
GRANT NUMBER 0093-NEP (SF)

PROJECT GRANT AGREEMENT
(Special Operations)

(Rural Reconstruction and Rehabilitation Sector Development Program)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED 14 JANUARY 2008

GAS:NEP 40554

GRANT AGREEMENT (Special Operations)

GRANT AGREEMENT dated 14 January 2008 between NEPAL (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) The Recipient has applied to ADB for a Grant for the purposes of the Project part of the Rural Reconstruction and Rehabilitation Development Program (RRRSDP), as described in Schedule 1 of this Project Grant Agreement;

(B) ADB has also received from the Recipient a development policy letter dated 7 November 2007 (the "Policy Letter"), setting forth certain objectives, policies and actions, designed to develop the Recipient's rural infrastructure sector and, by a Program Grant Agreement of the same date as this Project Grant Agreement between the Recipient and ADB (the "Program Grant Agreement"), ADB has agreed to grant to the Recipient an amount of fifty million dollars (\$50,000,000) from ADB's Special Funds resources for the purposes of the Program part of the RRRSDP;

(C) the Recipient has further applied to the OPEC Fund for International Development (hereinafter referred to as "OFID") for a Loan in an amount equivalent to ten million dollars (\$10,000,000) to finance, on a joint basis, rural road construction activities; and

(D) ADB has, on the basis inter alia of the foregoing, agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

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

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

(a) "BG" or "BGs" means building group or groups;

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

(c) “DDC” or “DDCs” means a District Development Committee or Committees formed under the Recipient’s Local Self Governance Act, 2055 (1999) and includes any legal successor thereto ;

(d) “DIST” means District Implementation Support Team;

(e) “District” means an administrative unit of the Recipient in which a DDC is established;

(f) “District Roads Maintenance Fund” means a fund for roads maintenance to be created in a District;

(g) “District Transport Master Plan” refers to the District Transport Master Plan undertaken by each DDC in its respective District and which identifies road priorities for such District;

(h) “DOLIDAR” means the Department of Local Infrastructure Development and Agricultural Roads of the Recipient and includes any legal successor thereto;

(i) “DPO” means a District Project Office, established in accordance with paragraph 9 of Schedule 4 to this Grant Agreement;

(j) “DRILP” means the Decentralized Rural Infrastructure and Livelihood Project which is supported by ADB (under Loan 2092-NEP and TA 4397NEP, approved on 22 September 2004) and the Swiss Agency for Development Cooperation (“SDC”);

(k) “DRILP Districts” means, together, the 18 Districts of Baitadi, Bajhang, Bajura, Darchula, Dolpa, Jumla, Humla, Kalikot, Mugu, Jajarkot, Baglung, Gorkha, Lamjung, Myagdi, Okhaldhunga, Ramechhap, Solukhumbu and Taplejung;

(l) “DTO” means District Technical Office;

(m) “Gender Action Plan” means the gender action plan agreed between ADB and the Recipient for the Project and which is attached as Appendix 16 to the RRP;

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

(o) “Indigenous Peoples Development Framework” means the framework agreed between ADB and the Recipient for protecting the interests of indigenous/ethnic people who may be affected by the Project;

(p) “Indigenous Peoples Development Plan” refers to a plan to be finalized by a Project Implementing Agency pursuant to the Indigenous Peoples Development Framework for protecting particular groups of indigenous/ethnic people with respect to any components or subprojects under the Project;

(q) “LEP” means a labor-based, environmental-friendly, and participatory approach;

(r) “MOF” means the Ministry of Finance of the Recipient, and includes any legal successor thereto;

(s) “MLD” means the Ministry of Local Development of the Recipient and includes any legal successor thereto;

(t) “OFID” means the OPEC Fund for International Development, a multilateral financial institution of the Organization of Petroleum Exporting Countries (“OPEC”) group;

(u) “PCU” means Project Coordination Unit established pursuant to Paragraph 6 of Schedule 4 to this Grant Agreement;

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

(w) “Procurement Plan” means the procurement plan for the Project dated 8 November 2007 and attached to the RRP, as may be updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and any arrangements agreed between the Recipient and ADB;

(x) “Program Grant Agreement” means the agreement between the Recipient and ADB, referred to in Preamble (B) of this Grant Agreement, which shall have the same date as this Project Grant Agreement;

(y) “Project Area” means, (i) for Component 1 of the Project the following 20 Districts: Panchthar, Ilam, Jhapa, Morang, Sunsari, and Dhankuta from the Eastern Development Region; Sindhuli, Dolakha, Sindhupalchowk, Kabhrepalanchok, Lalitpur, Bhaktapur, Kathmandu, and Chitwan from the Central Development Region; Manang, Mustang, and Parbat from the Western Development Region; Rolpa and Rukum from the Mid-Western Development Region; and Dadeldhura from the Far-Western Development Region; (ii) for Components 2, 3,4, and 5 of the Project, the Districts mentioned under (i) plus the DRILP Districts;

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

(aa) “Project Facilities” means the facilities provided or to be provided under the Project;

(bb) “Project Implementing Agency” or “Project Implementing Agencies” refers to any or all of the agencies enumerated in paragraphs 2 and 8 of Schedule 4 to this Grant Agreement and any successor thereto acceptable to ADB;

(cc) “Resettlement Framework” means the resettlement framework dated 24 September 2007 agreed between ADB and the Recipient for dealing with all resettlement issues arising during Project Implementation, as set forth in Supplementary Appendix E to the RRP;

(dd) “RRP” means the Report and Recommendation of the President to ADB’s Board of Directors for the RRRSDP;

(ee) “VDC” or “VDCs” means a Village Development Committee or Committees formed under the Recipient’s Local Self Governance Act, 2055 (1999), and includes any legal successor thereto;

(ff) “VICCC” means Village Infrastructure Construction Coordination Committee;

(gg) “VIUG” or “VIUGs” means Village Infrastructure User Group or Groups;
and

(hh) “Works” means construction or civil works to be financed out of the proceeds of the Grant Agreement, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of fifty million dollars (\$50,000,000).

ARTICLE III

Use of Proceeds of the Grant

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

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

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and Works and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2012 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

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

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 9 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement, as well as on the use of the procedures for the imprest account and statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

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

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

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Program Grant Agreement shall have been duly executed and delivered on behalf of the Recipient and all conditions precedent to its effectiveness (other than the effectiveness of this Grant Agreement) shall have been fulfilled.

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

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary, MOF of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

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

For the Recipient

Ministry of Finance
Singha Durbar
Kathmandu

Facsimile Number

977-1-4211165.

For ADB

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

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

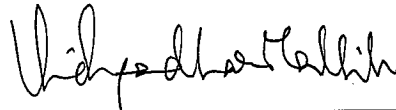
Facsimile Numbers:

(632) 636-2444
(632) 636-2391.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

NEPAL

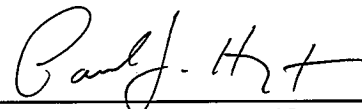
By



VIDYADHAR MALLIK
Secretary
Ministry of Finance

ASIAN DEVELOPMENT BANK

By



PAUL J. HEYTENS
Country Director
Nepal Resident Mission

SCHEDULE 1

Description of the Project

1. The expected outcome of the Project is improved connectivity, enhanced economic and employment opportunities and increased access to market and social services of rural communities. The Project includes the following components in the Project Area:

Component 1: Rural Roads

- (a) Improve and upgrade approximately 560 kilometers of rural roads included in the District Transport Master Plans; and
- (b) Finance rural roads maintenance on a matching and declining basis.

Component 2: Supplementary Infrastructure

Construct and rehabilitate community demand-driven infrastructure including but not limited to social and market facilities, school infrastructure, micro-irrigation, link trails, trail bridges, and rural water supply and sanitation facilities.

Component 3: Community Empowerment

- (a) strengthen capacity of communities, beneficiary participation, and social cohesion through, among others; (i) awareness raising about the Project and opportunities there under; (ii) training of BGs; (iii) assisting communities in identifying supplementary infrastructure and preparing proposals; (iv) facilitating beneficiary participation, including through public hearings and social audits; and (v) building community capacity in maintenance of supplementary infrastructure;
- (b) Provide support to skills training including in the following areas: (i) agriculture and livestock; (ii) forestry and soil conservation; (iii) micro-enterprise and skills development; (iv) social awareness including health and literacy; and (v) legal rights.

Component 4: Institutional Capacity Development

- (a) Strengthen implementation capacity and operation and maintenance (O&M) including through: (i) supporting the implementation of the Institutional Strengthening Action Plan (a long-term road map supported by the donors working in rural infrastructure for building capacity in MLD, DOLIDAR, and DDCs); (ii) updating and disseminating DRILP and other relevant manuals and procedures; (iii) installing and operationalizing laboratory testing equipment in the districts; (iv) providing workshops and training on O&M;
- (b) Enhance fiduciary management and compliance with social safeguards, including through: (i) updating DRILP and other relevant manuals and procedures, in both English and Nepali, on procurement, resettlement, and environment, as well as delivering a related training program; (ii) providing financial management support including developing an accounting manual, in both English and Nepali, and delivering a related training program; and

(c) provide consulting services to develop (i) an integrated framework to harmonize donor aid and move rural development towards a program-based approach, and (ii) interim measures to coordinate donor projects.

Component 5: Project Management Services

(a) provide assistance for the establishment of the PCU;

(b) provide assistance for the establishment of a DPO, within DTO, in each District in the Project area other than DRILP districts;

(c) supplement DPOs in DRILP Districts with one water supply engineer, one sub-engineer, and assistant sub-engineers to implement rural water supply and sanitation subprojects; and

(d) Supply the PCU and each DPO with computers, equipment, and vehicles to support project supervision, management, technology, and quality control.

2. The Project is expected to be completed by 31 December 2011.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

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

Percentages of ADB Financing

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

Reallocation

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

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, consulting services and any other items to be provided under this Grant Agreement shall be disbursed in accordance with the Loan Disbursement Handbook, 2007, as may be amended from time to time (the "Loan Disbursement Handbook").

Imprest Account

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, an imprest account at Nepal Rastra Bank. The imprest account shall be separate from the imprest account established for purposes of the OFID Loan (referred in Preamble (C) of this Grant Agreement) and shall be established, managed,

replenished and liquidated in accordance with the Loan Disbursement Handbook and any detailed arrangements agreed upon between the Recipient and ADB subsequent to the date of this Grant Agreement. The currency of the imprest account shall be dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) All funding into the imprest account shall be channeled to either of (and no other than) the following accounts: (i) PCU Project operating account to be established at the central level, or (ii) DPO Project operating accounts established in each district, in accordance with the budgetary allocations agreed between each of these entities and the Recipient and subject to the provisions of ADB's Loan Disbursement Handbook

(c) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

Condition of Withdrawals from Grant Account

6. Notwithstanding Section 5.01 of this Grant Agreement, no disbursements shall be made:

- (a) for rural roads civil works until the OFID Loan referred to in Preamble (C) of this Grant Agreement shall have become effective; and
- (b) for any civil works until the technical positions in the DTOs of the 75 districts of the Recipient have been filled.

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Rural Reconstruction and Rehabilitation Sector Development Program)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated \$'000		Percentage and Basis for Withdrawal from the Grant Account
		Category	Subcategory	
1	Civil Works	27,193		
1A	Rural Roads		18,436	54 percent of total expenditure
1B	Supplementary Infrastructure		8,757	54 percent of total expenditure
2	Survey, Investigation, Design and Preparatory Works	1,720		100 percent of total expenditure*
3	Land Acquisition and Resettlement Compensation	3,492		80 percent of total expenditure
4	Vehicles and Motorcycles	1,101		100 percent of total expenditure*
5	Equipment	761		100 percent of total expenditure*
6	Central Consulting Services	2,695		100 percent of total expenditure*
7	District Technical Services	5,836		100 percent of total expenditure*
8	Training, Studies, Workshops, Seminars	1,053		100 percent of total expenditure*
9	Incremental Operating Expenses	4,142		100 percent of total expenditure*
10	Rural Road Operation and Maintenance	480		50 percent of total expenditure
11	Unallocated	1,527		
	Total	50,000		

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

SCHEDULE 3

Provisions on Procurement and Consulting Services

A. General

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

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping
Community Participation

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

4. Domestic Preference. The Recipient may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding (NCB). No NCB procurement may be undertaken unless ADB and the Recipient have agreed in writing to any necessary modifications or clarifications to the Recipient's NCB procedures for the purposes of this Project - in particular the Recipient's Procurement Act, Procurement Regulations, and the Local Bodies Financial Administration Regulations - to ensure consistency with ADB's procurement Guidelines. Any such modification or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Grant Agreement.
6. Community Participation in Procurement. The Recipient shall ensure to use community participation in procurement for all small and widely dispersed Works contracts amounting up to \$30,000 in accordance with the agreed procedures set out in the Procurement Plan.

C. Selection of Consulting Services

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

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

Individual Consultant Selection: applied to (i) procurement, financial management, resettlement, environmental management, and rural policy / aid effectiveness specialists, (ii) short-term engineers, and (iii) additional engineers and assistant sub-engineers and other professionals for the DRILP district project offices.
Single Source Selection: when a firm is more qualified than the others, or the assignment is very small, or consultants must be engaged quickly.
Least-Cost Selection;
Consultants' Qualifications Selection; and
Quality- and Cost Based Selection (QCBS).

D. Industrial or Intellectual Property Rights

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

(b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

10. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

11. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the attached Procurement Plan. In addition, all contracts financed under the Project Grant will include provisions specifying the right of ADB to audit and examine the records and accounts of MLD, DOLIDAR, DDCs and all contractors, suppliers, consultants and other service providers as they relate to the Project.

SCHEDULE 4

Execution of Project and Operation of Project Facilities; Financial Matters

I. Arrangements and responsibilities for Project management and implementation

A. Central level

Project Executing Agency

1. MLD shall be the Project Executing Agency, responsible for overall Project management and implementation.

Project Implementing Agency

2. DOLIDAR shall be the Project Implementing Agency at the central level.

Project Monitoring Committee (PMC)

3. Within one month of the Effective Date, MLD shall have established the PMC. The PMC shall be chaired by the Joint Secretary of the MLD and comprise the Director General of DOLIDAR, the Project Coordinator, and the respective heads of the MLD Financial Administration Section, the MLD Planning and Foreign Aid Coordination Section, the MLD Monitoring Section, and representatives from MOF and National Planning Commission. The PMC shall be responsible for (a) monitoring overall Project implementation; (b) resolving policy issues; (c) guiding the PCU; and (d) facilitating inter-ministerial coordination. The PMC shall meet whenever necessary, but not less than once every six months. The Project Coordinator shall be its member-secretary.

Project Implementation Coordination Committee (PICC)

4. Within one month of the Effective Date, DOLIDAR shall have established the PICC. The PICC shall be chaired by the Director General of DOLIDAR and comprise a representative from the MLD Financial Administration Section, a representative from the MLD Monitoring Section, a representative from the MLD Planning and Foreign Aid Coordination Section and five (5) representatives from Project districts on a rotating basis. ADB and other co-financiers may participate as observers to the PICC. The PCU shall be the secretariat for the PICC. The Project Coordinator shall be its member-secretary. The PICC shall meet whenever necessary, but not less than once every four months.

5. The PICC shall be responsible for (a) supervising day-to-day Project implementation; (b) reviewing Project progress; and (c) coordinating between DOLIDAR and DDCs.

Project Coordination Unit (PCU)

6. Within one month of the Effective Date, DOLIDAR shall have fully staffed the PCU. The PCU shall at all times during Project implementation be headed by a full-time Project Coordinator who shall be a class one officer. The PCU shall include at least the

following full-time staff: two senior divisional engineers, five engineers, one environmental engineer, one senior resettlement officer, one sociologist, one senior accountant, two accountants, one computer operator and sufficient support staff. The PCU staff shall be supported by consultants of whom the expertise and duration of assignment shall be as agreed between MLD and ADB. The Project Coordinator shall report to the Secretary of the MLD through the Director General of DOLIDAR.

7. The PCU shall coordinate and guide day-to-day Project implementation, including engineering, compliance with safeguard provisions, financial management, and procurement. Specific responsibilities of the PCU shall include, but not be limited to: (a) detailed planning of Project implementation; (b) guiding and monitoring DDCs that participate in the Project; (c) allocating and disbursing Project funds in accordance with mechanisms and processes established in the Recipient's Local Body Financial Administration Regulations; (d) liaising with other donor-funded projects in the rural infrastructure sector on day-to-day implementation matters; (e) preparing consolidated annual workplans; (f) ensuring satisfactory implementation of the gender action plan, the environmental guidelines, and the resettlement frameworks and plans; and (g) preparing necessary progress reports as well as the Project completion report.

B. Decentralized level

Project Implementing Agencies

8. The DDCs shall be the Project Implementing Agencies at the district level, responsible for overall coordination, monitoring and facilitation of Project activities. The DTO of each respective DDC shall be responsible for technical and Project management matters. Each DDC shall establish and chair a District Project Coordination Committee to (i) coordinate with all relevant line agencies; (ii) issue District policy guidelines; (iii) resolve District implementation issues; and (iv) hear complaints against the Project, if any.

District Project Office (DPO)

9. Within one month of the Effective Date, each DDC shall have established and staffed a DPO within DTO. The head of the DTO of each respective DDC shall also head the DPO in that District. In addition, each DPO shall comprise the following full-time DTO staff: one rural infrastructure engineer, one sub-engineer, two assistant sub-engineers, one accountant, one administrative staff, one computer operator, and sufficient support staff. The DPO shall be supported by the DIST, which shall be engaged as a firm and shall include engineering, safeguards, and social mobilization staff. DOLIDAR shall ensure that DISTs shall engage local engineers and other staff on a priority basis, provided such engineers and local staff shall be equally qualified as candidates from outside the District. MLD shall ensure that all vacancies in the DTOs filled as result of the Project, shall remained filled throughout the duration of the Project implementation.

10. Specific responsibilities of the DPO, assisted by the DIST, shall include, but not be limited to: (a) preparing annual work programs; (b) finalizing detailed subproject designs; (c) ensuring that all safeguard measures shall be complied with; (d) supervising all construction activities and ensuring quality; (e) organizing community level training; and (f) arranging procurement.

11. Any Project activities to be implemented in the DRILP Districts, shall be implemented through the DRILP District implementing agencies.

Village level implementation

12. The Recipient shall ensure that a VICCC shall be constituted in each VDC area where Project activities are planned. The VICCC shall be formed prior to the commencement of any Project activities and shall include representatives of political parties, nongovernment organizations active in the VDC area, women, dalits and other disadvantaged groups. The members shall be selected through a mass meeting of beneficiaries, facilitated by the DPO. All efforts shall be made to ensure participation of 33% women as well as a due representation of various ethnic groups and castes.

13. Each VICCC, in close cooperation with and under the guidance of the respective DPO, shall be responsible for: (a) coordinating supplementary infrastructure planning; (b) guiding the formation of BGs for rural roads and of VIUGs for supplementary infrastructure; (c) ensuring proper payment to BGs; (d) supervising beneficiaries' contributions for supplementary infrastructure; (e) monitoring implementation of works; and (f) ensuring public audits.

C. State Restructuring

14. If at any time during Project implementation, the Recipient shall undergo state restructuring resulting in changes to its public administration, the Recipient shall immediately inform the ADB thereof. In such case, the Recipient and ADB shall review the Project management and implementation arrangements to ensure such arrangements reflect the changes.

II. Project Implementation Issues

1. Financial and policy matters

15. MOF shall ensure that the approved annual budget allocations for the Project shall be sufficient to cover all required counterpart funding, including, but not limited to,: (a) resettlement related payments; and (b) land surveys and cadastral mapping.

16. MLD shall, for the purposes of the Project, strictly implement those provisions of the Civil Service Act, 2007, that deal with the transfer of civil servants.

17. Within eighteen (18) months of the Effective Date, MLD shall have approved a national strategy for local transport. MLD shall ensure that the strategy shall be developed in close consultation with stakeholders at all levels. The strategy shall include a detailed and time-bound plan, with budget projection, on harmonization of technical, managerial, and administrative issues in local transport.

2. Selection and implementation of subprojects and supplementary infrastructure

18. DOLIDAR shall ensure that the selection and approval of all subprojects shall be in accordance with the criteria agreed upon between MLD and DOLIDAR on the one hand and ADB on the other hand and as set forth in Appendix 11 of the RRP. To the extent feasible, selected subprojects shall be technically suited for construction using the LEP

approach. DPOs shall assess short-listed projects in respect of social, technical, economic, environment, and resettlement aspects, and shall score and qualify proposed subprojects for final selection. The responsible DIST shall undertake a feasibility study and detailed design for the highest-ranked subprojects, including a detailed technical design, drawings, quantity and cost-estimate, and environment, resettlement and social requirements and plans.

19. DOLIDAR shall ensure that all DDCs and DPOs shall involve the communities and villages in identifying and selecting supplementary infrastructure. Proposals from the communities and villages shall be evaluated by the respective DPO and approved by the respective DDC.

20. DOLIDAR shall ensure that there shall be no geographical overlap between Project-funded subprojects and projects funded by other development partners.

21. DOLIDAR shall ensure that the design of each and every subproject shall be developed in consultation with the communities, and in close coordination between the engineering team, the resettlement team, and the environmental team.

22. Prior to the commencement of any Project activities in a District, DOLIDAR and the DDC of such District shall have entered into a Memorandum of Understanding, the format of which has been approved by ADB, which regulates: (a) the terms and conditions for releasing funds from the DDC to the BGs – including conditions relating to the DDC contribution; (b) the auditing and reporting mechanism from the DDC to the PCU; and (c) coordination mechanisms with similar activities under other projects in the district.

23. Prior to the commencement of any road construction works in a village or community, the DDC, the relevant VDC, and the BGs shall have entered into a Memorandum of Understanding, in form and substance acceptable to ADB, regulating: (a) minimum specifications and standards of construction works to be performed by the BGs; (b) minimum specifications and standards for the operation and maintenance of the works to be performed by the BGs; (c) environmental standards applicable to the design, construction, and operation and maintenance of the works; and (d) employment terms and conditions for BG-members, including wage rate and frequency of pay.

24. Prior to the commencement of any supplementary infrastructure works in a village or community, the DDC, the relevant VDC, and the VIUGs shall have entered into a Memorandum of Understanding, in form and substance acceptable to ADB, regulating: (a) the in-kind beneficiaries' contribution; (b) minimum specifications and standards of construction works to be performed by the VIUGs; (c) minimum specifications and standards for the operation and maintenance of the works to be performed by the VIUGs; and (d) environmental standards applicable to the design, construction, and operation and maintenance of the works.

25. DOLIDAR shall ensure that prior to any civil works for a rural road (a) the feasibility study and detailed design for such road shall have been completed; (b) all environmental and social safeguard clearances shall have been obtained; and (c) all resettlement activities and compensation payment shall have been completed in accordance with the resettlement plan for the road.

3. Construction and maintenance

26. DOLIDAR shall ensure that ,to the extent feasible, all civil works shall use the full LEP approach, which includes (a) employing unskilled labor instead of heavy construction equipment; (b) applying design and construction methods that protect the physical environment; and (c) incorporating local interests and opinions in the planning, design, and implementation of the works. DOLIDAR shall provide adequate technical assistance to ensure that the integrity of the approach is maintained in all districts and throughout the entire implementation period.

27. DOLIDAR shall ensure that unskilled employment in the subproject BGs shall be reserved for beneficiaries living within the influence area of the infrastructure to be constructed. Priority shall be given to poor and disadvantaged groups and castes, as well as households affected by the acquisition of land and assets. DOLIDAR shall ensure that workers shall be paid in full, on a fortnightly basis.

28. The Recipient shall ensure that civil works contractors comply with all applicable labor legislation. Bidding documents shall include a clause on the prohibition of child labor, as defined in the Recipient's legislation, for construction and maintenance activities as well as a clause stipulating equal pay for men and women for work of equal value. Compliance with these provisions shall be strictly monitored during Project implementation.

29. Before 30 April of each year during Project implementation, DOLIDAR and ADB shall agree on the annual maintenance program for rural roads in the Project districts for the following year. DOLIDAR shall submit to ADB, for its review, the proposed maintenance budget by 31 March of each year.

30. DOLIDAR and DDCs of districts in the Project area shall take all appropriate and necessary measures to increase rural road maintenance funding to a sustainable level. This shall include the establishment of District Roads Maintenance Funds.

4. Social mobilization

31. DOLIDAR shall ensure that recruitment or remobilization as the case may be, training, and deployment of social mobilizers to villages, shall be done on a priority basis at the outset of the Project, prior to the commencement of any construction activities.

5. Safeguard matters

32. DOLIDAR shall ensure that all subprojects shall be identified, selected, implemented, and reported in accordance with (a) the environmental procedures and requirements specified in the Environmental Assessment and Review Procedure; (b) the IEE of each subproject; (c) the ADB's Environment Policy, 2002; and (d) relevant national and local environmental laws and regulations. DOLIDAR shall ensure that each IEE shall include provisions regarding compensatory reforestation programs.

33. MLD shall ensure that all necessary measures shall be taken to implement all provisions of the Resettlement Framework agreed upon between MLD and ADB and of the resettlement plans prepared under the Resettlement Framework.

34. DOLIDAR shall ensure that no voluntary land donation shall take place if such donation would result in the household falling below the poverty line, as defined in the Resettlement Framework. Any other land donation shall be done in strict compliance with the procedures set forth in the Resettlement Framework agreed upon between MLD and ADB.

35. DOLIDAR shall ensure that no land acquisition, either through eminent domain or through land donation, shall be required for subprojects other than rural roads.

36. If involuntary resettlement and land or asset acquisition are required for any of the subprojects, a resettlement plan, based on the detailed subproject design, shall be prepared in accordance with the ADB's Policy on Involuntary Resettlement, 1995, and the Resettlement Framework. The concerned DDC shall publicly disclose the resettlement plan, in places and using language accessible to all affected people. The resettlement plan shall include a complete census and inventory of losses.

37. DOLIDAR shall ensure not to approve any construction unless a resettlement plan, in form and substance acceptable to ADB, shall have been submitted to and approved by DOLIDAR, the PCU, and ADB. All activities related to land acquisition, including compensation payment, shall be completed prior to possession of land and other assets, and before award of civil works contracts. DOLIDAR shall ensure to initiate the compensation process simultaneously with the start of the bidding process.

38. Within twelve (12) months of the Effective Date, DOLIDAR shall hire an external monitoring agency to conduct annual monitoring of the implementation of and compliance with the Resettlement Framework and resettlement plans.

39. DOLIDAR shall ensure that the Project shall be implemented in full compliance with the Indigenous Peoples Development Framework agreed between MLD and ADB, as well as with the Indigenous and Ethnic Peoples Development Plan for the subproject, if required.

40. DOLIDAR shall take all necessary measures to ensure full implementation of the Gender Action Plan set forth in Appendix 16 of the RRP. Gender issues shall be duly considered in respect of Project beneficiaries, staff recruited by DOLIDAR, DTOs, and consulting firms.

6. Project reviews

41. DOLIDAR, OFID, and ADB shall jointly undertake at least two review missions annually. The Project reviews shall be carried out simultaneously with the program reviews under the Program Grant Agreement. Other than routine matters, the reviews shall give particular attention to (a) the performance of DOLIDAR, the PCU, DPOs, consultants, and contractors; (b) the implementation of Grant covenants; (c) inclusion of the poor, marginalized groups, and women in the implementation of the Project; (d) the implementation of safeguard measures; (e) the physical progress of Project implementation; (f) the progress of capacity building activities; (g) coordination with other projects with similar activities; and (h) the continued feasibility for Project implementation in each Project district, taking into account the political context and security situation.

42. DOLIDAR, OFID and ADB shall jointly undertake a mid-term review (MTR) of the Project at the beginning of year three of Project implementation. The MTR shall review

and evaluate (a) Project scope, design, implementation arrangements; (b) implementation progress against agreed indicators in the annual workplans based on the logframe; (c) procurement performance; (d) PCU effectiveness; (e) compliance with the safeguard measures; (f) the progress of implementation of the Gender Action Plan; (g) the extent to which District Road Maintenance Funds have been established, and their effectiveness; (h) the effectiveness of capacity building, in particular at the district level; (i) the extent to which inclusiveness objectives of the Project are being met; (j) the extent to which MOUs referred to in paragraphs 23 and 24 above have been implemented and complied with; (k) lessons learned, good practices and innovations, and their replicability; and (l) any other issue agreed upon between the PCU and the ADB. At the latest one month prior to the MTR, DOLIDAR shall submit to the ADB, and OFID a comprehensive report on each of the above mentioned issues. The MTR shall include the recommendation of changes in Project design and implementation arrangements as needed.

7. Gender and ethnicity segregated Project Performance Management System (PPMS)

43. Within nine (9) months of the Effective Date, the PCU shall have established a PPMS to monitor whether Project inputs and activities deliver the expected outputs and benefits to the intended beneficiaries.

44. Within nine months of the Effective Date, the PCU shall have conducted initial gender and ethnicity segregated baseline physical and socioeconomic surveys, and shall have submitted a detailed Project implementation-monitoring plan for ADB's review and concurrence. The data shall include income and expenditure data, livelihoods data, demographic trends, gender issues, information on ethnic and minority groups. After the initial survey, the PCU shall conduct and DOLIDAR shall submit to ADB, and OFID annual benefit monitoring reports.