestic consultants and counterpart staff to ensure sustainability of the designed and implemented systems and (vii) train the domestic consultant and counterpart staff to such a level that they will be able to take on the financial management responsibilities under the Project.

11. Monitoring and Evaluation (M&E) Specialist (International)

13. The specialist will (i) meet MPPW and Fund Board M&E staff to assess their M&E procedures, indicators, and reports; (ii) visit representative DDCs and identify physical, institutional, and financial data to be analyzed to monitor sustainability and impact of project services, and achievement of GCE and poverty targets; (iii) draft a conceptual design of the MIS/M&E program; (iv) specify information that will be in project progress reports by institution (PMU, WSSTs, NGOS/CBOS); (v) after MIS conceptual design is implemented, make periodic visits to all project levels to discuss MIS/money procedures with project staff and consultants; (vi) assess the quality and completeness of data gathered and its use by communities and project management; and (vii) train the M&E domestic consultant and counterpart staff to such a level that they will be able to take on the M&E responsibilities under the Project.

B. Regional and District Level (WSST) Consultants

1. Regional Gender/Social Development Specialists (1 per 5-district cluster)

14. At the regional level, all WSSTs will be supported by a gender/social development specialist who will support a 5-district cluster. The consultant will guide the gender/social development specialist to (i) help WSST disseminate promotional materials, training programs for project staff and others in GCE awareness and methodologies to ensure equitable participation by GCE groups; (ii) assist in reviewing all subproject and scheme planning, implementation, and postproject activities to ensure that GCE issues are addressed; (iii) assist in integrating GCE into all DDC and community sector activities; and (iv) collect data and monitor indicators on GCE integration and relay the information to the PMU. The regional gender and social development specialist will build the capacity of the gender and community development officers by providing backstopping support to achieve the key tasks as required.

2. Financial Management and Procurement Specialist at WSST (Domestic)

15. The specialist will (i) review the model contracts and the procedures for recruiting NGOs and the private sector developed by the contract and procurement specialist at the PMU level, with reference to the district under consideration; (ii) assist WSST in shortlisting and selecting NGOs and private firms; (iii) assist WSST in evaluating technical and cost proposals, contracting procedures, and the use of the model contracts with NGOs and private firms; (iv) disseminate information on model procurement procedures for WUSCs to procure goods and materials for construction, and keep adequate records for subsequent monitoring and audits; (v) periodically monitor WUSC records in participating communities in the district; (vi) liaise with the PMU regularly for solving specific contracting or selection problems in the districts, and keep detailed records of all the contracts in a fiscal year in the district, and (vii) monitor WUSC financial operations related to O&M, rehabilitation and extension during and after scheme/subproject implementation.

3. Regional Monitoring and Evaluation (1 per 5 District)

16. At the regional level, all WSSTs will be supported by a M&E specialist responsible for a 5-district cluster. The consultants will support the M&E staff in the DDC and WSST to ensure that information for the PPMS and sector monitoring gets collected and input into the database. They will assist the WSST in evaluating and reviewing progress in implementing the water

supply and sanitation schemes, the achievement of project milestones and sector indicators, and in preparing their periodic district monitoring reports to the PMU, the stakeholder group, and the MPPW M&E Unit.

GUIDE FOR THE ENGAGEMENT OF CONSULTANTS

A. First Submission

1. When borrowers use QCBS to select consulting firms, the TOR must be detailed and specific. The scope of work must be defined and all the factors affecting the project cost, including all the required inputs, must be stated.
2. The borrower first prepares a long list, which normally includes 15–20 technically qualified firms with experience in similar projects. The borrower may ask ADB for a list of qualified firms from the DACON. The borrower decides whether to include any of these firms on the long list and may also add other experienced firms to the list.
3. The borrower then prepares a shortlist of five to seven firms, which normally includes no more than one firm from any ADB member country. The borrower may propose to include two firms from one member country on the shortlist in special cases, for example, when not enough firms have the required expertise.
4. The borrower next finalizes the detailed TOR and recruitment schedule, and prepares the request for proposal (RFP) documents, a draft contract, and a format for evaluating the consultant's performance. The RFP states the borrower's budget for the consulting services and that the costs of the financial proposals, after the borrower evaluates them, are expected not to exceed this budget. The borrower then makes its first submission to ADB, in ADB's standard format. When the contract budget is over \$400,000, the consultant selection committee (CSC) reviews and approves
 - the shortlisting criteria;
 - the shortlist, to ensure that all the firms are technically qualified and reasonably geographically spread;
 - the TOR and background information to ensure that they are clear and accord with the provisions in the loan document;
 - the RFP to ensure that the documents are clear and provide enough information for the consultants to fully prepare responsive proposals;
 - the proposed selection method, to make sure it is reasonable;
 - the proposed type of technical proposals that will be requested;
 - the proposed criteria for evaluating the technical proposals, including the weights for each criterion and the summary evaluation sheet;
 - the proposed recruitment schedule;
 - the draft contract to ensure that it complies with ADB procedures, and that the terms and conditions are reasonable; and
 - the format for evaluating the consultant's performance.
5. The concerned division advises the borrower of the CSC's or the division's decision.

B. Second Submission

6. The borrower then sends RFPs to the consultants on the shortlist. The RFPs ask the consultants to submit technical and financial proposals at the same time in separate sealed envelopes. Any proposals received after the stated deadline are rejected.

7. The borrower evaluates the proposals in two stages: first, the quality of the technical proposals, and second, the cost of the financial proposals. The borrower securely stores the unopened financial proposals and opens the technical proposals. The borrower's CSC then evaluates the technical proposals using the evaluation criteria approved in the borrower's first submission.

8. The borrower then makes its second submission to ADB in ADB's standard format. The borrower submits the documents included in its first submission plus a technical evaluation report that includes

- a summary evaluation sheet, highlighting any proposal that scored less than the minimum of 750 points out of 1,000;
- a personnel evaluation sheet for each proposal;
- comments on the strengths and weaknesses of each proposal; and
- minutes of the evaluation meeting(s).

9. When the contract budget is more than \$400,000, the CSC reviews and approves the borrower's technical evaluation report. When the contract budget is \$400,000 or less, the concerned division reviews and approves the technical evaluation report. The division may request a CSC meeting to evaluate the proposals if it wishes. The concerned division advises the borrower of the CSC's or the division's decision.

10. The borrower informs any firms that submitted technical proposals that scored less than 750 points that they were unsuccessful and that the borrower will return their financial proposals unopened at the end of the selection process.

C. Third Submission

11. The borrower then informs the firms whose technical proposals scored 750 points or more of the time and place where the borrower will publicly open their financial proposals. The borrower also advises ADB when and where the opening will take place. The borrower schedules the opening at least 2 weeks after the notification.

12. At the public opening, the borrower records the names of those attending and reads aloud the technical scores of the firms whose proposals scored at least 750 points. The borrower then opens those firms' financial proposals and reads aloud the total price shown in each proposal. All the other information in the financial proposals is kept confidential. The borrower prepares minutes of the proceedings.

13. The borrower next evaluates the financial proposals. The borrower

- checks that the commercial terms in the proposals comply with the requirements in the RFP,
- corrects any mathematical errors,
- makes sure that the costs of all the items in each firms' technical proposals are included in their financial proposals,
- makes sure that the proposals include the costs of any provisions the firms stated and of the contingency amount specified in the RFP,
- makes sure the proposals exclude any identified local income tax on the international experts, and
- converts any amounts in other currencies to US dollars using the source for the exchange rates that was stated in the RFP.

14. All the evaluated prices are not expected to exceed the contract budget stated in the RFP.

15. The borrower then calculates the score of each financial proposal by dividing the price of the lowest priced proposal by the price of the proposal being considered and multiplying the result by 1,000.

16. The borrower calculates the total score for each firm by adding 80% of the technical score to 20% of the financial score. The borrower ranks the firms based on their total scores and prepares a financial evaluation report that includes five forms provided by ADB.

17. The borrower then makes its third submission to ADB, in ADB's standard format. The borrower submits the documents included in its first two submissions plus the minutes of the public opening, the financial evaluation report, the ranking, and the minutes of the financial evaluation meeting(s).

18. When the contract budget is more than \$400,000, the CSC reviews and approves the borrower's documents. When the contract budget is \$400,000 or less, the concerned division reviews and approves the documents. The division may request a CSC meeting to review the documents if it wishes. The CSC's or concerned division's approval is final, and ADB does not consider any revised rankings submitted later. If the borrower has not followed the agreed selection procedures, ADB reserves the right not to finance the contract. The concerned division advises the borrower of the CSC's or the division's decision.

D. Fourth Submission

19. The borrower then negotiates a contract with the first-ranked firm. The negotiations include the firm's methodology, work plan, and personnel schedule; the EA's counterpart facilities; and the quantities of cost items in the firm's financial proposal. Any changes made in the TOR requirements are minor because no substantial change may be made in the firm's technical and financial proposals. The borrower and the firm may make minor changes in the quantities of the cost items in the financial proposal, but may not change the firm's proposed rates for remuneration and expenses. When asked by the borrower, COCS provides a staff member to assist with the contract negotiations, if one is available.

20. If the borrower and the firm cannot reach agreement, the borrower may terminate the negotiations with ADB's prior agreement and start negotiations with the next-ranked firm in turn until an agreement is reached.

21. After reaching an agreement with the selected firm, the borrower makes its fourth submission to ADB, in ADB's standard format. The borrower submits the draft negotiated contract and the minutes of the contract negotiations. The concerned division reviews and approves the documents. The division

- makes sure that the negotiated terms and conditions are satisfactory; and
- asks COCS, Controller's Department, and OGC for comments, if necessary.

22. The division advises the borrower of its decision.

E. Finalizing the Contract

23. After receiving ADB's approval, the borrower signs the contract, obtains the consultant's signature, and submits two copies to ADB for its records. After receiving the signed contract, the

concerned division checks that it is substantially the same as the draft negotiated contract approved earlier.

24. The borrower returns the unopened financial proposals of the firms whose technical proposals scored less than 750 points.

PROPOSED CONTRACT PACKAGING

Element	Estimated Contracts (no.)	Implementing Agency	Mode of Procurement	Base Cost (\$ '000)	Activities
Civil Works	1,200	WUSC	CP	19,347	Construction and procurement of materials by communities building water supply and sanitation schemes
Office Equipment and Motorcycles	5	PMU/WSST	IS/LCB/DP	115	Project management and training
Publication Materials	400	PMU/WSST	LCB/DP	2,618	Policy manuals and training materials, survey dissemination
Total	1,605			22,080	

CP = community-based procurement, DP = direct purchase, IS = international shopping, LCB = local competitive bidding, PMU = project management unit, WSST = water and sanitation support team, WUSC = water user and sanitation committee.

CHECKLIST OF ACTIVITIES FOR PROCUREMENT

LOCAL COMPETITIVE BIDDING (LCB) PROCUREMENT OF CIVIL WORKS WITH POSTQUALIFICATION CHECK LIST

1. PREPARATION OF BID PACKAGES

EA

- Prepare list of goods to be produced
- Group goods into contracts
- Determine scope and number of civil works contracts
- Determine mode of procurement for each contract
- Submission to ADB

ADB

- Review bid packaging proposed by Executing Agency
- Provide comments for necessary amendments
- Approve/Disapprove-provide advice on necessary actions to obtain Bank approval

2. PREPARARION OF BIDDING DOCUMENTS

EA

- Prepare draft bidding documents
- Submit draft bidding documents to ADB for acceptability checking (one time only for acceptability checking)

ADB

- Review draft bidding documents
- Provide comments for necessary amendments to bidding documents

3. ADVERTISEMENT AND NOTIFICATION

EA

- Advertise invitation for invitation for Bids in local newspaper of general distribution
- Issue bidding documents

4. PREPARATION OF BIDS

Bidder

- Prepare bids (min period 30 days)

EA

- Answer inquiries of bidders during clarification period
- Prepare and send Q&A document to all bidders and to ADB

Bidder

- Submit bid

5. PUBLIC BID OPENING

EA

- Open bids received in public
- Announce and record
 - Name of bidder
 - Total bid price
 - Price of alternative bid if any
 - Discounts, if any
 - Presence of bid security, amount and validity

Bidder

- Sign attendance register
- Sign record of public bid opening

6. EVALUATION OF BIDS

EA

- Evaluate bids
- Seek clarification from bidders if necessary
- Prepare bid evaluation report
- Submit bid evaluation report including recommendation for award to ADB

ADB

- Review bid evaluation report
- Approve/Disapprove-Provide advice on necessary actions to obtain Bank approval

7. AWARD OF CONTRACT

EA

- Send letter of notification of award including contract form to a successful bidder

Bidder

- Sign Contract and return to EA
- Obtain Performance Security and submit to EA

EA

- Sign Contract
- Submit Contract as executed to ADB

ADB

- Review Contract
- Approve/ Disapprove-Provide advice on necessary actions for Bank approval

INTERNATIONAL SHOPPING (IS) PROCUREMENT OF GOODS CHECKLIST

1. PREPARATION OF BID PACKAGES

EA

- Prepare list of goods to be produced
- Group goods into contracts
- Determine scope and number of civil works contracts
- Determine mode of procurement for each contract
- Submission to ADB

ADB

- Review bid packaging
- Provide comments for necessary amendments
- Approve/disapprove-Provide advice on necessary actions to obtain Bank approval

2. PREPARATION OF BIDDING DOCUMENTS

EA

- Prepare bidding documents
- Submit to ADB (voluntary; for compliance checking and guidance)

ADB

- Review bidding documents
- Provide comments for necessary amendments

3. ADVERTISEMENT AND NOTIFICATION

EA

- Advertise in English language of general distribution, either
 - a) Invitation for Bids, or
 - b) Invitation to Express interest
- For specialized contracts advertise in well known technical magazines or trade publications or newspaper of wide international circulation

EA

- Issue bidding documents to:
 - a) all firms which want to participate
 - b) all three firms from more than one eligible source country

4. PREPARATION OF BIDS

Bidder

- Prepare bids

EA

- Answer inquiries of bidders during clarification period
- Prepare and send Q&A document to all bidders

Bidder

- Submit bid

5. PUBLIC BID OPENING

EA

- Open bids received in public
- Announce and record:
 - Name of bidder
 - Total bid price
 - Price of alternative bid if any
 - Discounts if any
 - Presence of bid security, amount and validity

Bidder

- Sign attendance register
- Sign record of public bid opening

6. EVALUATION OF BIDS

EA

- Evaluate bids
- Seek clarification from bidders if necessary
- Prepare bid evaluation report
- Submit bid evaluation to ADB (voluntary; for compliance checking and guidance)

ADB

- Review bid evaluation report
- Provide guidance on necessary actions to obtain Bank approval

7. AWRAD OF CONTRACT

EA

- Send letter of notification of award including contract form to successful bidder

Bidder

- Sign contract and return to EA
- Obtain Performance Security and submit to EA

EA

- Sign contract
- Submit to ADB

- Summary of evaluation of bids
- Justification for award
- Contract as executed

ADB

- Review documents submitted
- Approve/Disapprove-Provide advice on necessary actions to obtain Bank approval

DISBURSEMENT MODALITIES

I. STATEMENT OF EXPENDITURE (SOE) PROCEDURE

1. Pursuant to para. 8(b), Schedule 3 of Loan Agreement, you may use the SOE procedure whereby application for liquidation/reimbursement is supported by statement of expenditures, in lieu of the normal full documentation. Under the SOE procedure, you are required to submit to the Bank together with the Withdrawal Application for Liquidation, a statement of expenditures (ADB-SOE-SS), duly certified by persons authorized to sign withdrawal application. The SOE form would be submitted in place of the usually required supporting documents such as invoices, running bills, and receipts.

2. SOE Procedures shall be used mainly for liquidating expenditures from the Imprest Account in respect of expenditures incurred not exceeding US\$5,000 per payment and the formats to be used are shown in the Loan Disbursement Handbook, dated January 2001.

3. Since the use of SOE is a special practice to the Bank, it will be allowed to you with the condition that all relevant supporting documents will be retained by you and these will be available for examination by the Bank's field missions whenever the occasion arises. In addition, you are required to maintain proper accounting records of such expenditures to enable them to be traced and verified against supporting documents.

4. Where any payment made under the SOE procedure is subsequently found by the Bank to be insufficiently or not justified by relevant documents or ineligible for Bank financing, you will, promptly upon notice from the Bank and unless otherwise agreed by the Bank, prior to any further reimbursement or liquidation under the SOE procedure, refund to the Bank an amount equal to the amount of such payment or the portion thereof in the same currency as that in which the amount was withdrawn from the Loan Account. Alternatively, the Bank may offset the amount of the unjustified/ineligible payment against subsequent withdrawals for reimbursement.

5. The SOE records should be regularly and independently reviewed by independent auditors acceptable to the Bank. This audit may be carried out as part of the regular annual audit of the Executing Agency's general accounts or the Project Accounts, but the opinion of that part of the examination relating to the SOE should be separately set out in the auditor's report.

II. PROCEDURE FOR ESTABLISHING AND OPERATING THE IMPREST ACCOUNT

A. Definition

6. Whenever used in this Annex, unless the context otherwise requires, several terms defined in the Loan Agreement dated 9 December 2003 between the Kingdom of Nepal and Asian Development Bank, and in the Bank's Special Operations Loan Regulations dated 7 December 1982 have the respective meanings therein set forth.

C. Eligible Expenditures

7. Payments out of the Imprest Account shall be made exclusively for eligible expenditures in respect of the reasonable cost of goods and services require for the project and to be financed out of the proceeds of the Loan to meet expenditures for: (i) local expenditures

including indirect foreign exchange, and (ii) foreign exchange in accordance with the provision of Schedule 3 of the Loan Agreement.

D. Currency of Denomination

8. The Imprest Account shall be denominated in US Dollar.

E. Account Name and Authorization for Withdrawals

9. An Imprest Account for the Executing Agency will be established at a commercial bank acceptable to the Bank through which Project funds will be made available. The funds will be released through the commercial bank. The Imprest Account will be established, operated, and liquidated in accordance with detailed arrangements agreed upon by the Borrower and the Bank and in accordance with the Bank's *Loan Disbursement Handbook* dated January 2001.

F. Initial Advance and Ceiling

10. The Bank shall, after the Effective Date, on the basis of a Withdrawal Application-Imprest Fund (ADB-IFP-WA) and a statement from the Borrower setting out the anticipated expenditures for a period of six months (the Estimate of Expenditure Sheet) (ADB-IFP-EE) and evidence satisfactory to the Bank that the Imprest Account has been duly opened, withdraw from the Loan Account for replenishment purposes. The initial amount to be deposited into the Imprest Account shall not exceed the equivalent of \$2.4 million. This ceiling may be changed by the mutual agreement between the Bank and the Borrower.

G. Liquidation and Replenishment

11. The Borrower shall furnish on a monthly or quarterly basis to the Bank in respect of all payments out of the Imprest Account the duly filled-in (i) Withdrawal Application-Imprest Fund (ADB-IFP-WA); and (ii) Summary Sheet (ADB-IFP-SS) together with such supporting documents and other evidence as the Bank shall reasonably request, showing that each payment was made for eligible expenditures. The Bank agrees to the use of the Statement of Expenditure (SOE) procedure for liquidation of expenditures incurred not exceeding US\$5,000 per payment. The Borrower (the Executing Agency) shall also furnish to the Bank statement of Imprest Account prepared by the commercial bank. Details of debit entries of such bank statements of Imprest Account should be shown on the statements or separate sheet.

12. To replenish the Imprest Account, the Bank will deposit into the Imprest Account an amount equal to payments made out of the Imprest Account for eligible expenditures on the basis of the withdrawal applications submitted as per paragraph 6 above, but only to the extent that the amount of any such deposit, together with the balance remaining in the Imprest Account as of the date of such deposit, does not exceed the equivalent of the prevailing ceiling unless the Bank has agreed to the Borrower's request to increase the ceiling.

13. Notwithstanding the provisions of Paragraph 8 of this procedure, the Bank may at any stage by notice to the Borrower suspend further replenishments to the Imprest Account if the Borrower has failed to comply with any of the provisions of the agreement.

H. Service Charge

14. The service charge of one percent per annum during the grace period, and one and one-half percent per annum thereafter, payable pursuant to the provisions of Article II, Section 2.01 of the Loan Agreement shall accrue on amounts withdrawn from the Loan Account, from the date of such withdrawals from the Loan Account for deposit in the Imprest Account.

I. Accounts and Records

15. The Borrower shall ensure that all amounts received for or in connection with the Imprest Account and amounts withdrawn therefrom are recorded in a separate account in accordance with consistently maintained sound accounting principles. The Borrower shall retain until one year after the Closing Date for withdrawals from the Loan Account or such other date as the Bank may agree, all accounts and records including orders, invoices, bills, receipts, and other original documents evidencing the expenditures paid out of Imprest Account, and shall enable the Bank's representatives to examine such accounts and records during disbursements and review missions.

J. Audit

16. The Borrower shall cause an adequate independent auditor or government auditor acceptable to the Bank to periodically audit the Imprest Account and records referred to in Paragraph 11 above and furnish the audit report thereon to the Bank not later than 9 months after the end of each fiscal year. The audit may be carried out as part of the regular annual audit of the Executing Agency's general accounts and financial statements required under Section 4.06(b) of the Loan Agreement, but the opinion of that part of the examination relating to the Imprest Account and SOE should be separately set out in the auditor's report. A sample form of the auditor's opinion on the examination of the Imprest Account and SOE is given in Appendix 11.

K. Ineligible or Unjustified Payment

17. Where any withdrawal or payment from the Imprest Accounts is determined by the Bank (i) to have been utilized for any purposes not eligible, or (ii) not justified by the evidence furnished, the Borrower shall, promptly upon notice from the Bank and unless otherwise agreed by the Bank, prior to any further replenishments, deposit into the Imprest Account an amount equal to the amount of such payment to the portion thereof not so eligible or justified, in the same currency as that in which the amount was withdrawn from the Loan Account. Alternatively, the Bank may offset the unjustified payment against new withdrawal applications for reimbursement.

L. Closing of the Imprest Account

18. Notwithstanding the provisions of Paragraph 9 of this procedure, (i) if the Bank shall have determined at any time that all further withdrawals can be made directly by the Borrower from the Loan Account, no further deposit into the Imprest Account shall be made by the Bank; and (ii) when the Bank shall have determined that the Project components to be financed with payments from the Imprest Account are near completion, the Bank may reduce the amount of any replenishment as the Bank may deem appropriate with a view towards gradually closing the Imprest Account.

19. In the event that (a) the Bank determines that any amount outstanding in the Imprest Account will not be required to cover eligible expenditures, or (b) any amount remains outstanding in the Imprest Account after the Closing Date specified in the Loan Agreement, the Borrower shall, promptly upon notice from the Bank, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Imprest Account.

M. Other Issues

20. For matters not covered in the Appendix of this PAM, the guidelines set forth in the Bank's Loan Disbursement Handbook of January 2001 will apply.

REPORTING REQUIREMENTS

	<u>Due for Submission</u>
1. Quarterly Progress Report	within six (6) weeks after the end of the quarter
2. Audited Financial Statements	9 months after the end of each related fiscal year (every April of each year)
3. Project Completion Report	within three (3) months of physical completion of the Project

**Loan No. 2008-NEP(SF): Community Based Water Supply and
Sanitation Sector Project
Quarterly Progress Report
For the Period _____**

A. Summary Part

Narrative description of the overall progress of the project.

It should include analysis on the original and revised schedules and actual achievement/shortfalls in terms of physical and financial targets and accomplishments during the reporting period.

B. Technical Part

Description	Assessment of Progress-to-date
<p>Component 1: Rural Water Supply and Sanitation Improved WSS facilities in remote poverty-afflicted districts.</p> <ol style="list-style-type: none"> 1. Community to mobilize to apply for WSS schemes. 2. Communities to establish legally recognized WUSCs. 3. Communities to develop and sign community action plans (CAPs) for implementing WSS projects. 4. Community members to receive and apply training in support of sustainable operations of WSS. 5. Communities to contribute to WSS construction in cash and kind according to ability to pay (ATP) not penalizing women, poorest, and marginalized groups. 6. WUSCs to implement WSS projects (procure materilas and manage construction). 7. WUSCs to establish revolving funds to provide credit for latrine construction. 8. Village development committees (VDC) and community leaders to train in planning, monitoring, and evaluating sanitation and hygiene improvement. 9. Project communities to implement health and sanitation improvement programs. 10. Case and ethnic minorities to benefit from improved WSS in proportion to community proportions. 11. WUSCs to be composed of at least 50% women with at least one in a management position. 12. WUSCs with proportional caste and ethnic minority beneficiaries. <p>Component 2: Institutional Strengthening Government capacity to manage community-based WSS projects increased</p> <ol style="list-style-type: none"> 1. DDCs to apply selection criteria to prioritize requests for project assistance. 2. DDCs to complete technical, social, and financial evaluation for each participating community 3. DDCs to establish capacity to engage and manage NGOs to support community-based project implementation 4. DDCs to complete knowledge, facilities, and practices (KFP) surveys. 5. DWSS to maintain a list of NGOs prequalified to assist communities. 6. DWSS to orient interested NGOs to qualify them to assist communities. 7. DWSS to create or update community-based implementation sector manuals and guidelines and associated training packages. 8. DWSS to provide training and technical assistance to DDCs. 9. DWSS to monitor and evaluate project implementation. 10. DWSS to complete special studies (UCS, KFP, etc.) 11. MPPW to enact policy and strategy recommendations of the SSG. 12. MPPW/DWSS to rationalize DWSS staffing 	

In the event of “nil” activity for any of the above component during the reporting period, “no progress during the period” should be stated under relevant heading with reasons.

C. Financial Part

I. Counterpart Funds

Amount requested by the Executing Agency for allocation in the annual budget - US\$_____

Amount approved by the Government in the annual budget - US\$_____

Amount of utilization to date - US\$_____

Difficulties in getting the allocated amount released due to budgetary or other procedures -

D. Management and Operations Part

This part should include (i) any changes in the organization of the Executing Agency, its management, etc.; (ii) status of the Project Office and/or Field Office staffing; and (iii) any significant decisions made in relation to particular loan covenants.

E. Loan Covenants and Other Miscellaneous Matter

I. Loan Covenants

(use PAM Appendix 8, pages 3-4)

II. Expected Progress for the next half of the year

narrative description of the expected progress for the next reporting period

III. Problems encountered which significantly affected the implementation of the Project / Action Taken and/or Proposed

Problems: _____

Actions Taken and/or Proposed: _____

SAMPLE FORM OF AUDITOR'S OPINION

IMPREST ACCOUNT

We have examined the Statement of Imprest Account of ADB Loan No. _____ NEP(SF) for the period _____ up to _____, pursuant to the Loan Agreement dated _____.

Our examination was made in accordance with generally accepted auditing standards emphasizing the adequacy and completeness of the supporting documents of the Imprest Account and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the Statement of Imprest Account and supporting documents and information submitted with them can be fairly relied on to support the applications for reimbursement/payment in accordance with the Bank's requirements as set out in the Loan Agreement.

STATEMENT OF EXPENDITURES

We have examined the Statement of Expenditures submitted to the Bank during the period in support of applications for liquidation of the Imprest Account pursuant to the above mentioned Loan Agreement. Our examination was made in accordance with generally accepted auditing standards and, accordingly included such tests of the accounting records, verification of assets and other such auditing procedures as we considered necessary in the circumstances.

In our opinion, the Statement of Expenditures submitted, together with the internal control and procedures involved in their preparation, can be fairly relied on to support the applications for liquidations in accordance with the requirement of the above mentioned Asian Development Bank Loan Agreement.

PROJECT COMPLETION REPORT

Suggested Topics for Project Completion Reports to be Prepared by Borrowers
(project, multiproject, sector, and program loans)

I. PROJECT DESCRIPTION

- A. Objectives
- B. Components (or subprojects for sector and multi-projects)
- C. Implementation methods
- D. Description and justification of changes in components (or sub-project and appraisal criteria) or implementation methods

II. PROJECT IMPLEMENTATION

- A. Compare original and actual implementation schedules. Indicate delays, length of delay, causes of delay, and remedial action taken.
- B. Compare cost estimates made during appraisal and during appraisal and actual costs (foreign and local). Local currency costs incurred, appropriate exchange rates for their conversion into US\$, and the foreign currency costs financed by cofinanciers must be compiled correctly with reference to audited project accounts. Indicate factors that contributed to any significant overruns or underruns.
- C. State problems or difficulties in recruiting consultants, with reference to Bank procedures. Assess the consultant's work and the working relationship between the EA and the consultant. Using a logical framework is strongly recommended.
- D. State problems or difficulties encountered in procuring goods and services (including civil works) with reference to ADB procedures. Assess the supplier's or contractors performance under the contract.
- E. Give the extent of compliance of the borrower and EA with loan covenants, with reasons for non-compliance or delays in compliance and the remedial actions taken.
- F. State reasons for any delays in loan utilization. Evaluate the appropriateness of the disbursement methods used. Justify the reallocation of loan proceeds.
- G. State problems or difficulties with subproject appraisal. Evaluate EA's performance and capacity to appraise subprojects.

III. INITIAL OPERATIONS

- A. Describe initial operations of the project and transitional problems encountered from the completion of project to initial operations.
- B. Describe measures taken to ensure continued smooth operation of the project relative to management, staffing, funding, and maintenance of project facilities.
- C. Analyze the prospects of the project benefits being realized.

IV. EVALUATING ADB'S PERFORMANCE

- A. Assess ADB's performance in supervising project implementation. Include comments on the adequacy of the consultants' TOR and appropriateness of specifications in tender documents. Evaluate the effectiveness and timeliness of assistance extended by ADB to solve implementation problems.
- B. Comment on problems encountered with ADB's procedures. Note the measures taken to resolve these problems and suggest changes in procedures and requirements

PROJECT PAYMENT MILESTONES

Payment Milestone I to be advanced if and when Government complies with MILESTONES I
MILESTONES I
<ol style="list-style-type: none"> 1. The Government establishes and fully staffs the PMU for the duration of the Project. 2. Cabinet approves the RWSS Sector Strategy and its associated action plan. 3. The Government makes operational the Monitoring & Evaluation Unit under MPPW. 4. The Government opens the sector account at the Nepal Rastra Bank. 5. The Government approves the budget for project funding from central Government sources (central counterpart funds) for the first fiscal year and makes budgetary allocation for the amount.
Upon reaching Payment Milestones II, replenishment of IA if and when MILESTONES II have been achieved.
MILESTONES II
To be completed approximately 1 year after Project started
<ol style="list-style-type: none"> 1. All project manual and guidelines are completed. 2. Audit reports have been approved by ADB.
Upon reaching Payment Milestones III, replenishment of IA if and when MILESTONES III have been achieved
MILESTONES III
To be completed approximately 3 years after Project started
<ol style="list-style-type: none"> 1. 70% of DDCs participating in that installment period are successfully implementing the Project according to project guidelines and meeting gender and caste and ethnic minority program targets. 2. 60% of planned schemes for that installment period are completed according to project guidelines and meeting gender and caste and ethnic minority program targets. 3. Audit reports have been completed and approved by ADB.
Upon reaching Payment Milestones IV, replenishment of IA if and when MILESTONES IV have been achieved
MILESTONES IV
To be completed approximately 4 years after Project started
<ol style="list-style-type: none"> 1. Pilot Batch as completed at least 95% of the planned schemes according to project guidelines and meeting gender and caste and ethnic minority program targets. 2. 80% of DDCs participating in that installment period are successfully implementing the Project according to project guidelines and meeting gender and caste and ethnic minority program targets. 3. 80% of planned schemes for that installment period are completed according to project guidelines and meeting gender and caste and ethnic minority program targets. 4. Audit reports have been completed and approved by ADB.
Upon reaching Payment Milestone V, replenishment of IA if and when MILESTONES V have been achieved
MILESTONES V
To be completed approximately by year 5 after the Project started or 1 year before project completion
<ol style="list-style-type: none"> 1. 80% of DDCs participating in that installment period are successfully implementing the Project according to project guidelines and meeting gender and caste and ethnic minority program targets. 2. 80% of planned schemes for that installment period are completed according to project guidelines and meeting gender and caste and ethnic minority program targets. 3. MPPW has met all institutional and policy sector performance indicators. 4. Audit reports have been approved by ADB.
Upon reaching Payment Milestone VI, replenishment of IA if and when MILESTONES VI have been achieved

MILESTONES VI**To be completed approximately 6 months before project completion**

1. Project completion report and all project audits have been submitted to ADB's satisfaction.
2. MPPW has met the sector performance targets set at national level.
3. Batch IV has established and trained 80 WUSC according to project guidelines and has met the gender and caste and ethnic minority program targets.
4. Batch II has completed 95% planned schemes according to project guidelines and has met gender and caste and ethnic minority program targets.
5. 95% of DDCs have successfully implemented the Project according to project guidelines and have met the gender and caste and ethnic minority program targets.
6. 95% of planned schemes have been completed according to project guidelines and have met gender and caste and ethnic minority program targets.

ADB = Asian Development Bank, DDC = district development committee, MPPW= Ministry of Physical Planning and Works, PMU = project management unit, WUSC = Water User and Sanitation Committee.

SUBPROJECT SELECTION CRITERIA

1. District development communities (DDCs) will prioritize all their communities using the project criteria for community selection. Project funding will be allocated to communities that rank first according to the criteria. The criteria are based on hardship factors, willingness to share the costs of rural water supply and sanitation (RWSS), and poverty and social factors. All schemes selected must have already been identified and prioritized in the district development plan. Failure to prioritize communities following these criteria will render the DDC noneligible for further funding.

A. Hardship Factors

2. For a community to qualify, it must have one or more of the following hardship factors:

- (i) Time required to fetch water from existing water sources/points, i.e. average time to go, wait (if necessary), and return home is more than 30 minutes per round trip.
- (ii) Existing accessible water sources are available less than 9 months per year.
- (iii) Existing water sources are highly contaminated (arsenic or fecal coliform >1,500 pm) or physically prone to contamination (e.g., open dug wells, broken down tubewells, rivers, etc.).
- (iv) Average per capita water consumption is adequate (at least 25 liters per capita per day) or inadequate (less than 15).

B. Willingness to Share the Costs of RWSS Development

3. Communities wishing to participate in the Project must make cash and in-kind contributions. They must also be willing to take full financial and managerial responsibility for operations and maintenance. Communities can increase their chance of being selected by agreeing to pay a higher percentage of the cost: of the scheme at least 20% community contribution, with >1% in cash. For poor communities in remote inaccessible areas the minimum contribution will be reduced to 10%, although per capita cost may be higher.

C. Social and Poverty Factors

4. WSS services also need to be provided to poor, socially excluded, and otherwise disadvantaged communities with low income, insufficient food supply, low literacy rate, and high morbidity and mortality rates. According to the Nepal Poverty Assessment 1999 indicators poor households are:

- (i) households having food sufficiency for less than 6 months in a year;
- (ii) households whose major source of income is wage from labor;
- (iii) households with female heads with disabled persons; and
- (iv) other households with low literacy, unsatisfactory health indicators, etc.

5. The table gives draft sample of the instrument that DDCs will use to evaluate and rank communities using the community selection criteria. The PMU in consultation with the sector stakeholder group, will finalize the instrument and will submit it for ADB's concurrence 6 months after project effectiveness.

6. Community selection criteria incorporate both required eligibility elements and ranking elements. Required eligibility criteria must be met before a community can be considered for inclusion in the project.

Required Eligibility Elements		Means of Verification
District Planning		
1	Community must be included in the DDC plan.	DDC periodic and annual plans
Social and Poverty		
1	At least 50% of beneficiary households exist below the poverty line. ¹	Census figures
2	Percentage of occupational caste beneficiaries is greater than the district average. ²	District average percentage compared with community percentage
3	Percentage of disadvantaged groups (ethnic minorities) is greater than the district average. ³	District average percentage compared with community percentage
Willingness to Share Cost		
1	Community commits to least 20% of capital cost in cash and kind.	Community polling as part of application
2	Community commits to least 1% (of the 20%) of cost in cash.	Community polling as part of application
3	Village development committee (VDC) commits to 2.5% of construction cost.	Written commitment from VDC Chairman
Economic		
1	Subprojects are justified based on technology choice, water delivery, and time saved.	Community application and subproject appraisal
2	Maximum allowable subproject capital costs is maximum of household costs x number of households to be served (the values in this table will be updated by adjusting for inflation annually by the water and sanitation support team).	Maximum household cost per technology option follows: rehabilitation gravity: NRs19,700; new gravity: NRs29,800; groundwater – shallow tube wells (STW) (40 m): NRs7,600; overhead tank (OHT) with pipe: NRs19,800; groundwater – STW (60 m): NRs9,500; rehabilitated OHT with pipe system: NRs15,900; lift with pipe system: NRs30,000; rainwater harvesting: NRs33,100
Other		
1	No resettlement is required.	Community application and subproject appraisal
2	Water source is not contested.	Written statement of the district's Water Resources Council
3	All environmental impacts can be mitigated.	Stated conclusion of the environmental screening process
Ranking Elements		Weighting
Existing Water Supply Facilities		
1	Improved water supply facilities do not exist.	10
2	Existing water supply facilities do not serve all community beneficiaries.	8 if less than 50% 4 if less than 75%
Existing Sanitation Facilities		
1	Less than 50% of households have improved sanitation. ⁴	10 if less than 25% 5 if less than 50%
Hardship		
1	Average time required to collect water greater than 30 min per day.	10 if more than 2 h 7 if more than 1 h 5 if more than 30 min
2	Current major water source is not available all year.	10 if less than 9 mo 8 if less than 10 mo 6 if less than 11 mo
3	Current water source does not meet accepted water quality standards.	10 if WHO standards (or Nepal Standards when adopted) are not met.
4	Average water availability is less than 15 liters per capita per day (LPCD).	10 if less than 15 8 if less than 30 5 if less than 45

¹ The current official poverty line of NRs4,404 per capita is being updated by the Living Standard Survey.

² Information on caste is available by district in the 2001 Census.

³ Definitions and information on ethnic minorities (by district) are available in the 2001 Census.

⁴ The draft 10th National Development Plan states that 25% of households have sanitation facilities.

GENDER, CASTE, AND ETHNICITY AWARENESS AND EMPOWERMENT STRATEGY

A. Preparatory Work Undertaken

1. The Asian Development Bank (ADB) 4th Phase Evaluation, 2001,¹ highlighted that lack of woman's participation in decision making in water user and sanitation committees (WUSCs) seemed to have an adverse impact on planning, resource utilization, and tariff collection. During the evaluation survey, women questioned the lack of transparency of system costs and illegal extensions using private pipelines by WUSC chairmen. The Community-Based Water Supply and Sanitation project preparatory technical assistance Sample Survey and the subsequent Socioeconomic Survey (SES) findings confirmed that, without targeted intervention, women and poor men are all too often excluded from participating in decision making related to project planning for rural water supply and sanitation (RWSS) and resource allocation in Nepal. The poorest groups—Dalits and other socially excluded ethnic groups—often have unequal access to water, sanitation, and other project benefits like training and paid jobs. Empowering women and socially excluded men to participate in decision making about improved RWSS resources is therefore a critical issue to be addressed in this Project through intensive social mobilization efforts and gender-sensitive processes.

B. Capacity Building to Promote Women's Involvement in Decision Making

1. Central Level

2. The project management unit (PMU) located in the Department of Water Supply and Sewerage under the Ministry of Physical Planning and Works, will include an international gender/social development specialist who will work with the regional gender/social development specialists in the development phase and first 2 years of implementation. All will work closely with the health and sanitation, technical and monitoring and evaluation specialists to ensure gender, caste, ethnicity, and community mobilization objectives are developed, planned, and integrated into project strategies, action plans, and processes.

2. District Level

3. The PMU gender/social development specialist will orient the regional gender and community development consultants to support the water and sanitation support team (WSST) community development specialist and the district development committee's women development officer and to ensure that all WSST staff (including counterpart staff) receive training on gender awareness and gender, caste, and ethnicity policy and process. The regional gender and community development consultant will support WSST officers to initiate and carry out their gender-sensitive and socially inclusive coordination and monitoring roles effectively.

3. Community Level

4. Before nongovernment organizations/community-based organizations (NGOs/CBOs) start implementing subprojects with communities, two staff members will be required to attend training sessions in gender awareness and project policy and

¹ Benefit, Monitoring and Evaluation of Water Supply and Sanitation Subprojects under the Fourth Rural Water Supply and Sanitation Sector Project, Main Report, New Era, Kathmandu, September 2001.

processes for incorporating gender, caste, and ethnicity. This will enable NGOs/CBOs to better promote gender awareness and to facilitate gender and caste-sensitive processes in a community in all phases of a subproject and in other components such as health and sanitation.

C. Targets for Women's Participation and Access to Subproject Benefits

5. The following targets will be achieved in implementing this project:

- (i) 50% women as executive and general members in WUSCs, with proportional representation² of all castes and ethnic groups residing in the community
- (ii) WUSCs to receive gender, caste and ethnic participation awareness and confidence building training as part of initial WUSC training
- (iii) Women as well as men trained as paid village maintenance workers (VMW) and sanitation masons where possible,
- (iv) Men as well as women trained as community health motivators to promote health and sanitation to men as well as women, boys, and girls
- (v) School water supply and sanitation construction to include separate toilet cubicles for boys, girls, and teachers. School hygiene and sanitation promotions to be extended to out-of-school boys and girls through a child-to-child approach
- (vi) Paid unskilled labor to the poorest men and women selected in a community at 50% of the standard daily labor rate
- (vii) Affordable sanitation options (in the Community Water Supply and Sanitation Catalog) available for all socioeconomic groups, and sanitation subsidies to the 10% poorest households
- (viii) Women participating in decision making on the number, location, and position of water points, and design modifications to meet practical needs for washing and bathing
- (ix) Participatory approaches applied to identify households by gender, caste, ethnicity, and socioeconomic group
- (x) Gender analysis and consultation with women conducted in all subprojects
- (xi) Subsidies to poor communities in remote middle hills and mountain areas for RWSS
- (xii) Community-based revolving funds for sanitation to offer loans for affordable latrines, with appropriate repayment schedules to enable greater access by poor men and women

D. Gender Monitoring and Evaluation

6. The above tasks will be monitored using gender, caste, and ethnicity impact monitoring indicators, disaggregated data collected and analyzed incorporated in progress reports by NGOs/CBOs, and the project performance management system (WSST/DDCs to PMU). ADB biannual review missions and the midterm review mission will also evaluate the achievements and impacts of the targets.

² Proportional representation means that if there are 30% Dalit households in a community, then the WUSC should have 30% Dalit members on the WUSC.