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LOAN NUMBER 2383-BAN(SF)

LOAN AGREEMENT  
(Special Operations)

(Dhaka Water Supply Sector Development Program)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

ASIAN DEVELOPMENT BANK

DATED 12 DECEMBER 2007

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LPS:BAN 39405

## **LOAN AGREEMENT (Special Operations)**

LOAN AGREEMENT dated 12 December 2007 between the PEOPLE'S REPUBLIC OF BANGLADESH ("the Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

### **WHEREAS**

(A) ADB has received from the Borrower a development policy letter dated 5 November 2007 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's urban water supply sector (the "Program");

(B) by a Loan Agreement of even date herewith between the Borrower and ADB (hereinafter called the Project Loan Agreement), ADB has agreed to provide a loan equivalent to ninety five million five hundred thirty thousand Special drawing Rights (SDR 95,530,000) in support of the Program for the Dhaka Water Supply Sector Development Project (the Project) described in Schedule 1 to the Project Loan Agreement;

(C) Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program; and

(D) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

## **ARTICLE I**

### **Loan Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Bangladesh Bank" means the Borrower's central bank and any successor thereto;

(b) "Cabinet" means the Council of Ministers and any successor thereto;

(c) "Counterpart Funds" means the Taka proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraphs 3 and 4 of Schedule 5 to this Loan Agreement;

(d) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(e) "DPHE" means the Department of Public Health and Engineering under the Borrower's MLGRD&C and any successor thereto;

(f) "DWASA" means the Dhaka Water Supply and Sewerage Authority and any successor thereto;

(g) "DWASA Board" means the Board of Directors of DWASA and any successor thereto;

(h) "DWASA Management" means the management of DWASA and any successor thereto;

(i) “Eligible Items” means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(j) “ERD” means the Economic Relations Division under the MOF and any successor thereto;

(k) “First Tranche” means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of fifteen million nine hundred twenty two thousand Special Drawing Rights (SDR15,922,000) to be initially withdrawn and utilized;

(l) “Fiscal Year” or “FY” means the fiscal year of the Borrower commencing on 1 July of each year and ending 30 June of that year;

(m) “MOF” means the Borrower’s Ministry of Finance and any successor thereto;

(n) “LGD” means the Local Government Division under the Borrower’s MLGRD&C and any successor thereto;

(o) “MLGRD&C” means the Borrower’s Ministry of Local Government, Rural Development and Cooperatives and any successor thereto;

(p) “Policy Letter” means the policy letter dated 5 November 2007, from the Borrower to the President of ADB, which was signed by the finance adviser;

(q) “Policy Matrix” means the Policy matrix as agreed between the Borrower and ADB and as attached to the Policy Letter;

(r) “Pourashava” means, for the purpose of this Loan Agreement, the class A secondary level town in the territory of the Borrower;

(s) “Program Executing Agencies” means for the purpose and within the meaning of the Loan Regulations, the Finance Division of the MOF and LGD which are responsible for the overall coordination of the program loan during the implementation period, including complying with all policy actions, program administration, and maintenance of all program records;

(t) “Program facilities” means the facilities provided or to be provided under the Program;

(u) “Program period” means the period covered by the Program from 2007 to 2013;

(v) “Second Tranche” means, after the utilization of the First Tranche, the portion of the proceeds of the Loan in an amount not exceeding the equivalent of fifteen million nine hundred twenty one Special Drawing Rights (SDR 15,921,000) to be withdrawn pursuant to and subject to the Borrower meeting the conditions set forth in Attachment 3 of Schedule 3 to this Loan Agreement;

(w) "Secretaries Committee" means the committee formed by the Borrower that consists of Secretaries and any successor thereto;

(x) "SDP-WSSB" means the Sector Development Programme-Water and Sanitation Sector of Bangladesh issued in 2006;

(y) "WASA" means Water Supply and Sewerage Authority and any successor thereto; and

(z) "WASA Act 1996" means the Borrower's Water Supply and Sewerage Authority Act of 1996.

## **ARTICLE II**

### **The Loan**

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty one million eight hundred forty three thousand Special Drawing Rights (SDR31,843,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2014 or such other date as may from time to time be agreed between the Borrower and ADB.

### **ARTICLE IV**

#### **Particular Covenants**

Section 4.01. In the carrying out of the Program and operation of the Program facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## **ARTICLE V**

### **Suspension; Cancellation; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Borrower shall have, in the opinion of ADB, failed to perform any of its obligations under the Project Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Project Loan Agreement shall have been duly executed and delivered by the parties, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled;

(b) the Project Agreement shall have been duly executed and delivered by the parties, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled; and

(c) all conditions for the release of the First Tranche, as set out in Attachment 2 of Schedule 3 to this Loan Agreement shall have been satisfied.

Section 6.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## **ARTICLE VII**

### **Miscellaneous**

Section 7.01. The Secretary of ERD, within the Ministry of Finance (MOF) of the Borrower, is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

#### For the Borrower

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

Facsimile Number:

+880 2 811 3088

#### For ADB

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

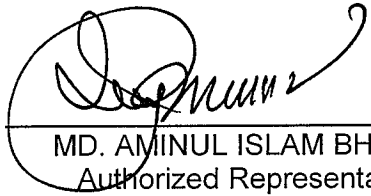
Facsimile Numbers:

(632) 636 2444  
(632) 636 2293



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

PEOPLE'S REPUBLIC OF  
BANGLADESH

By   
MD. AMINUL ISLAM BHUIYAN  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
HUA DU  
Country Director  
Bangladesh Resident Mission

## **SCHEDULE 1**

### **Description of the Program**

1. The objective of the Program is to support the Borrower's Sector Development Programme – Water and Sanitation Sector of Bangladesh (SDP-WSSB) in order to improve the provision and sustainable operations of water supply services in urban water areas. The Program includes specific policy actions for Dhaka Water Supply and Sewerage Authority (DWASA). The Program policy reforms include (i) improving local governance and strengthening local institutional framework; (ii) preparing sector strategy and plan; (iii) improving financial sustainability; and (iv) strengthening DWASA governance and organizational structure and financial management capacity. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period from December 2007 to December 2013.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraphs 3 and 4 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 31 December 2013.

**SCHEDULE 2****Amortization Schedule****(Dhaka Water Supply Sector Development Program)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 April 2016	995,094.00
15 October 2016	995,094.00
15 April 2017	995,094.00
15 October 2017	995,094.00
15 April 2018	995,094.00
15 October 2018	995,094.00
15 April 2019	995,094.00
15 October 2019	995,094.00
15 April 2020	995,094.00
15 October 2020	995,094.00
15 April 2021	995,094.00
15 October 2021	995,094.00
15 April 2022	995,094.00
15 October 2022	995,094.00
15 April 2023	995,094.00
15 October 2023	995,094.00
15 April 2024	995,094.00
15 October 2024	995,094.00
15 April 2025	995,094.00
15 October 2025	995,094.00
15 April 2026	995,094.00
15 October 2026	995,094.00
15 April 2027	995,094.00
15 October 2027	995,094.00
15 April 2028	995,094.00
15 October 2028	995,094.00
15 April 2029	995,094.00
15 October 2029	995,094.00
15 April 2030	995,094.00
15 October 2030	995,094.00
15 April 2031	995,094.00
15 October 2031	995,086.00
<b>TOTAL</b>	<b>31,843,000.00</b>

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\*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

### SCHEDULE 3

#### Withdrawal of Loan Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in the Attachment I to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at Bangladesh Bank into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

Schedule 3

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

**Negative List**

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

**Table A12: Ineligible Items**

<b>Chapter</b>	<b>Heading</b>	<b>Description of Items</b>
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the First Tranche

1. The Borrower shall have signed the water supply and sanitation sector development partnership framework (Partnership Framework) with the development partners, including the World Bank (WB), ADB, the Japanese Government, and the Danish International Development Assistance (DANIDA). The Partnership Framework and its salient features shall be disclosed to the public.
2. The first organization chart (Organogram) of DWASA shall have been approved by the Secretaries Committee. Once approved, LGD shall issue a circular to make the Organogram effective.
3. DWASA shall appoint a managing director (MD), who shall have been selected on competitive basis in accordance with the provisions of the WASA Act 1996.
4.
  - a. LGD shall have approved and issued the (i) Rules of Business 2007 on "Water Connection and Water Tariff", and (ii) Rules of Business 2007 on "Sewer Connection and Sewer Tariff";
  - b. DWASA shall have approved and issued the (i) DWASA Financial Regulations 2007, (ii) DWASA Employees (Contributory/General Provident Fund) Regulations, 2007, and (iii) DWASA Employees Services Regulations, 2007.
5. DWASA shall have approved and submitted to LGD the Diagnostic Analysis Report on DWASA Financial Performance (Report) and Recommendations on the Introduction of Performance Improvement Program (PIP).
6. Based on the approved Report, DWASA shall have commenced the key performance improvement indicators (KPI) for the implementation of the PIP.

Conditions for Release of the Second Tranche

1. LGD shall issue an administrative order to decentralize and give broader administrative and financial autonomy to the Pourashavas and WASAs to (i) manage water supply, including the installation, operation and maintenance, (ii) billing management and (iii) set and increase tariff structure.
2. LGD shall prepare a study on the most appropriate form of an independent water regulator for Bangladesh and make recommendations to the Cabinet. The study shall include clarification on the functions, roles and responsibilities of the regulator.
3. LGD and DPHE shall prepare a 5 year capacity building program for the Pourashavas water section staff and WASAs' staff. The capacity building program shall include training in the following areas: (i) meter connections, (ii) water conservation, (iii) operation and maintenance, (iv) billing and accounting, (v) financial management, and (vi) public health etc.
4. Starting from 2010, LGD, the Pourashavas and the WASAs shall implement the program, as mentioned in paragraph 4 above. LGD shall allocate sufficient budget annually to the Pourashavas and the WASAs to implement the program.
5. LGD and DPHE shall issue a joint decree that will allow the Pourashavas to keep and utilize their water billing revenues. LGD shall instruct each of the Pourashavas to have a separate account for water revenues, to establish a double-entry book keeping and to maintain inventory of the pourashava's water supply assets.
6. DWASA shall prepare and approve a human resource development medium term strategy for DWASA. The strategy shall include plans for staff recruitment and retention, staff training and development and salary increase projections.
7. DWASA, with the approval of LGD, shall issue an administrative order or circular that provides clear delineation of roles and responsibilities between the DWASA Board and the DWASA Management.
8. DWASA shall issue an administrative order or circular on the delegation of authority from the DWASA Board to the DWASA Management on matters relating to the day to day management of DWASA.
9. DWASA shall prepare and approve a 5 year business plan. The Business Plan should be approved by the Board and endorsed by LGD.
10. DWASA Management shall prepare a 5 year tariff adjustment projection and plan to be approved by the DWASA Board. The tariff adjustment plan shall be submitted to LGD for approval.
11. DWASA shall establish an anticorruption and ethics committee (Committee) and appoint sufficient members to the Committee. The Committee shall report directly to the MD and shall have the mandate to investigate any corruption allegations within DWASA.



12. DWASA shall establish a grievance redress mechanism to address the concerns of customers and stakeholders.
13. Starting from fiscal year 2010, DWASA shall prepare a full financial statement and audit report annually with proper audit opinion. The audited financial statement shall be published on DWASA website and made available to the public.
14. DWASA shall have the authority to set and adjust, annually, the water tariff, which covers: (i) inflationary adjustments; and (ii) recurrent costs (O&M expenses) of the water supply operation, in line with the 5-year Tariff Adjustment Projection and Plan as part of DWASA 5-year Business Plan.

**SCHEDULE 4****Procurement**

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

## SCHEDULE 5

### Program Implementation and Other Matters

#### Program Implementation

1. The Borrower shall (a) ensure that the policies adopted and actions taken as described in the Policy Letter and the Policy Matrix, prior to the date of this Loan Agreement continue in effect for the duration of the Program period and subsequently, and (b) promptly adopt other policies and take other actions as specified in the Policy Letter and the Policy Matrix, and ensure that such policies, and actions continue in effect during and after the Program period.

#### Program Executing Agency

2. The Finance Division of the MOF and the LGD, shall be the Program Executing Agencies, and shall be responsible for the overall coordination of the Program Loan during the implementation period, including complying with all policy actions, program administration, and maintenance of all program records. DWASA shall be the implementing agency for certain activities under the Program as identified in the Policy Matrix

#### Counterpart Funds

##### A. Special Account

3. (a) Immediately after the Effective Date, the Borrower shall establish, in a manner satisfactory to ADB, a special account (Special Account) at Bangladesh Bank for the specific purpose of depositing and utilizing the Counterpart Funds.

(b) Whenever the Borrower withdraws proceeds of the Loan from the Loan Account, the Borrower shall promptly deposit into the Special Account the Taka amounts equivalent to the amount of the proceeds so withdrawn.

(c) Except as ADB may otherwise agree, the Counterpart Funds shall be utilized not later than 31 December 2013, to meet the expenditures to be incurred pursuant to the provisions of paragraphs 4 below.

(d) Separate accounts and records in respect of the Special Account shall be maintained in accordance with consistently maintained sound accounting principles and shall be audited annually by independent auditors acceptable to ADB in accordance with sound auditing standards. Certified copies of such audited accounts and records shall be furnished to ADB promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, or not later than six (6) months after the date of the closing of the Loan Account, as the case may be.

B. Use of Counterpart Funds

4. The Borrower shall ensure that the Counterpart Funds shall be used to meet program expenditures and associated costs of reform and to help maintain current levels of social expenditures.

Policy Measures

5. By the end of 2010 or such other date as may be agreed between the Borrower and ADB:

(a) LGD shall initiate and socialize the water conservation program. LGD shall actively conduct awareness campaigns at the national level to raise public awareness on the importance of water conservation;

(b) LGD shall instruct the Pourashavas and the WASAs to promote water conservation and to participate in the Program. LGD shall provide sufficient budget assistance to the Pourashavas and the WASAs to implement the Program;

(c) To promote water conservation, LGD together with the Pourashavas and the WASAs shall discontinue the existing practice where, each household install its own water connection and meter. By the end of 2010, meter installations at household level shall be carried out by the Pourashavas and/or the WASAs;

(d) LGD shall allow the Pourashavas and the WASAs to set and increase, annually, the water tariff in their respective areas to a level that would enable them to cover at least O&M cost recovery basis;

(e) DWASA Board of Directors shall issue an administrative order or circular on the staff recruitment, promotion and remuneration in DWASA;

(f) DWASA shall prepare and issue an operations manual (Operations Manual). The Operations Manual shall be implemented and distributed to all departments within DWASA and published on the DWASA website;

(g) DWASA shall set up a committee to explore private sector participation in water supply and sanitation sector. The committee shall prepare a study on private sector participation and make recommendations with time bound action plan. The study shall be endorsed by DWASA Board;

(h) The committee shall also review the existing program for performance improvement (PPI) that are agreed between DWASA and its union and make recommendations on how to eliminate this practice;

(i) DWASA shall issue time bound action plan to address the problem of illegal connections; and

(j) DWASA shall reduce illegal connections in the Project Zones, as defined in the Project Loan Agreement, by the end of 2010.

Policy Dialogue

6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the Program.

7. The Borrower shall keep ADB informed of policy discussions concerning the Program undertaken with other international or bilateral agencies and shall provide ADB with the opportunity to comment on any resulting proposals.

Reviews

8. The Borrower and ADB, together with other donor agencies, shall review the implementation of the Program annually and assess the impact of all reforms in the urban water supply sector.