

# Project Administration Manual

Project Number: 35173  
Loan Number: LXXXX  
August 2014

Nepal: Third Small Towns Water Supply and  
Sanitation Sector Project

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### **Project Administration Manual Purpose and Process**

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Urban Development (MOUD) is wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by MOUD of its obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan and Project agreement. Such agreements shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan and Project Agreements, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

## Abbreviations

ADB	=	Asian Development Bank
ADF	=	Asian Development Fund
APFS	=	audited project financial statements
CQS	=	consultant qualification selection
DMF	=	design and monitoring framework
DWSS	=	Department Water Supply and Sewerage
EARF	=	environmental assessment and review framework
EIA	=	environmental impact assessment
EMP	=	environmental management plan
ESMS	=	environmental and social management system
ICB	=	international competitive bidding
ICS	=	individual consultant selection
IEE	=	initial environmental examination
IPP	=	indigenous people plan
IPPF	=	indigenous people planning framework
ISSAU	=	Institutional Support and Service Advisory Unit
MOUD	=	Ministry of Urban Development
NCB	=	national competitive bidding
NGOs	=	nongovernment organizations
NPC	=	National Planning Commission
NWSSTC	=	National Water Supply and Sanitation Training Centre
OBA	=	output-based aid
OFID	=	OPEC Fund for International Development
O&M	=	operation and maintenance
PAI	=	project administration instructions
PAM	=	project administration manual
PMO	=	project management office
QCBS	=	quality- and cost-based selection
RRP	=	report and recommendation of the President to the Board
RPMO	=	regional project management office
SBD	=	standard bidding documents
SEIU	=	Sector Efficiency Improvement Unit
SOE	=	statement of expenditure
SPRSS	=	summary poverty reduction and social strategy
SPS	=	Safeguard Policy Statement
SWM	=	Solid Waste Management
TDF	=	Town Development Fund
TOR	=	terms of reference
WASH	=	Water, sanitation and hygiene
WUA	=	Water Users' Associations
WUSC	=	Water User's and Sanitation Committee

## I. PROJECT DESCRIPTION<sup>1</sup>

1. The Third Small Towns Water Supply and Sanitation Sector Project (the project)<sup>2</sup> will support the Government of Nepal in providing water supply and sanitation (WSS) services to selected small towns in Nepal. In line with the government's 15-Year Development Plan for Water Supply and Sanitation in Small Towns (15-year plan) of 2009, the Asian Development Bank (ADB) has supported the government in providing WSS services in 50 of the 265 small towns in Nepal through two earlier projects.<sup>3</sup> Drawing on experience and lessons from the earlier interventions, this project will fund physical investments in WSS infrastructure in selected small towns (project towns)<sup>4</sup> and nonphysical investments in the strengthening of sector policy, regulatory and institutional capacity, service delivery, and project management.<sup>5</sup>

2. **Impact and Outcome.** The impact of the project will be improved living conditions in project towns. The outcome will be inclusive, gender-focused, and sustainable WSS service delivery in project towns.

3. **Outputs.** The project has three outputs as follows:

- (i) **Output 1: Improved Water Supply and Sanitation infrastructure.**<sup>6</sup> Output 1 will finance (a) upgrade or construction of water supply systems in project towns—e.g., about 1,450 kilometers of water supply pipelines, 78,000 additional household connections, and 26 water treatment systems with an estimated capacity of 50,000 cubic meters per day; (b) construction of some 20,300 additional private toilets with septic tanks for the poor and vulnerable, through output-based aid; (c) provision of septage management facilities and equipment in 14 towns,<sup>7</sup> and construction of two decentralized wastewater treatment facilities with a capacity of 2,500 cubic meters per day; (d) preparation of drainage master plans and provision of priority drains in towns with flooding risks;<sup>8</sup> (e) rehabilitation of about five packages of existing WSS systems; and (f) maintenance of nonrevenue water at around 10% in project towns' water supply systems.
- (ii) **Output 2: Strengthened sector policy, regulatory and institutional capacity and service delivery.** Output 2 will finance (a) preparation, adoption, and implementation of tariff guidelines for small towns; (b) establishment of a new institutional support and service advisory unit (ISSAU) in the Department Water Supply and Sewerage (DWSS); construction of a building for DWSS, and completion and implementation of business plans for the DWSS, its national

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<sup>1</sup> The design and monitoring framework (DMF) is in **Appendix 1**.

<sup>2</sup> ADB provided project preparatory technical assistance for TA 8346-NEP: Preparing the Third Small Towns Water Supply and Sanitation Project (the PPTA).

<sup>3</sup> Loan 1755-NEP: Small Towns Water Supply and Sanitation Sector Project, and Grant 0157-NEP: Second Small Towns Water Supply and Sanitation Sector Project (referred to as the first and second project, respectively).

<sup>4</sup> Project towns mean up to 26 small towns for new WSS facilities and up to 5 small towns for rehabilitation of facilities. Based on data from 12 pre-identified project towns, average population of these is estimated at 15000.

<sup>5</sup> ADB provided project preparatory technical assistance for TA 8346-NEP: Preparing the Third Small Towns Water Supply and Sanitation Project (the PPTA).

<sup>6</sup> Towns and subproject selection criteria is in Appendix 2.

<sup>7</sup> On-site sanitation is found to be appropriate for the project towns due to their population size and low density. Project will assist the government in strengthening the regulatory and institutional framework for septage management in small towns, and in providing facilities and equipment for the same in 14 towns or more towns, out of which piloting in 4 towns will be financed by ADB Water Financing Partnership Facility (WFPP). Details of WFPP grant proposal is accessible from linked documents in Appendix 2.

<sup>8</sup> For these towns, drainage master plans (DMPs) will be prepared. The investments will only be included if proposed segments are also identified as priority segments in the DMPs.

water supply and sanitation training centre, Sector Efficiency Improvement Unit (SEIU), and participating Water Users' Associations (WUAs); (c) restructuring of the Town Development Fund (TDF) for capacity building; (d) completion of solid waste management (SWM) plans for project towns; (e) provision of technical, financial and utility management training to participating WUAs or local bodies, including computerization of their billing and collection system;<sup>9</sup> (f) provision of leadership training to female executive members of project WUAs or local bodies; and (g) public awareness on SWM; water conservation; water, sanitation and hygiene (WASH) and livelihood enhancement in project towns.

- (iii) **Output 3: Improved project implementation.** Output 3 will fund project management, project design, and supervision of project construction activities.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

**Table 1: Project Readiness Activities**

Activities	2014			2015				Who responsible
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Appointment of Project Director	■							MOUD
Appointment of Regional Project Manager and core staff		■						MOUD and DWSS
Appointment of Institutional Support and Service Advisory Unit's Staff			■					MOUD and DWSS
Government budget inclusion for the 1 <sup>st</sup> year of project implementation	■				■			MOF and MOUD
Finalize detailed engineering design and issue bid documents for civil works packages in 12 towns		■	■					MOUD, DWSS, and PMO
Sign management agreements (12 towns)			■					PMO, DWSS
Publish expression of interest for 2 DSMCs and DRTAC		■						PMO, DWSS
Resettlement Plan Updated		■	■					PMO and RPMO
Establishment of Regional project management offices		■	■					MOUD, DWSS and PMO
Establish Institutional Support and Service Advisory Unit		■	■					MOUD, DWSS and PMO
ADB Board approval for the loan		■						ADB
Loan signing			■					MOF
Government legal opinion provided				■				MLJ
Loan effectiveness				■				MOF and ADB

ADB = Asian Development Bank, consultants, DSMC = design, supervision, and management consultant, DRTAC = Design Review and Technical Audit Consultants, DWSS = Department Water Supply and Sewerage, MLJ = Ministry of Law and Justice, MOF = Ministry of Finance, MOUD = Ministry of Urban Development, PMO = Project Management Office, RDSMC = regional design, supervision, and management consultant.

<sup>9</sup> Water Users and Sanitation Committees (WUSCs) are the elected executive bodies of the WUAs.



Activities	2014			2015 (Qtr)				2016 (Qtr)				2017 (Qtr)				2018 (Qtr)				2019 (Qtr)				2020 (Qtr)				2021 (Qtr)	
	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	
Activity 3.1. Allocate adequate budget for project	■																												
Activity 3.2 Recruit all consultants under the project	■	■	■	■																									
Activity 3.3 PMOs established and fully staffed	■	■	■																										
Activity 3.4 Establish project performance management system				■	■	■	■																						

3R = reduce–reuse–recycle, DRTAC = Design Review and Technical Audit Consultants, DSMC = Design, Supervision, and Management Consultant, DWSS = Department of Water Supply and Sewerage, NWSSTC = National Water Supply and Sanitation Training Centre, RPMO = regional project management office, SEIU = sector efficiency improvement unit, WUA = water users' association.

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations – Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> <li>• Project Coordination Committee (PCC)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides guidance and policy level support to the project.</li> <li>➤ Monitors and reviews project performance at an inter-ministerial level and discusses key policy related issues.</li> <li>➤ Ensures collaborations among central level agencies.</li> </ul>
<ul style="list-style-type: none"> <li>• Department of Water Supply and Sewerage (DWSS)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Establishes/ strengthens existing Project Management Office (PMO), and establishes Institutional Support and Service Advisory Unit (ISSAU) and two regional PMOs (RPMOs).</li> <li>➤ Deputes adequate staff in PMO, ISSAU, and RPMOs.</li> <li>➤ Signs Management Agreement with WUAs/ local bodies.</li> <li>➤ Allocates adequate budget to PMO.</li> <li>➤ Regulates WUAs and provides them with full technical, financial and institutional support.</li> <li>➤ Selects subprojects based upon the agreed subproject selection criteria for the project.</li> </ul>
<ul style="list-style-type: none"> <li>• Project Management Office (PMO)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Is responsible for overall project management, implementation and monitoring.</li> <li>➤ Coordinates with ADB and other agencies at central level for smooth project implementation.</li> <li>➤ Monitors and ensures the compliance of covenants, including submission of consolidated audited project financial statements.</li> <li>➤ Recruits regional design, supervision and management support consultant, consultants for PMO and for ISSAU, and procures equipment and vehicles for the Project.</li> <li>➤ Finalizes feasibility studies, detailed designs, tender documents prepared under the Project.</li> <li>➤ Ensures integration of environmental and social safeguards, including land acquisition and gender aspects, as required in all documents, particularly in tender documents.</li> <li>➤ Updates procurement plan and monitors the procurement process.</li> <li>➤ Guides, supports and monitors RPMOs in</li> </ul>

## Project implementation organizations

## Management Roles and Responsibilities

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<ul style="list-style-type: none"> <li>• Regional Project Management Office (RPMO) Eastern (Itahari, Sunsari) and Western Region (Nepalgunj, Banke)</li> </ul>	<p>implementing town projects.</p> <ul style="list-style-type: none"> <li>➤ Communicates with ADB, maintains project documents, and submits timely reports, as outlined in PAM, to ADB by consolidating inputs from RPMOs, WUAs and TDF.</li> <li>➤ Consolidates accounts and submits withdrawal applications to ADB for reimbursement.</li> <li>➤ Manages project account for Government funds and imprest account for ADB loan.</li> <li>➤ Submits all audited project financial statements and financial statements pertaining to the project no later than 9 months after the close of FY2015 and FY 2016, 8 months after the close of FY2017 and FY 2018, and 6 months after the close of FY2019 and FY 2020.</li> </ul> <p>(For each of its concerned regions)</p> <ul style="list-style-type: none"> <li>➤ Manages and implements the project at the town levels.</li> <li>➤ Ensures coordination with concerned local bodies, Water Supply and Sanitation Division Offices (WSSDOs), TDF and WUAs for all matters related to the project implementation.</li> <li>➤ Ensures WUAs' community contribution and assists and monitors WUAs maintaining separate accounts for community contribution.</li> <li>➤ Supervises and monitors each of the regional Design, Supervision, and Management Consultant (DSMCs) based at the respective RPMOs.</li> <li>➤ Makes payments for activities performed under the scope of the Project and conducts public audits.</li> <li>➤ Implements and monitors resettlement plans, GESI Action Plan and IEEs for the subprojects in each town and prepares consolidated reports on these.</li> <li>➤ Prepares progress reports, as outlined in PAM for the towns under the RPMO, and submits to PMO.</li> </ul>
<hr/> <ul style="list-style-type: none"> <li>• Local bodies</li> </ul>	<ul style="list-style-type: none"> <li>➤ Include/ agree to include the subproject in their planning either directly or through the concerned district Water Sanitation and Hygiene (WASH) coordination committee (CC), with an endorsement from the concerned village WASH CC (VWASH CC) or</li> </ul>

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Project implementation organizations	Management Roles and Responsibilities
	municipality WASH CC (MWASH CC), and submit subproject application to DWSS.
<ul style="list-style-type: none"> <li>• Local- level WASH (DWASH/ MWASH/VWASH) Coordination Committee (CC)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Support project implementation and review performance as the town-level CC for the project.</li> <li>➤ Facilitate to resolve project implementation issues that require inter-agencies collaboration and grievance redress.</li> </ul>
<ul style="list-style-type: none"> <li>• Town Development Fund (TDF)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Signs subsidiary loan agreement with Ministry of Finance (MoF).</li> <li>➤ Provides loan (up to 25% of capital costs of the subprojects) to the WUAs or local bodies if considered financially feasible, collects repayment from WUAs and pays back to MoF.</li> <li>➤ Provides tariff setting, financial management and capacity building support to the WUAs or local bodies.</li> <li>➤ Signs Subproject Financing Agreements with WUAs or local bodies.</li> <li>➤ Manages institutional development and implementation support consultants</li> </ul>
<ul style="list-style-type: none"> <li>• ADB</li> </ul>	<ul style="list-style-type: none"> <li>➤ Conducts field review missions, midterm review mission and project completion review missions to assess project implementation progress and compliance of loan covenants.</li> <li>➤ Reviews PMO's submissions for procurement of goods, civil works and services and provides comments and no objection on the submissions.</li> <li>➤ Checks statement of expenditure, and disburses the loan funds as agreed in Loan Agreement.</li> <li>➤ Administers loan by OFID.</li> </ul>

ADB = Asian Development Bank, DSMC = Design, Supervision, and Management Consultant, DWSSDO = District Water Supply and Sanitation Division Office, GESI = Gender Equality and Social Inclusion, IEE = Initial Environmental Examination, ISSAU = Institutional Support and Service Advisory Unit, MOF = Ministry of Finance, MOUD = Ministry of Urban Development, OFID = OPEC Fund for International Development, PAM = Project Administration Manual, PMO = Project Management Office, RPMO = Regional Project Management Office, TDF = Town Development Fund, WASH = Water Sanitation and Hygiene, WSSDO = water supply and sanitation division/subdivision office, WUA = Water Users' Associations.

## B. Key Persons Involved in Implementation

### Executing Agency

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## C. Project Organization Structure

5. The Ministry of Urban Development (MOUD) will be the Executing Agency (EA), working through the Department Water Supply and Sewerage (DWSS), which will establish a PMO for the Project<sup>10</sup> headed by a Project Director. DWSS will also establish two RPMOs, in eastern and western region, respectively.<sup>11</sup>

6. At the central level, a PCC will be established with the Secretary of MOUD as the chair, and joint secretaries of the MOUD, the Ministry of Environment (MOE), and the National Planning Commission (NPC), Ministry of Federal Affairs and Local Development (MoFALD), a representative from the Ministry of Finance (MOF) and Ministry of Law and Justice, the Director Generals of the DWSS and the Department of Urban Development and Building Construction (DUDBC), the executive director of Town Development Fund (TDF), and President of Federation of Water and Sanitation Users Nepal (Fed WASUN) as members. The Project Director will be the member secretary and the convener of the PCC. The PCC will review overall progress and recommend key policy decisions for the DWSS and PMO to implement for smooth project implementation. The PCC will meet at least twice a year to review overall progress and discuss key issues to be addressed at the central level.

7. The PMO will be responsible for overall project planning, management, implementation, monitoring and reporting for the project. The PMO will also be responsible for screening the proposed subprojects from the towns in accordance with the subproject selection criteria for the project,<sup>12</sup> assisting the towns in conducting feasibility studies,<sup>13</sup> reporting to and being point of liaison with ADB on the project; quality control of detailed design and construction supervision; procurement of civil works contractors; support for capacity building; and overseeing safeguard

<sup>10</sup> DWSS will continue the existing PMO established and operational for the second project.

<sup>11</sup> DWSS has five regional offices, out of which RPMO will be stationed into.

<sup>12</sup> Subproject selection criteria is attached as **Appendix 2**.

<sup>13</sup> TDF will assist the towns in conducting financial appraisal of the subprojects and advice DWSS on its outcomes prior to the start of detailed design process.

compliance. The PMO will liaise with WUAs or local bodies to sign the management agreement prior to the award of contract in each town. The PMO will also engage all consultants under the project.

8. The RPMOs will be established using the existing infrastructure in Itahari, Sunsari, for the eastern region and in Nepalgunj, Banke, for the western region. RPMOs will report to the PMO and be supported and monitored by PMO to implement the projects in the field and manage contractors and consultants. The RPMO will manage the detailed design and construction supervision with support from DSMC that PMO would engage (DSMCs for Eastern and Western region each). Each of the DSMCs will be based at the respective RPMO. For each town, a dedicated implementation core group (ICG)<sup>14</sup> will be established in the field, at each town's WUA's office, headed by a qualified engineer from the RPMO to conduct day-to-day project management, planning and construction supervision. The engineer will also coordinate with chief of water supply and sanitation division/subdivision office (WSSDO), TDF and report to concerned water supply and sanitation divisional or sub-divisional office at least on monthly basis and establish linkages between WUA, local bodies, TDF and WSSDO.

9. The WUSC, on behalf of the WUA,<sup>15</sup> or the local body<sup>16</sup> will be responsible for operation and maintenance (O&M) of the water supply and sanitation facilities constructed, operating under a management agreement with DWSS. WUAs consist of nine executive members,<sup>17</sup> at least three of whom are women. The project will fund the WUA's minimum prescribed staffing and other resource requirement, as outlined in the management agreement with DWSS for sustainable operations of the system during the project period. For the towns yet to be selected and where WUA does not exist initially, or when the local body doesn't have the capacity and chooses to delegate the operation to user's representatives, an interim service area committee (ISAC) will be first established in the feasibility stage by representing potential consumers. The ISAC will work with the regional PMO and DSMCs in undertaking a feasibility study, confirm the technical proposals and the boundaries of the service areas. WUAs will be developed from ISACs at the detailed design stage.

10. WUAs or the local bodies will be responsible for (i) working with the regional DSMCs in finalizing the detailed design; (ii) land acquisition and resettlement, if any; (iii) participating in the bidding evaluation process and witnessing the signing of civil works contracts; (iv) fulfilling the required 5% cash contribution for the project prior to contract award; (v) concluding a pre-proposal management agreement with DWSS and subproject financing agreement with the TDF, and signing the management agreement with the DWSS upon project commencement; (vi) assisting the RPMO engineer and regional DSMCs in supervising the construction work; (vii) setting water tariffs, in accordance with the tariff guidelines for small towns, and at a level to cover necessary payment or repayment to the government, O&M expenditures, and replacement and future expansion in accordance with the Urban Water Supply and Sanitation Sector Policy (UWSSSP); (viii) ensuring all households in the service area are connected and assisting poor families to construct and use toilets; and (ix) appointing adequate staff to be trained to operate the system. After completion of construction, WUAs or local bodies will be

<sup>14</sup> The ICG, as a minimum, comprises of (i) Engineer, RPMO; (ii) Administration and Finance Staff, WUSC; (iii) Engineer or Junior Engineer, WUSC; and (iv) social mobilizer and EMP monitor, RPMO.

<sup>15</sup> WUAs are registered with the district water resources committee as a user association under the Water Resources Act (1992).

<sup>16</sup> As the project is a demand based open access project, the WUAs or the LBs can apply for funding a proposed subproject that meets the subproject selection criteria.

<sup>17</sup> WUSCs will be formulated by ensuring proportional representation of gender, caste and disadvantaged ethnic groups. It should include at least 33% representation of women.

responsible for (i) operating, maintaining and expanding the system, when appropriate; (ii) collecting the tariff; (iii) repaying the debt to TDF and the government; (iv) managing and operating the sanitation component of the subproject if septage management or wastewater management is included in the project; and (v) ensuring that the town is open defecation free at all times. An operation unit (OU) will be established under the WUA or local bodies, with technical staff as outlined in the management agreement for the subproject/ town, before the construction completion to operate the system or supervise the operator, if outsourced. The OU will work together with the contractor during the first year of O&M of the system<sup>18</sup> and will be further inducted by the ISSAU and NWSSTC for a minimum of 3 months intensely prior to takeover. After the first year of O&M by the contractor, WUAs or local bodies will have options whether they (i) continue to engage the same operator with agreed fees, (ii) engage a separate operator through competitive bidding, or (iii) operate the system through the OU.

11. The concerned local WASH coordination committee (WASH CC), such as village WASH CC (VWASH CC) or municipal WASH CC (MWASH CC) will provide coordination, guidance and monitoring at the town-level.<sup>19</sup> Where the subproject lies in multiple local body jurisdictions, District WASH Coordination Committee or Regional WASH Coordination Committee will coordinate, guide and monitor the subproject. These town-level coordination committees will oversee the subproject progress and effectiveness of all relevant activities and discuss any issues to ensure smooth implementation and operation, and also act as grievance re-dress committees at the town level.

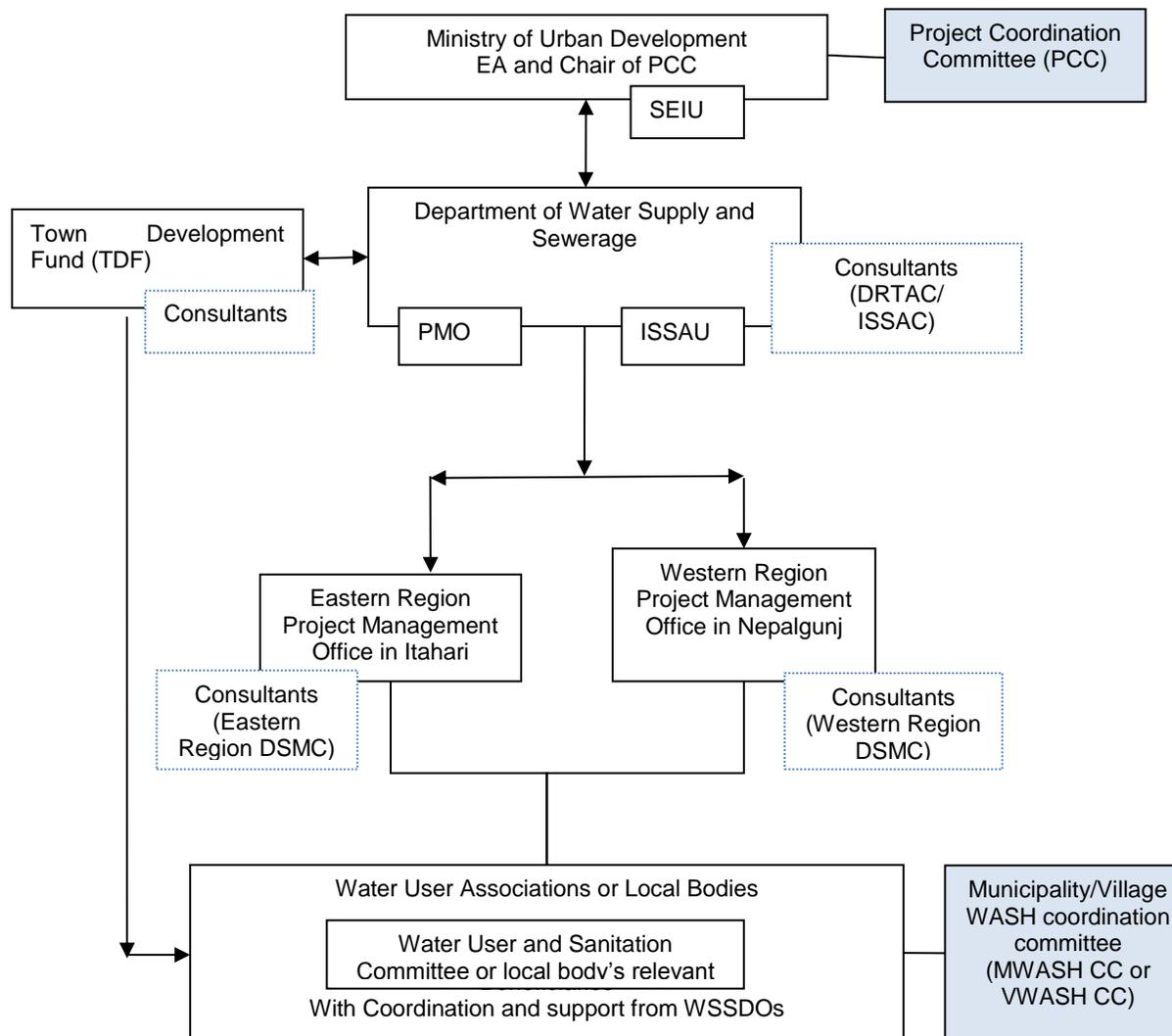
12. TDF will carry out the following key tasks: (i) financial appraisal of the subprojects; (ii) signing Sub-project Financing Agreement (SFA) with the WUAs or local bodies; (iii) on-lending the loan portion to the WUAs or local bodies; (iv) recommending and monitoring tariffs to cover operation expenditures, debt service payments and future expansion; (v) providing training in tariff setting, accounting and financial management to members and/or employees of WUAs or local bodies; and (vi) disbursing and receiving repayment of loans.

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<sup>18</sup> All water supply civil works contracts will include one year O&M by the contractor and training of the WUAs or local bodies.

<sup>19</sup> In accordance with Government guidelines, the project will form the MWASH CC comprised of executive officer, municipality (chair); chief, water supply and sanitation divisional office; chairperson, water user and sanitation committee; and representative, disadvantaged communities; and the VWASH CC comprised of VDC, Secretary, Chief WSSDO, and chairperson, water user and sanitation committee. Other members can be included on a need basis, such as representatives from District Health Office, District Education Office and other line agencies.

**Figure 1: Project Implementation Structure**



DRTAC = Design Review and Technical Audit Consultants, DSMC = Design, Supervision, and Management Consultant, EA = Executing Agency, ISSAC = Institutional Support and Service Advisory Consultants, ISSAU = Institutional Support and Service Advisory Unit, MWASH = municipal water sanitation and hygiene, PCC = Project Coordination Committee, PMO= Project Management Office, SEIU = Sector Efficiency Improvement Unit, TDF = Town Development Fund, VWASH = village water sanitation and hygiene, WSSDO= water supply and sanitation division/subdivision office.

#### IV. COSTS AND FINANCING

13. The project is estimated to cost \$109 million (Table 4). The government has requested a loan in various currencies equivalent to SDR38,921,000 (\$60 million) from ADB's Special Funds resources, and a loan of \$20 million equivalent from OFID to help finance the project. The Asian Development Fund loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions as set forth in the draft loan and project agreements. The loan from ADB will finance (i) WSS infrastructure in project towns, (ii) consulting services, (iii) institutional support and capacity building, (iv) incremental recurrent staff costs, (v) vehicles and equipment, and (vi) financing charges on the ADB loan during construction. Subprojects will be financed by a combination of (i) government grant from the DWSS; (ii) loan by TDF; and (iii) users' cash contribution, generally on a ratio of 70:25:5.<sup>20</sup> Part of the funds provided by the government, ADB, and OFID (maximum 25% of the total cost for WSS civil works) will be relent to the TDF under a subsidiary loan agreement on terms and conditions acceptable to ADB. The TDF will then onlend to the WUAs or local bodies under a SFA on terms and conditions acceptable to ADB, which shall include a repayment period of 25 years,<sup>21</sup> including a grace period of 5 years, and an interest rate of 5% per annum. The government and the WUAs or local bodies will provide \$27.7 million equivalent to cover (i) part of the infrastructure, (ii) part of recurrent staff costs, (iii) taxes and duties, and (iv) financial charges on the OFID loan.<sup>22</sup> The Sanitation Financing Partnership Trust Fund (footnote 1) under the Water Financing Partnership Facility (WFPF) will provide grant cofinancing equivalent to \$1.3 million, fully administered by ADB, to finance piloting of innovative septage management in four project towns under output 1.

14. The OPEC Fund for International Development (OFID) loan, to be partially administered by ADB, will have a 20-year term, including a 5-year grace period and an annual interest rate of 2.5%. It will cofinance, on a parallel basis, WSS subprojects in selected small towns under output 1.<sup>23</sup> The project financing plan is in Table 5.

**Table 4: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost <sup>b</sup></b>	
1 Output 1: Improved water supply and sanitation infrastructure	81.8
2 Output 2: Strengthened sector policy, regulatory and institutional capacity and service delivery	3.4
3 Output 3: Improved project implementation	9.8
<b>Subtotal (A)</b>	<b>95.0</b>
<b>B. Contingencies <sup>c</sup></b>	11.7
<b>C. Financing Charges During Implementation <sup>d</sup></b>	2.3
<b>Total (A+B+C)</b>	<b>109.0</b>

<sup>20</sup> In cases of unaffordability of towns, arising from various exceptional causes such as hardship, high terrain, lack of alternative sources, the government may increase the grant portion. The 5% in beneficiaries' contributions are the upfront cash contributions raised by the WUAs or local bodies. WUAs or local bodies will commit during subproject appraisal that the poor and vulnerable will be exempt from such cash contributions.

<sup>21</sup> For the OFID loan funds, the SFA will have the same tenure as the loan.

<sup>22</sup> Any resettlement and other social costs, if incurred, will also be covered by the government or local bodies or WUAs.

<sup>23</sup> OFID funds and ADB funds, while parallel, will finance different project towns, so even if any shortfalls were to arise under the OFID loan, ADB-financed subprojects would continue to be funded as scheduled. The impact of such shortfalls would be limited to the downscaling of the overall project targets.

<sup>a</sup> Including taxes and duties of \$ 10.9 million to be financed by the government. Nominal taxes and duties expected on vehicles and equipment financed by Asian Development Bank (ADB) shall also be borne by ADB.

<sup>b</sup> In March 1, 2014 prices. Exchange rate \$1 = 98.51 NPR

<sup>c</sup> Physical contingencies computed at 10.0% for civil works and 5% for all other costs. Price contingencies computed on foreign exchange costs at 2.3% for 2014, 1.0% for 2015, and 1.4% for 2016 onward, and local currency costs at 10.5% for 2014, 9.0% for 2015, and 7.0% for 2016 2015 and 2016 onward; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest computed at 1.0% per year for Asian Development Fund and 2.5% per year for OPEC Fund for International Development.

Source: Asian Development Bank estimates

**Table 5: Financing Plan**

<b>Source</b>	<b>Amount (\$million)</b>	<b>Share of Total (%)</b>
Asian Development Bank	60.0	55.0
OPEC Fund for International Development (Loan)	20.0	18.0
Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility (grant) <sup>a</sup>	1.3	1.0
Government of Nepal	23.1	22.0
Beneficiaries (local bodies and users)	4.6	4.0
<b>Total</b>	<b>109</b>	<b>100.0</b>

Source: Asian Development Bank Estimates. <sup>a</sup> Financing partner: Bill and Melinda Gates Foundation. Grant fully administered by the Asian Development Bank.

**A. Detailed Cost Estimates by Expenditure Category**

**Table 6: Detailed Cost Estimates by Expenditure Category**

<b>Item</b>	<b>\$ Million</b>	<b>% of Base Cost</b>
<b>A. Base Cost*</b>		
1 Civil works**	81.8	
2 Capacity building and consultancy services	9.2	
3 Incremental recurrent cost***	3.3	
4 Vehicles and equipment	0.7	
<b>Total Base Costs Sub-total (1-3)</b>	<b>95.0</b>	<b>100.0</b>
<b>B. Contingencies</b>		
Physical contingency	8.7	9.0
Price contingency	3.0	3.0
<b>Subtotal (B)</b>	<b>11.7</b>	<b>12.0</b>
<b>C. Financial Charges During Implementation</b>		
	2.3	2.0
<b>Total Project Cost</b>	<b>109.0</b>	<b>114</b>

\* Includes taxes and duties of \$10.9 million to be financed by the Government. Nominal taxes and duties on vehicle and equipment financed by Asian Development Bank (ADB) shall be borne by ADB.

\*\* Includes US\$ 2.3 million, US\$ 2.1 million and US\$ 6.9 million for DWSS building, Output based payments and rehabilitation of existing systems, respectively.

\*\*\* Increment recurrent costs include bank charges, local transport and insurance.

**B. Allocation and Withdrawal of Loan Proceeds - ADB**

**Table 7: Allocation and Withdrawal of Loan Proceeds**

Category		ADB Financing Basis		
No.	Item	ADB Financing (\$ million)		Percentage of ADB Financing from the Loan Amount
		Category	Subcategory	
1	Civil works	38.7		
1a	Civil works – water supply and sanitation systems (including OBA and rehabilitation) *		36.7	73% of total expenditure claimed
1b	Civil works – DWSS building		2.0	86% of total expenditure claimed
2	Consulting services and capacity building	7.9		88% of total expenditure claimed
3	Incremental recurrent costs	1.9		57% of total expenditure claimed
4	Vehicles and office equipment	0.7		100% of total expenditure claimed
5	Interest during construction	1.6		100 % of total amount due
6	Unallocated	9.2		
<b>Total</b>		<b>60.0</b>		

\* Subject to the condition for withdrawal described in paragraph 24. OBA= output based aid.

**C. Allocation and Withdrawal of Grant Proceeds – Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility Grant administered by ADB**

**Table 8: Allocation and Withdrawal of Grant Proceeds**

Category		WFPF Financing Basis	
No.	Item	WFPF Financing (\$ million)	Percentage of WFPF Grant Financing
1	Civil works and equipment –septage management	1.1	73 % of total expenditure claimed
2	Consulting services – septage management	0.2	88 % of the total expenditure claimed
<b>Total</b>		<b>1.3</b>	

ADB = Asian Development Bank, WFPF = Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

**D. Allocation and Withdrawal of Loan Proceeds – OFID Loan partially administered by ADB on a parallel basis**

**Table 9: Allocation and Withdrawal of OFID Loan Proceeds**

<b>Category</b>		<b>OFID Financing Basis</b>	
<b>No.</b>	<b>Item</b>	<b>OFID Financing (\$ million)</b>	<b>Percentage of OFID Loan Financing</b>
1	Civil works – water supply and sanitation	20.0	73 % of the total claim
	<b>Total</b>	<b>20.0</b>	

## E. Detailed Cost Estimates by Financier

Table 10: Detailed Cost Estimates by Financier

Item	Total	ADB		Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility <sup>a</sup>		OFID		GoN				WUAs or Local Bodies			
								Costs		Taxes				Total	
								\$ million	%	\$ million	%			\$ million	%
<b>A. Base Cost</b>															
1 Civil works															
WSS works – ADB funded <sup>b</sup>	50.5	36.7	73%	0	0%	0	0%	5.6	5.4	11.0	22%	2.8	6%		
WSS works – OFID funded	27.5	0	0%	0	0%	20	73%	2.7	3.2	5.9	21%	1.6	6%		
Sanitation works and equipment WFPF	1.5	0	0%	1.1	73%	0	0%	0	0.2	0.2	13%	0.2	13%		
DWSS building – works	2.3	2.0	86%	0	0%	0	0%	0	0.3	0.3	13%	0	0%		
<b>Sub Total of 1</b>	<b>81.8</b>	<b>38.7</b>	<b>47%</b>	<b>1.1</b>	<b>1%</b>	<b>20</b>	<b>25%</b>	<b>8.3</b>	<b>9.1</b>	<b>17.4</b>	<b>21%</b>	<b>4.6</b>	<b>5.7%</b>		
2 Consultancy & capacity development															
Consultancy and capacity development	9	7.9	88%	0	0%	0	0%	0	1.1	1.1	12%	0	0		
Septage management consultant - WFPF	0.2	0	0%	0.2	88%	0	0%	0	0 <sup>e</sup>	0 <sup>e</sup>	12%	0	0%		
<b>Sub Total of 2</b>	<b>9.2</b>	<b>7.9</b>		<b>0.2</b>		<b>0</b>		<b>0</b>	<b>1.1</b>	<b>1.1</b>		<b>0</b>			
3 Incremental recurrent costs <sup>c</sup>	3.3	1.9	57%	0	0%	0	0%	0.7	0.7	1.4	43%	0	0%		
4 Vehicles and other equipment <sup>d</sup>	0.7	0.7	100%	0	0%	0	0%	0	0	0	0%	0	0%		
<b>Sub Total of Base Costs (1 – 4)</b>	<b>95.0</b>	<b>49.2</b>	<b>51%</b>	<b>1.3</b>	<b>1%</b>	<b>20.0</b>	<b>21%</b>	<b>9.0</b>	<b>10.9</b>	<b>19.9</b>	<b>21%</b>	<b>4.6</b>	<b>5%</b>		
<b>B. Contingencies</b>															
Physical contingency	8.7	6.9	79%	0.0	0%	0.0	0%	1.8	0.0	1.8	21%	0.0	0%		
Price contingency	3.0	2.3	75%	0.0	0%	0.0	0%	0.7	0.0	0.7	25%	0.0	0%		
<b>Sub Total of B</b>	<b>11.7</b>	<b>9.2</b>		<b>0.0</b>		<b>0.0</b>		<b>2.5</b>	<b>0.0</b>	<b>2.5</b>		<b>0.0</b>	<b>0%</b>		
<b>C. Interest during the construction period</b>	<b>2.3</b>	<b>1.6</b>	<b>69%</b>	<b>0.0</b>	<b>0%</b>	<b>0.0</b>	<b>0%</b>	<b>0.7</b>	<b>0.0</b>	<b>0.7</b>	<b>31%</b>	<b>0.0</b>	<b>0.0</b>		
<b>Total</b>	<b>109</b>	<b>60.0</b>	<b>55%</b>	<b>1.3</b>	<b>1%</b>	<b>20.0</b>	<b>18%</b>	<b>12.2</b>	<b>10.9</b>	<b>23.1</b>	<b>21%</b>	<b>4.6</b>	<b>4%</b>		

ADB = Asian Development Bank, GoN = Government of Nepal, OFID = OPEC Fund for International Development, WUA = water users association.

Note: amounts may not add up precisely due to rounding off.

<sup>a</sup> Financing partner: Bill & Melinda Gates Foundation. Administered by the Asian Development Bank.

<sup>b</sup> This includes output-based aid and civil works for rehabilitation

<sup>c</sup> Increment recurrent costs include bank charges, local transport and insurance.

<sup>d</sup> 6 four wheel vehicles (2 RMPO, 1 ISSAU, 1 TDF, 2 PMO) and motorbikes for WUAs.

<sup>e</sup> Nominal amount of \$24,000 not shown due to rounding.

## F. Detailed Cost Estimates by Outputs/Component

**Table 11: Detailed Cost Estimates by Outputs/Components**

	\$ million						
	<b>Total Cost</b>	<b>Output 1</b>		<b>Output 2</b>		<b>Output 3</b>	
		Amount	%	Amount	%	Amount	%
<b>Investment Costs <sup>(a)</sup></b>							
Civil works	81.8	81.8	100.0%	0.0	0.0%	0.0	0.0%
Capacity building and consultancy services	9.2	0.0	0.0%	2.1	22.8%	7.1	77.2%
Incremental recurrent cost <sup>b</sup>	3.3	0.0	0.0%	0.9	27.3%	2.4	72.7%
Vehicles and other equipment	0.7	0.0	0.0%	0.4	57.1%	0.3	42.9%
<b>Total Base Cost (A)</b>	<b>95.0</b>	<b>81.8</b>	<b>83.7%</b>	<b>3.4</b>	<b>6.0%</b>	<b>9.8</b>	<b>10.3%</b>
<b>Contingencies</b>							
Physical <sup>c</sup>	8.7	7.5	86.1%	0.3	3.5%	0.9	10.3%
Price <sup>d</sup>	3.0	2.5	83.7%	0.2	6.0%	0.3	10.3%
<b>Subtotal(B)</b>	<b>11.7</b>	<b>10.0</b>	<b>83.7%</b>	<b>0.5</b>	<b>6.0%</b>	<b>1.2</b>	<b>10.3%</b>
<b>Financing Charges During Implementation <sup>e</sup></b>							
Interest during implementation	2.3	1.9	83.7%	0.1	6.0%	0.3	10.3%
<b>Subtotal(C)</b>	<b>2.3</b>	<b>1.9</b>	<b>83.7%</b>	<b>0.1</b>	<b>6.0%</b>	<b>0.3</b>	<b>10.3%</b>
<b>Total Project Cost (A+B+C)</b>	<b>109.0</b>	<b>93.7</b>	<b>83.7%</b>	<b>4.0</b>	<b>6.0%</b>	<b>11.3</b>	<b>10.3%</b>

<sup>a</sup>. In March 1, 2014 prices. Exchange rate \$1 = 98.51 NPR

<sup>b</sup> Incremental recurrent costs include bank charges, local transport and insurance

<sup>c</sup> Physical contingencies computed at 10.0% for civil works and 5% for all other costs

<sup>d</sup>. Price contingencies computed on foreign exchange costs at 2.3% for 2014, 1.0% for 2015 and 1.4 % for 2016; and local currency costs at 10.5% for 2014, 9.0% for 2015 and 7.0% for 2016; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>e</sup>. Includes interest computed at 1.00% per year for Asian Development Fund and 2.5% per year for OPEC Fund for International Development.

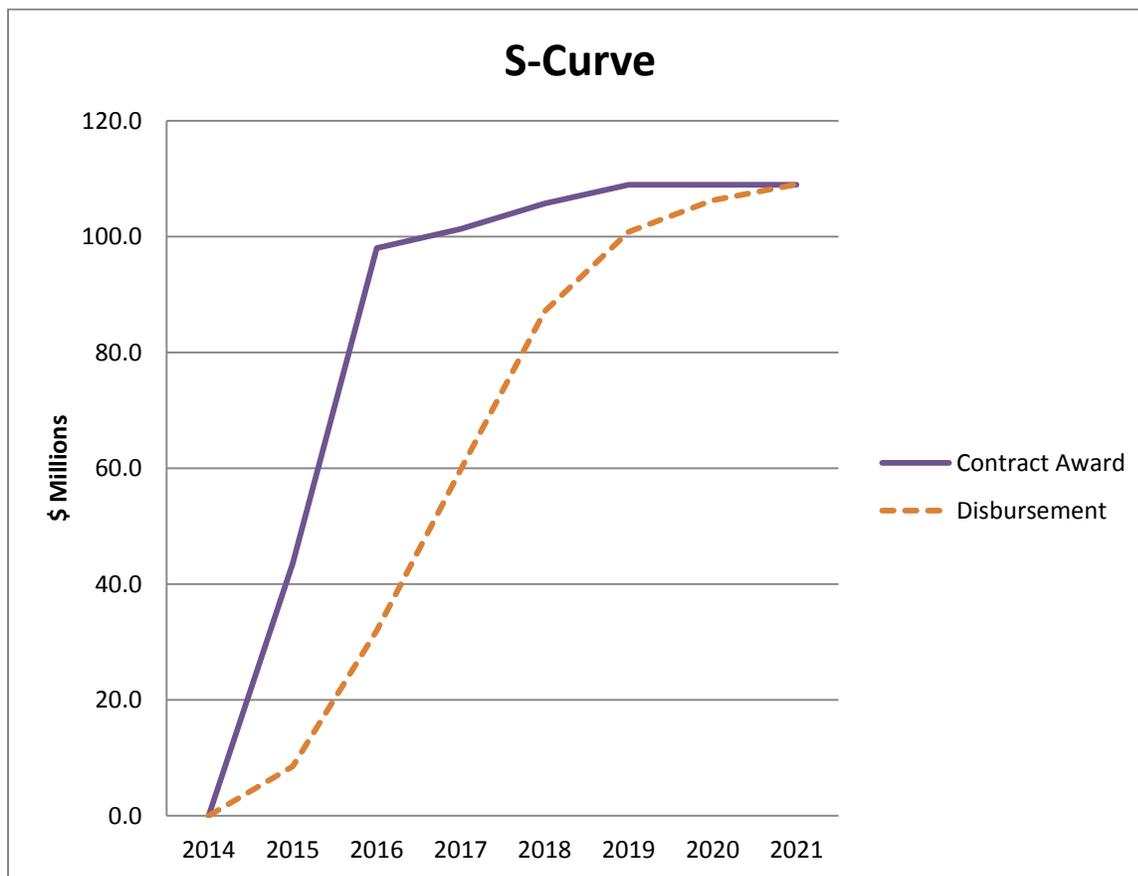
Amount may not add up exactly due to rounding off

Source: Asian Development Bank Estimates

## G. Detailed Cost Estimates by Year

Table 12: Detailed Cost Estimates by Year

		\$ million								
Item	Total Cost	2014	2015	2016	2017	2018	2019	2020	2021	
<b>A. Investment Costs</b>										
1 Civil works	81.8	0.0	4.7	17.7	22.0	21.2	10.1	4.1	2.0	
2 Capacity building and consultancy	9.2	0.0	2.3	2.6	1.8	1.4	0.3	0.5	0.3	
3 Incremental recurrent cost	3.3	0.0	0.6	0.6	0.6	0.7	0.5	0.2	0.1	
4 Vehicles and other equipment	0.7	0.0	0.5	0.2	0.0	0.0	0.0	0.0	0.0	
<b>Total Base Cost</b>	<b>95.0</b>	<b>0.0</b>	<b>8.1</b>	<b>21.1</b>	<b>24.4</b>	<b>23.3</b>	<b>10.9</b>	<b>4.8</b>	<b>2.4</b>	
<b>B. Contingencies</b>	11.7	0.0	0.3	2.2	3.0	3.4	1.9	0.6	0.3	
<b>C. Financing charges during implementation</b>	2.3	0.0	0.0	0.1	0.3	0.7	1.0	0.1	0.0	
<b>Total Project Costs (A+B+C)</b>	<b>109</b>	<b>0.0</b>	<b>8.4</b>	<b>23.4</b>	<b>27.7</b>	<b>27.4</b>	<b>13.8</b>	<b>5.5</b>	<b>2.7</b>	
<b>% of Total Project Cost</b>	100.0%	0%	7.7%	21.6%	25.4%	25.1%	12.6%	5%	2.5%	

**H. Contract and Disbursement S-curve**

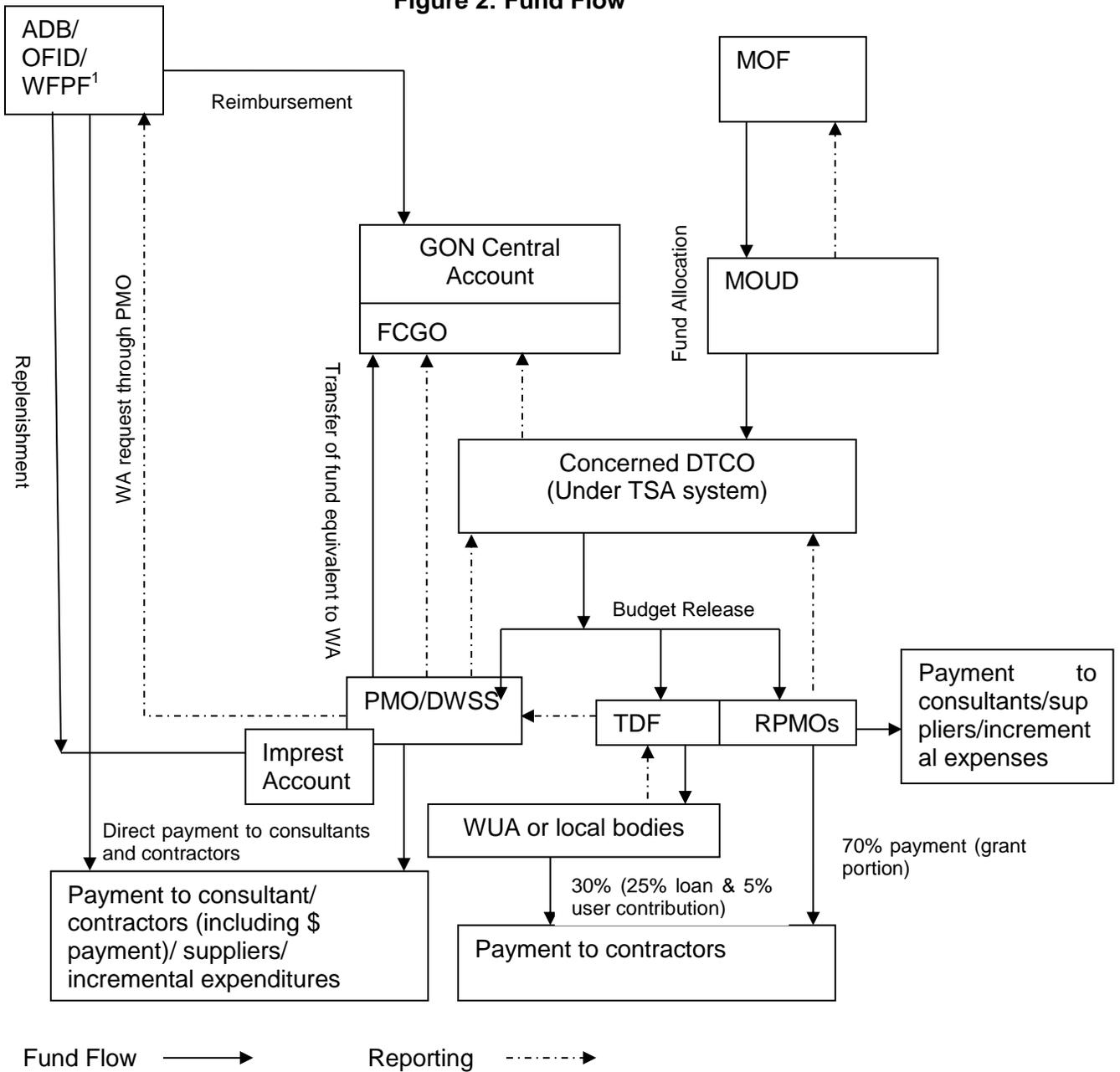
Implementation period = October 2014 to 31 January 2021 (6 years)

Physical completion = 31 January 2021

Loan closing (account) = 31 July 2021

I. Fund Flow Diagram

Figure 2: Fund Flow



Note<sup>1</sup>: OFID Loan will only be disbursed using the reimbursement modality. Direct payment and Imprest account will not be used for OFID loans. Since ADB is administering WFPF funds, the fund flow is the same for WFPF. Also for the WFPF funds, both direct payment and the imprest account modality will not be used.

ADB = Asian Development Bank, DTCO = District Treasury Controller Office, DWSS = Department Water Supply and Sewerage, FCGO = Financial Comptroller General Office, GON = Government of Nepal, MOF = Ministry of Finance, OFID = OPEC Fund for International Development, PMO = project management office, RPMO= Regional Project Management Office, TDF = Town Development Fund, WUA = Water User's Associations.

## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

15. Financial management assessment was undertaken for the Department Water Supply and Sewerage (DWSS), Town Development Fund (TDF) and the Water User's Associations (WUAs) in accordance with ADBs *Guidelines on Financial Management and Analysis of Projects* and focused on internal controls, budgeting, financial reporting and monitoring, staffing, and audit arrangements. The overall risk for the project is rated as substantial. Although certain risks were identified, with proposed mitigating measures, the financial management arrangements are considered adequate. Mitigating measures to reduce risk include (i) agreement of a detailed Statement of Audit Needs for the Project; (ii) recruitment of dedicated qualified accountants for each WUA; (iii) enter into clear management agreements with WUAs; (iv) TDF to oversee project sub project appraisals; and (v) providing support to WUAs for their MIS systems. Key findings are summarized below.<sup>24</sup>

#### 1. DWSS

16. On behalf of the MOUD, DWSS will execute the project. DWSS has satisfactory financial management systems in place, and has recently completed implementation of the first project in 29 small towns of Nepal. Further, DWSS is also currently implementing the second project in 21 towns and has adequate experience in implementing externally funded projects. The regular financial administration functions of the project will be carried out by the Financial Administration Unit in the Project Management Office (PMO). Financial Comptroller General Office (FCGO) will provide a competent account officer and an assistant to the project (PMO and RPMOs). The project will follow the standard government accounting system directed by the FCGO which is a cash basis of accounting. District Treasury Control Officer under the FCGO is responsible for internal audit of DWSS/PMO. The statutory audit of DWSS and PMO is conducted after the end of each fiscal year by the Office of the Auditor General of Nepal (OAGN). Audit is conducted in accordance with national auditing standards of Nepal which are in line with International Standards for Supreme Institutions (ISSAI). There is no computerized financial management system. A Statement of Audit Needs (Appendix 8) has been prepared and agreed with the OAGN for the audit of the project financial statements Similarly, DWSS has agreed to engage financial management specialists for the PMO and the Regional Project Management Offices (RPMOs).

#### 2. Town Development Fund (TDF)

17. The TDF has satisfactory financial management arrangements and project accounting systems in place. The TDF has not only handled the loan portion of the first and second projects, it is also handling the loan portion of ADB supported Urban Environmental Improvement Project (Loan 1966-NEP) as well as other externally funded projects in the urban sector. A portion of the funds provided by the Government, ADB, and OFID for the project will be re-lent to the TDF (footnote 21) by the Government under a subsidiary loan agreement on terms and conditions acceptable to ADB, which will be in accordance with the standard operating procedure (SOP) established for the Project between DWSS and TDF. Financial transactions are accounted on accrual basis of accounting following generally accepted business accounting practices. TDF has adequate policies and procedures governed by the

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<sup>24</sup> Detailed financial management assessment can be accessed from linked document (Appendix 2) of the proposed RRP.

TDF Act 1997 and Regulation; Financial Management Byelaws; Loan and Grant Policy; Employees Service By-Laws and Accounting Manual. The internal audit is being conducted by qualified and experienced internal auditors hired by the TDF Board on a contractual basis. External audit of TDF is conducted by an independent “class A” registered auditor appointed by the TDF Board as per the recommendation of OAGN in accordance with the TDF Act. The audit report of FY 2012 for the second project raised an issue relating to the weak loan recovery of the first and the second loans. This issue is being addressed under the project by setting affordable tariffs and a higher ratio of grants at 70%.<sup>25</sup> The financial management system is computerized using micro banking software.

### 3. Water User Association/ Local Bodies

18. The WUAs or the local bodies, depending on the town’s situation and local bodies’ capacity, are responsible for operation and maintenance (O&M) of the water and sanitation facilities constructed under the project. They are also responsible for repaying the debt to the TDF. O&M expenses and debt servicing are recovered through tariffs. The WUAs are managed by an elected body, the WUSCs. The TDF will provide support in accounting and financial management. DWSS’s ISSAU will also conduct the same and assist them in computerized billing and collection.

#### B. Disbursement

19. The Loan proceeds including OFID’s co-financing loan, partially administered by ADB,<sup>26</sup> on a parallel basis, will be disbursed in accordance with ADB’s *Loan Disbursement Handbook* (2012, as amended from time to time),<sup>27</sup> and detailed arrangements agreed upon between the Government and ADB.

20. The PMO will, immediately after loan effectiveness, establish an imprest account for the ADB Loan at the Nepal Rastra Bank.<sup>28</sup> The currency of the imprest account will be US dollars, to be managed by the PMO. The request for advance to the imprest account should be accompanied by an Estimate of Expenditures Sheet<sup>29</sup> setting out the estimated expenditures for the forthcoming six (6) months of project implementation. The total outstanding advance should not exceed 10% of the loan. For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (a) Statement of Account (Bank Statement) where the imprest account is maintained, and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against the PMO’s records.<sup>30</sup>

21. The statement of expenditures (SOE) procedure will be adopted for reimbursement and liquidation and replenishment of the imprest account. Any individual payments to be reimbursed or liquidated under SOE procedure will not exceed the equivalent of \$100,000. Payments in excess of the SOE ceiling should be accompanied by full supporting documentation. SOE records should be maintained and made readily available for review by ADB and for

<sup>25</sup> In case of extreme hardship and high terrain, lack of alternative water supply means, generating lower affordability, the government may consider higher grant portion.

<sup>26</sup> ADBs partial administration for OFID loan includes disbursement supervision services, e.g. review of withdrawal application and advising OFID to make the necessary payment

<sup>27</sup> Available at: <http://www.adb.org/sites/default/files/loan-disbursement-handbook.pdf>. Original WAs shall be sent to both OFID and ADB. ADBs partial administration for OFID loan includes disbursement supervision services, e.g. review of withdrawal application and advising OFID to make the necessary payment.

<sup>28</sup> ADB loan may finance bank charges.

<sup>29</sup> Available in Appendix 10B of the *Loan Disbursement Handbook*.

<sup>30</sup> Follow the format provided in Appendix 10C of the *Loan Disbursement Handbook*.

independent audit.<sup>31</sup> Procedures for establishing and operating the imprest account and SOE procedures are detailed in the Loan Disbursement Handbook (2012, as amended from time to time).

22. Some payments to the contractors and consultants will be made directly by ADB, for which PMO will be required to submit approved invoices and other documents to ADB in accordance with ADB's Loan Disbursement Handbook. Such direct payment procedure will be used whenever practical and efficient.

23. The PMO will open an imprest account and TDF will open dedicated project account at a commercial bank. DWSS, in consultation with PMO, will prepare the annual budget based on the policy of the medium-term expenditure framework of the Government.<sup>32</sup> Similarly, the TDF will also prepare the annual budget for loan to WUAs. The Government has generally been practicing pre-financing the ADB/co financier share of funds, through budget transfers, for the small towns and municipal projects. For reimbursing eligible project expenditure to the Government, the reimbursement procedure will be followed. For the Project, the District Treasury Control Office (DTCO) of Kathmandu will pay the contractors/ consultants the required amount based on the payment order requested by PMO. For the loan portion managed by TDF, TDF will disburse required amount in accordance with the SOP agreed between DWSS and TDF for the Project to the concerned WUAs or local bodies nominated account upon receipt of payment advice from the PMO for each town/subproject. WUAs or local bodies will make arrangements for their contribution and deposit their share in a separate account for the project. For each civil works contract, payment to the contractor is carried out by the RPMO (70% or as applicable) and WUAs or local bodies (30% or as applicable). Towns will be assigned to either OFID or ADB funds prior to signing of the management agreement with the WUA or local bodies by DWSS, so that only one external financier pays against individual withdrawal applications for each town.

24. Prior to the first disbursement of the loan in respect of any civil works and goods with respect to output 1: (i) the subsidiary loan agreement, satisfactory to ADB, will have been duly executed and delivered between the MoF and TDF; and (ii) the standard form of subproject financing agreement, satisfactory to ADB, will have been finalized by TDF and sent to ADB for no objection.<sup>33</sup>

25. The PMO will submit to ADB, annual contract awards and disbursement projections before the start of each calendar year using the ADB's standard templates (being used for the second project) including separate ones for OFID funds. PMO is responsible for (i) requesting budgetary allocations for counterpart funds for both PMO and RPMOs, (ii) collecting supporting documents for the project, and (iii) preparing and sending withdrawal applications to ADB.

26. Before submission of the first withdrawal application, PMO will submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is US\$100,000, unless otherwise approved by ADB. Individual payments below this amount should generally be paid from the imprest account or by the EA/IA and subsequently claimed to ADB through reimbursement. ADB reserves the

<sup>31</sup> Checklist for SOE procedures and formats are available at: <http://www.adb.org/documents/loan-disbursement-handbook>

<sup>32</sup> Ministry of Finance. 2002

<sup>33</sup> This disbursement condition applies to Category 1a (Civil works- Water supply and sanitation systems) in Table 7 of the PAM

right not to accept WA's below the minimum amount.

### **C. Accounting**

27. The DWSS and TDF will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project. The DWSS will prepare consolidated project financial statements (PFSs) in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices. PFSs shall include at a minimum, a statement of receipts and payments with accompanying notes and schedules. PFS shall include all expenditure incurred under the loan portion as well as the grant portion of the project. These shall be prepared to ensure maximum alignment to Government of Nepal's Financial Procedures, Act and Rules. Consolidated financial statements refer to the consolidation of individual financial statements of each cost centre, i.e. WUAs or local bodies of each town and DWSS. PFS shall include all sources of funds for the project including ADB loan, OFID loan and WFPF grant, WUA or local body contributions and Government's counterpart funding regardless of whether on-lent through TDF as a loan or provided as a grant through DWSS.

### **D. Auditing and Public Disclosure**

28. The DWSS will cause the detailed consolidated<sup>34</sup> PFSs to be audited in accordance with International Standards on Auditing or International Standards for Supreme Audit Institutions and with the Government's audit regulations, by an independent auditor acceptable to ADB. As the constitutionally mandated supreme audit institution, it is expected that the OAGN shall conduct the audit. The APFSs will be submitted in the English language to ADB no later than 9 months after the close of FY2015 and FY 2016, 8 months after the close of FY2017 and FY 2018, and 6 months after the close of FY2019 and FY 2020.<sup>35</sup>

29. The annual audit report for the PFSs will include audit opinions which cover (i) whether the APFSs present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loans and grant proceeds were used only for the purposes of the project or not; (iii) the level of compliance for each financial covenant contained in the legal agreements for the project; (iv) use of the imprest fund procedure; and (v) the use of the statement of expenditure procedure certifying to the eligibility of those expenditures claimed under SOE procedures, and proper use of the SOE and imprest procedures in accordance with ADB's Loan Disbursement Handbook and the project documents. A management letter shall also be provided. In addition, TDF shall also submit a copy of their annual audited entity level financial statements in English within one month of their approval by their governing authority. TDF's auditors shall also certify compliance with financial covenants in the loan agreement relating to TDFs financial performance.

30. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor. DWSS will ensure that unaudited PFSs are provided to OAGN on a timely basis and no later than 5 months after the end of the fiscal year.

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<sup>34</sup> Consolidated refers to activities across all town

<sup>35</sup> Extension on a reducing scale is being given to DWSS due to the need for consolidating financial data across multiple towns and cost centers spread-out in Nepal, without full integrated computerized systems.

31. The Government, MOUD, DWSS, and TDF have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the APFS.<sup>36</sup> ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

32. Public disclosure of the PFSs, including the audit report on them, will be guided by ADB's Public Communications Policy (2011).<sup>37</sup> After review, ADB will disclose the APFSs for the project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website. The management letter will not be disclosed.

## VI. PROCUREMENT AND CONSULTING SERVICES

### A. Advance Contracting and Retroactive Financing

33. MOUD has requested advance contracting for recruitment of consultants and procurement of civil works. MOUD has also requested retroactive financing for establishment and operation of PMO and RPMOs. All advance contracting and retroactive financing will be undertaken in conformity with ADB's *Procurement Guidelines*<sup>38</sup> (March 2013, as amended from time to time) and ADB's *Guidelines on the Use of Consultants*<sup>39</sup> (March 2013, as amended from time to time). The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The MOUD and DWSS have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the Project. MOUD and DWSS will convey this to the participating WUAs or local bodies prior to utilizing advance contracting and retroactive financing. Retroactive financing will be up to 10% of the ADB loan amount for eligible expenditures incurred prior to the effectiveness of the financing agreement but not earlier than 12 months prior to the signing of the financing agreement.

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

34. All procurement of goods and works will be undertaken in accordance with ADB's *Procurement Guidelines*. ADB's Procurement guidelines will also apply to expenditure incurred under OFID loan. International competitive bidding (ICB) procedures will be used for any civil works contract estimated to cost more than \$1 million, and any goods contract estimated to cost

<sup>36</sup> ADB Policy on delayed submission of audited project financial statements:

- When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- When audited project financial statements have not been received within 6 months after the due date (9 months in the case of this particular project), ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.
- When audited project financial statements have not been received within 12 months after the due date, ADB may suspend the loan.

<sup>37</sup> Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

<sup>38</sup> Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>

<sup>39</sup> Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>

more than \$500,000, National competitive bidding (NCB) procedures will be used for any civil works contract estimated to cost \$1 million or less and any goods contract estimated to cost \$500,000 or less. Shopping will be used for any civil works or goods contract estimated to cost less than \$100,000. Community participation will be used for civil works and goods contracts estimated to cost less than \$10,000. Community participation<sup>40</sup> will be used for very small contracts to be carried out by the local community and contractors or WUA or local bodies for works such as fencing, preparation of drying beds for sludge, etc. The Government may opt for the e-bidding system developed by the Public Procurement Monitoring Office in NCB contracts. As ADB is administering cofinancing resources for operations financed by the ADF resources, universal procurement will apply to all procurement packages to be financed under this Project.

35. Before the start of any procurement ADB and the Government will review the public procurement laws to ensure consistency with ADB's *Procurement Guidelines*. The first NCB contract and shopping for works and goods under the project will be subject to prior review by ADB. Procurement capacity assessment of the MOUD and DWSS indicates that they have adequate human and physical resource in carrying out procurement works by administering about nine ADB-funded projects in the past.

36. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

37. All consultants will be recruited according to ADB's *Guidelines on the Use of Consultants* (footnote 39).<sup>41</sup> The terms of reference for all consulting services are detailed in Section D.

### C. Procurement Plan

38. A procurement plan (**Appendix 3**) was prepared in accordance with ADB's template and using country specific NCB annex (Section C). The procurement plan indicates threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines. The procurement plan provides: (i) a list of goods, works, and consulting services contract packages that will be processed over the next 18 months with milestone dates for activities; (ii) the proposed methods for procurement of such contracts that are permitted under the loan agreement; and (iii) the related ADB review procedures. The procurement plan will be updated by the PMO for approval by ADB, at least annually, and more frequently if necessary, and should cover the next 18 months of procurement activity. A delay in loan effectiveness, other start-up delays, and delays during implementation will require an unscheduled procurement plan update. ADB will review each updated procurement plan prior to its publication.

### D. Consultant's Terms of Reference

39. An outline terms of reference for all consultant contracts is included in **Appendix 4**.

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<sup>40</sup> community participation will be implemented in accordance with Project Administration Instruction (PAI) Number 5.10 of ADB.

<sup>41</sup> Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>

## VII. SAFEGUARDS

40. **Environmental.** Three draft initial environmental examinations (IEEs) with environmental management plans (EMPs) are prepared, for sample subprojects in accordance with ADB's Safeguard Policy Statement (SPS) (footnote 42), 2009, and government laws. The draft IEEs will be finalized and submitted to ADB for review, approval, and disclosure during detailed engineering design. An Environmental Assessment and Review Framework (EARF) is prepared, to guide the preparation and assessment of subprojects in subsequent phases of the project. The following implementation arrangement will be established to ensure implementation of environmental safeguards compliance during project implementation.

**A. PMO.** The environmental safeguards officer of the PMO will receive support from the environmental safeguards expert of the Design Review and Technical Audit Consultants (DRTAC) to conduct the following activities:

- (i) review and confirm existing IEEs and EMPs are updated based on detailed designs, that new IEEs/EMPs prepared by DSMCs are in accordance with the EARF and government rules; and recommend for approval to PMO;
- (ii) confirm EMPs are included in bidding documents and civil works contracts;
- (iii) provide oversight on environmental management aspects of subprojects and ensure EMPs are implemented by RPMOs and contractors;
- (iv) establish a system to monitor environmental safeguards of the project including monitoring the indicators set out in the monitoring plan of the EMP;
- (v) facilitate and confirm overall compliance with all Government rules and regulations regarding site and environmental clearances as well as any other environmental requirements as relevant;
- (vi) supervise and provide guidance to the RPMOs to properly carry out the environmental monitoring and assessments as per the EARF;
- (vii) review, monitor and evaluate effectiveness with which the EMPs are implemented, and recommend necessary corrective actions to be taken;
- (viii) consolidate monthly environmental monitoring reports from RPMOs and submit semi-annual monitoring reports to ADB;
- (ix) ensure timely disclosure of final IEEs/EMPs in project locations and in a form accessible to the public; and
- (x) address any grievances brought about through the Grievance Redress Mechanism (GRM) in a timely manner as per the IEEs.

**B. RPMOs.** The environmental officer assigned by DWSS to the RPMOs will receive support from (i) the PMO environmental officer, (ii) environmental specialist from DRTAC; and (iii) the environmental specialist and EMP monitors of the regional DSMCs to carry out the following:

- (i) prepare new IEEs and EMPs in accordance with the EARF and government rules;
- (ii) include EMPs in bidding documents and civil works contracts;
- (iii) comply with all government rules and regulations;
- (iv) take necessary action for obtaining rights of way;
- (v) oversee implementation of EMPs including environmental monitoring by contractors;
- (vi) take corrective actions when necessary to ensure no environmental impacts;
- (vii) submit monthly environmental monitoring reports to PMO; and
- (viii) address any grievances brought about through the Grievance Redress Mechanism in a timely manner as per the IEEs.

41. **Social.** One draft resettlement plan (RP) and two social safeguard due diligence reports (DDR) are prepared for the sample subprojects, in accordance with ADB's Safeguard Policy Statement (SPS), 2009, and government laws. The draft RP will be finalized and submitted to ADB for review, approval, and disclosure following the completion of final detail design. A Resettlement Framework (RF), and Indigenous People Planning Framework (IPPF), were prepared to guide the preparation and assessment of subprojects in subsequent phases of the project. The following implementation arrangement will be established to ensure implementation of social safeguards compliance during project implementation.

**A. PMO.** The social safeguards officer of the PMO will receive support from the social safeguards expert of the DRTAC to conduct the following activities:

- (i) ensure that the RF provisions are adhered to and the RPs are updated based on detailed designs, and that new RP/IPPs or social safeguards DDRs, as required, are prepared in accordance with the RF, IPPF and government rules;
- (ii) review, approve, RPs or social safeguards DDRs for new subprojects with support from the social safeguards expert of PMC;
- (iii) provide oversight on social safeguards policy compliance of subprojects and ensure RPs and IPPs are timely implemented by regional project management offices (Eastern RMO and Western RMO) prior to the start of civil works;
- (iv) supervise and provide guidance to the RMOs to properly carry out the monitoring and assessments as per the RF and IPPF;
- (v) consolidate monthly environmental monitoring reports from RMOs and submit semi-annual monitoring reports to ADB. The monitoring reports should record the progress of resettlement activities and any compliance issues, grievances, corrective actions taken, follow-up actions required and status of compliance with relevant loan covenants.
- (vi) ensure timely disclosure of final RPs/IPPs in project locations and in a form accessible to the public; and
- (vii) ensure any grievances brought about through the GRM are addressed in a timely manner as per the RPs and IPPs.

**B. RMOs.** The social officer appointed and deputed by DWSS to the RMOs will receive support from; (i) the PMO social officer; and (ii) the social specialist and the social mobilizers of the regional DSMC teams to carry out the following:

- (i) review, update prepared draft RPs upon completion of detail design;
- (ii) screen impacts and prepare new RPs and IPPs in accordance with RF/IPPF and government rules;
- (iii) engage in ongoing meaningful consultations with stakeholders and affected persons particularly through implementation of the consultation and participation;
- (iv) ensure provision of timely payments to the affected persons by the WUA before displacement/impact occurs in project sites ready for construction;
- (v) oversee implementation of RPs and/or by WUAs;
- (vi) advise and take corrective actions when necessary to minimize/avoid social safeguards impacts;
- (vii) submit monthly social safeguards monitoring reports to PMO;
- (viii) establishment of Grievance Redress Committee (GRC) at village development committees (VDC)/Municipality level and address any grievances brought about through the GRM in a timely manner; and
- (ix) Act as focal person for Municipality/VDC level of GRM process.

42. **Safeguards compliance during construction.** EMPs for all civil works will be included in bidding and contract documents, to be reviewed and verified by the PMO and RPMOs. The contractor will be required to designate an environment supervisor to ensure implementation of EMP during civil works. Contractors are to carry out all environmental mitigation and monitoring measures outlined in their contract. The Government will ensure that bidding and contract documents include specific provisions requiring contractors to comply with all: (i) applicable labor laws and core labor standards on (a) prohibition of child labor as defined in national legislation for construction and maintenance activities, on (b) equal pay for equal work of equal value regardless of gender, ethnicity or caste, and on (c) elimination of forced labor; and (ii) the requirement to disseminate information on sexually transmitted diseases including HIV/AIDS to employees and local communities surrounding the project sites. Contractors will only start the civil works activities in the section/subproject sites that have completed RP/IPP and after receiving clearance from the WUA or local bodies and endorsed by RPMO's social officer.

43. **Capacity Building.** The DRTAC's safeguards experts (environmental and social) will be responsible for training the (i) PMO's safeguards officers (environmental and social); (ii) RPMOs' engineers and social development officers. Training modules will need to cover safeguards awareness and management in accordance with both ADB and government requirements as specified below:

**1. Environmental Safeguards**

- (i) sensitization on ADB's policies and guidelines on environment;
- (ii) introduction to environment and environmental considerations in water supply and wastewater projects;
- (iii) review of IEEs and integration into the project detailed design;
- (iv) improved coordination within nodal departments; and
- (v) monitoring and reporting system. The contractors will be required to conduct environmental awareness and orientation of workers prior to deployment to work sites.

**2. Social Safeguards**

- (i) sensitization on ADB's policies on Involuntary Resettlement and Indigenous People;
- (ii) introduction to social safeguards assessment and document requirements;
- (iii) Consultation and participations requirements;
- (iv) Project GRM and ADB's Accountability Mechanism (AM); and
- (v) monitoring and reporting system.

44. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS),<sup>42</sup> ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth in the SPS.

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<sup>42</sup> Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

### VIII. GENDER AND SOCIAL DIMENSIONS

45. The project will implement socially inclusive and gender-focused interventions. The project will cover 100 percent poor and vulnerable households, including female-headed households and indigenous peoples in proposed coverage areas in project towns, with individual water connections and toilets, which is anticipated to lead to economic benefits. The framework for inclusion of poor and vulnerable prepared for the Project will ensure targeted coverage of all poor and vulnerable households through a 100% upfront grant for household water supply connections and 90% grant through Output based aid for individual toilets. These subsidies for water connections/installation of toilets will ensure affordability and access to improved service, while lifeline tariffs for water supply will ensure affordability of water user charges. The Gender Equality and Social Inclusion (GESI) Action Plan prepared for the Project, shown in Table 13, will ensure that gender and social activities are implemented and monitored at regular intervals. Project will not only empower women through facilitated access to affordable water and sanitation services, it will also provide training and capacity building through leadership training of the female WUAs or local bodies' executive members and livelihood enhancement training to at least one female member from all identified poor, female-headed and vulnerable households. As part of the WASH campaign, the sanitation strategy developed for the towns will also promote girls' menstrual hygiene awareness, among others.

46. Data, disaggregated by sex, ethnicity, and social and economic background will be collected within one year of the regular intervals to help establish baseline figures to track social and gender equality results as the project progresses. The MOUD has recently formulated operational guidelines for GESI, meant to be an integral part of each and every project and program in their operation. To monitor GESI, a Social Coordination Section (SCS) has been established in MOUD, supported by a team of GESI consultants. Also, in DWSS, a Community Mobilization Section and GESI cell has been established with responsibility of monitoring GESI mainstreaming in DWSS operations. The Section supervises and monitors implementation of GESI action plan of different projects. It coordinates with GESI Unit of MOUD for technical advice on regular basis. The DWSS reports on GESI progress to MOUD in its regular trimester progress report. A monthly meeting is held between GESI Unit, MOUD and GESI Cell of DWSS. Given this strong policy and institutional context, the project is expected to yield significantly positive benefits for women, excluded and the poor which is summarized in the GESI Action Plan for the project.

47. While MOUD's SCS will provide overall country level policy guidance on GESI activities, DWSS's GESI Unit will provide direct implementation-level guidance to the DSMC GESI consultants. Reporting on GESI action plan will be prepared by the DSMC to the PMO, who will submit it to ADB, GESI Unit of DWSS and SCS as required.

48. The Framework for Inclusion of Poor and Vulnerable Households for the project is included in **Appendix 5**.

**Table 13: Gender Action Plan: Gender Equality and Social Inclusion (GESI) Action Plan**

Activities	Indicators and Targets	Responsibility	Time
<b>Output 1: Improved Water Supply and Sanitation infrastructure</b>			
1.1 Include women, poor and vulnerable in orientation and consultation sessions including: potential implementation and resettlement issues, connection charges, tariffs, subsidies for poor households (HHs), employment opportunities/benefits (including skills training) and livelihood enhancement	<ul style="list-style-type: none"> <li>• Women and vulnerable [Target: 33% of total] participate in project orientation and consultations in each <i>tole</i> and ward and focused group discussions (FGDs) [Target: 1/poverty cluster of town].</li> <li>• Women-only project orientation seminars conducted [Target: 2 per town, with participation of 50 women from all walks session]</li> </ul>	<ul style="list-style-type: none"> <li>• RPMOs supported by DSMCs</li> </ul>	Years 1–2
1.2 Conduct public awareness campaigns on water, sanitation, and hygiene (WASH), gender and social inclusion (GESI) issues, women’s empowerment including livelihood enhancement and leadership, environmental management and declaring the town open defecation free (ODF)	<ul style="list-style-type: none"> <li>• At least 78,000 beneficiary HHs of new water supply connections and 20,300 beneficiary HHs of toilet facilities covered under WASH and public awareness campaigns in project towns [Target: at least 80% poor, FHH and vulnerable HHs]</li> <li>• <i>Sanitation strategy</i> developed as part of the WASH campaign–incl. girl’s menstrual health and involves community and school children [Target: at least 3 schools/year in all project towns]</li> <li>• Livelihood enhancement training provided to at least one female from the 20,300 targeted HH of toilet facilities and all female WUA executive members</li> <li>• Billboards to advocate benefits to women’s access to sanitation and hygiene set up, with focus on addressing <i>Chhaupadi pratha</i> (taboo of menstruation) practices and ODF campaign [Target: 3 billboards per town in mid- and far-western towns]</li> </ul>	<ul style="list-style-type: none"> <li>• RPMOs supported by DSMCs</li> </ul>	Year 2–4
1.3 Provide free/ subsidized piped water connections and private toilet facilities to poor, female-headed households (FHH) and vulnerable HHs in all serviced areas of the project towns	<ul style="list-style-type: none"> <li>• Poverty, ethnicity, and HH headship mapped in socio-economic survey in all project towns; and roster of poor, FHH and vulnerable HHs maintained at RPMOs</li> <li>• Implement the targeting mechanism, as outlined in the ‘Framework for Inclusion of Poor and Vulnerable Households’ for the project (Appendix 6), to ensure identification of poor and vulnerable for free/subsidized water supply connections</li> <li>• 100% poor, FHH and vulnerable HHs included in the 78,000 targeted HHs to be connected to water supply systems</li> </ul>	PMO/RPMOs, consultants, WUA or local body,	Years 2–5

	<ul style="list-style-type: none"> <li>All poor, FHHs and vulnerable HHs in project areas provided with free/subsidized toilets are among the targeted 20,800 HHs benefiting from completed and operational toilets</li> <li>One (1) sex segregated public toilet with disabled friendly design installed in strategic places in each town, with women's toilets designed to ensure privacy and safety</li> </ul>		
1.4 Enjoin contractors to employ poor women, vulnerable, affected persons (APs), and indigenous persons (IPs), for skilled and unskilled work, and enforce core labor standards including equal pay for work of equal value and, ensuring occupational health and safety, water supply, segregated shelter, and sanitation facilities for all workers	<ul style="list-style-type: none"> <li>Orientation to all contractors including laborers on labor standards, gender equality in wages, safety and hygiene such as to toilet and safe drinking water in work site, and disaggregated record of labor</li> <li>Sex- and ethnicity-disaggregated record of labor and wages received, maintained by contractors, and verified by DSMC</li> <li>At least 15% of total workers are women employed by contractors in total</li> <li>Relevant clauses on employing women labor and core labor standards, including disincentives for non-achievement are included in contracts; and, enforcement of these clauses included in the terms of reference of DSMC</li> </ul>	<ul style="list-style-type: none"> <li>PMO</li> <li>RPMOs</li> <li>local body or WUAs</li> <li>DSMC</li> <li>Contractors</li> </ul>	Year 1-5
<b>Output 2: Strengthened sector policy, regulatory and institutional capacity and service delivery</b>			
2.1 Community Mobilization Section (CMS) at DWSS oversees implementation, enforcement and monitoring of GESI mainstreaming in WASH sector including project GESI Action Plan	<ul style="list-style-type: none"> <li>CMS functions as GESI desk as per MOUD GESI Guidelines</li> <li>GESI analytical reports and policy briefs prepared and published annually</li> <li>CMS engaged in project GESI Action Plan monitoring in review missions</li> <li>Fact sheets on women and vulnerable produced, updated yearly with indicators on representation and participation by women and vulnerable in all project towns</li> </ul>	<ul style="list-style-type: none"> <li>PMO/DWSS</li> </ul>	Year 1-5
2.2 DWSS's long-term plan and business plan engendered	<ul style="list-style-type: none"> <li>GESI approaches, interventions, targets and resources integrated in the <i>15 Year Small Towns Water Supply and Sanitation Development Plan</i> and <i>DWSS Business Plan</i> in coordination with MOUD GESI Unit and ISSAU of DWSS</li> <li><i>DWSS Results Framework</i> includes GESI targets</li> </ul>	<ul style="list-style-type: none"> <li>PMO and DWSS</li> </ul>	
2.3 Include/recruit potential women and persons from socially excluded groups in PMO, RPMOs, DSMCs by enforcing through selection criteria of consulting firms	<ul style="list-style-type: none"> <li>Women's and socially excluded groups' representation in PMO and RPMOs [Target: at least 15% of project staff are women or persons from socially excluded groups]</li> <li>DSMC community mobilisers per town are women [Target: at least 50%]</li> </ul>	<ul style="list-style-type: none"> <li>PMO</li> <li>RPMOs</li> <li>PMC, DSMCs</li> </ul>	Year 1-3
2.4 Represent women and excluded in WUAs' executive	As per MOUD GESI Guideline-	<ul style="list-style-type: none"> <li>PMO</li> </ul>	Year 1-3

committees and enhance their leadership development	<ul style="list-style-type: none"> <li>• At least 33% women in WUA executive committees, who will be trained in leadership and livelihood enhancement as well as GESI training of trainers</li> <li>• Proportionate representation in WUAs' executive committees from socially excluded and poverty clusters</li> </ul>	<ul style="list-style-type: none"> <li>• RPMOs</li> <li>• DSMCs</li> </ul>	
2.5 Conduct GESI training of trainers for select WUA members, leadership training for all female WUA executive committee members and GESI training for all project staff of PMO, RPMOs, DSMCs, and project contractors, as well as concerned officials and staff of DWSS with focus on WASH sector.	<ul style="list-style-type: none"> <li>• Master trainers (40) on GESI developed selecting from WUA members (2 for each project town), and mobilized in WUA</li> <li>• All female executives of WUA trained in leadership, livelihood enhancement and utility management</li> <li>• PMO, RPMOs, DSMC and contractors oriented on GESI [Target: all towns (at least 20 events)]</li> <li>• DWSS staff oriented on GESI in WASH sector [Target: at least 80% of staff in all concerned offices of DWSS]</li> </ul>	<ul style="list-style-type: none"> <li>• PMO/DWSS</li> <li>• DSC</li> <li>• Contractors</li> </ul>	Year 1-2
2.6 Develop, test and implement comprehensive and participatory <i>Social Audit Guidelines</i>	<ul style="list-style-type: none"> <li>• Participatory annual social audits conducted in project towns [Target: 30% participation of women and vulnerable/under-represented groups], using social audit guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• PMO Consultants</li> </ul>	Year 2-5
<b>Output 3: Improved project implementation.</b>			
2.7 Monitor and report progress on implementation of the GESI Action Plan during the project implementation	<ul style="list-style-type: none"> <li>• Project information format developed, with GESI items covering resettlement, compensation, core labor standards, women's participation and benefits, as part of regular project reporting</li> <li>• PPMS developed with GESI indicators, and regularly updated with sex-disaggregated data</li> </ul>	<ul style="list-style-type: none"> <li>• PMO, RPMOs</li> <li>• CMS, ISSAU</li> <li>• SEIU, MOUD</li> </ul>	Year 1-5

ADB=Asian Development Bank, AP = affected persons, CBO=community based organization, DSMC=design, supervision and management consultants, DWSS= Department Water Supply and Sewerage, FHH=female headed household, GESI=gender equality and social inclusion, GPSC=GESI policy support unit, IP=indigenous peoples, ISSAU= institutional support and service advisory unit, MOUD=Ministry of Urban Development, NGO=non-government organization, O&M= operation and maintenance, PISU=project implementation support unit, PMO=project management office, PPMS=project performance monitoring system, RPMO = regional project management office, SCC=social coordination cell, WASH = water, sanitation, and hygiene

## IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

### A. Project Design and Monitoring Framework

49. The design and monitoring framework (DMF) of the project is in **Appendix 1**.

### B. Monitoring

50. **Project performance monitoring.** Within 6 months of loan effectiveness, the PMO will establish a project performance management system using the targets, indicators, assumptions, and risks in the DMF. The PMO with the support of DRTAC will incorporate the DMF into a Monitoring and Evaluation (M&E) framework taking into account other relevant monitoring parameters in addition to those included in the DMF. The baseline data corresponding to indicators and targets set out in the DMF and M&E framework will be gathered by PMO, with support from RPMO and regional DSMCs during detailed design stage of each town, disaggregated by income levels, sex, caste, and ethnicity. Based on the M&E framework which incorporates the initial baseline data, the PMO will conduct annual monitoring using the same indicators and submit the reports to ADB throughout project implementation. Results of a comprehensive completion survey will be included in the project completion report. PMO's quarterly reports will also provide information necessary to update ADB's project performance reporting system.<sup>43</sup>

51. **Compliance monitoring.** PMO on behalf of MOUD will monitor compliance of loan and grant covenants, including that relating to policy, legal, financial, economic, environmental, and others and ensure compliance with loan covenants and assurances. All non-compliance issues, if any, will be updated in quarterly progress reports together with remedial actions. PCC and ADB review missions (at least twice a year) will also monitor the status of compliance with loan and grant covenants and raise the noncompliance issues with the MOF and MOUD and agree on remedial actions.

52. **Safeguards monitoring.** PMO with assistance from DRTAC will consolidate quarterly environmental and social monitoring reports from RPMOs, assisted by regional DSMCs, and submit semi-annual environmental and social monitoring reports to ADB. Details are provided in Section VII.

53. **Gender and social dimensions monitoring.** PMO will ensure GESI issues are reflected in M&E formats and reports. RPMO with the support of regional DSMCs will prepare town level GESI Action Plan to ensure town specific GESI issues relevant with the Project are reflected and addressed. RPMO will collect data disaggregated by at least gender, caste, ethnicity and economic status. PMO will ensure RPMOs are oriented and trained adequately on GESI to produce accountability. RPMOs also ensure each town are oriented and trained on GESI for achieving socially inclusive project results.

### C. Evaluation

54. The government and ADB will jointly review the project at least twice a year. This includes (i) the performance of the PMO, RPMOs, consultants and contractors; (ii) physical

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<sup>43</sup> ADB's project performance reporting system is available at:  
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>

progress of subprojects and effectiveness of safeguards, and the GESI Action Plan; (iii) inclusion of women and vulnerable groups including the poor in subproject planning and implementation; (iv) compliance with loan/grant assurances; and (v) assessment of subproject sustainability in technical, financial, and social terms. In addition to the regular loan/grant reviews, the government and ADB will undertake a comprehensive midterm review in the third year of project implementation to identify problems and constraints encountered and suggest measures to address them. Specific items to be reviewed will include (i) appropriateness of scope, design, implementation arrangements, and schedule of activities; (ii) assessment of implementation pace against project indicators; (iii) effectiveness of capacity building programs; (iv) compliance with safeguard measures; (v) extent to which the GESI Action Plan is being implemented; (vi) needs for additional support for O&M of the facilities established under the project; (vii) lessons learned, good practices, and potential for replication; and (viii) changes recommended. Within 6 months of physical completion of the project, the PMO will submit a project completion report to ADB.<sup>44</sup>

#### **D. Reporting**

55. The PMO will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan, and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the Project. To ensure projects continue to be both viable and sustainable, project accounts and the executing agency APFSs, together with the associated auditor's report, should be adequately reviewed.

#### **E. Stakeholder Communication Strategy**

56. A Consultation and Participation Plan (CAPP) is prepared for the project, included as **Appendix 6**, designed to promote stakeholder communication, which will be implemented by PMO, with help from RPMOs and others parties as identified in the CAPP.

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<sup>44</sup> Project completion report format available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

## X. ANTICORRUPTION POLICY

57. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the Project.<sup>45</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Project.<sup>46</sup>

58. To support these efforts, relevant provisions are included in the loan agreement, subproject financing agreement, management agreement, and the bidding documents for the Project. All contracts financed by ADB in connection with the project will include provisions specifying the right of ADB to audit and examine the records and accounts of the PMO, RPMOs, WUAs, contractors, suppliers, consultants, and other service providers as they relate to the Project. ADB will disseminate ADB's anticorruption policy to MOUD, DWSS, PMO, RPMOs and WUAs.

59. The Commission for the Investigation of Abuse of Authority (CIAA), as the constitutional anticorruption agency, has powers to investigate any irregularities in the Project. This includes financial irregularities, as well as corruption of government officials and officers and employees of autonomous bodies.

60. Project-specific measures to enhance governance and prevent corruption, designed with the stages of project implementation and the disbursement chain in mind, include (i) the requirement for PMO and RPMOS to follow government rules and procedures for all expense including cash and the proper and accurate maintenance of financial records; (ii) establishing a project website at PMO to provide transparency on project details including procurement; (iii) displaying Citizen Charter in wards by the project towns; and (iv) RPMOs to organize public audit through regular and effective meetings at the town level with regional DSMCs' support.

61. For civil works, the major risks are of collusion to overprice designs and approve low volume and quality built works. PMO will, with the support of DRTAC, carry technical audit of each town's subprojects two times [please confirm—this may be too cumbersome?]. The DRTAC will share the report with MOUD, DWSS and ADB on confidential basis. Contractors will be made to disclose basic information of contracts in each construction site through display board.

62. Furthermore, the Project intends to maximize transparency, as described in sections above. Full information disclosure and participatory monitoring at both the central and the local levels are expected to be effective in reducing the risk of corruption and improving governance at central and local levels.

63. Within 12 months of project effectiveness, the PMO will establish the special committee to receive and resolve complaints/grievances or act upon reports from stakeholders on misuse of funds and other irregularities relating to the project, as outlined in the GRM (**Appendix 7**), including but not limited to grievances due to safeguard issues. The special committee will: (i) be independent and has no conflict of interest with the project municipalities; (ii) make public of the existence of the GRM, (ii) review and address grievances of stakeholders of the project, in

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<sup>45</sup> Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

<sup>46</sup> ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

relation to either the project, any of the service providers, or any person responsible for carrying out any aspect of the project; and (iv) proactively and constructively responding to them.

## **XI. ACCOUNTABILITY MECHANISM**

64. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.<sup>47</sup>

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<sup>47</sup> For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

## **XII. RECORD OF PAM CHANGES**

65. The first draft of PAM has been prepared and agreed upon at the loan negotiations in July 2014. All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

### **List of Appendices**

1. Design and Monitoring Framework
2. Subproject Selection Criteria
3. Procurement Plan
4. Outline Terms of Reference for Consultants
5. Framework for Inclusion of Poor and Vulnerable Households
6. Consultation and Participation Plan
7. Grievance Redress Mechanism
8. Statement of Audit Needs Template

### APPENDIX 1: DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved living conditions in project towns</p>	<p><b>By 2023</b> Reported cases of diarrhea in children under 5 years of age reduced to 98 per 1,000 in 26 project towns (2011 baseline: average 140 per 1,000)</p> <p>Average time per day per household to fetch water reduced to zero in 26 project towns (2014 baseline: 40 minutes)</p>	<p>Project towns' hospital records; project socioeconomic surveys</p> <p>Project socioeconomic surveys before and after completion</p>	<p><b>Assumption</b> Potential transition to federal structure and local elections do not derail the sector reforms and project implementation.</p>
<p><b>Outcome</b> Inclusive, gender-focused, and sustainable WSS service delivery in project towns</p>	<p><b>By 2020</b> 390,000 people in project towns have access to 24-hour, 7-day piped water supply at 100 lpcd that meets the national drinking water quality standards of 2005 (including all poor, female headed household, and vulnerable<sup>a</sup> households) (2014 baseline: 19,500 people have piped water 2 hours per day at 45 lpcd.)</p> <p>390,000 people in project towns have access to improved sanitation facilities (including all poor, female headed household, and vulnerable households) (2014 baseline: 288,600 people)</p> <p>Institutional and regulatory framework for WUAs in small towns strengthened through tariff guidelines, corporatization, and management agreements (baseline: none existing)</p>	<p>(For all indicators) National census; reports by WUAs or local bodies; and project surveys</p> <p>Reports by regional water quality monitoring laboratories</p> <p>National census, reports by PMOs, WUAs or local bodies</p> <p>Local water sanitation and hygiene coordination committees' reports and declaration of open-defecation-free for the project towns</p>	<p><b>Assumption</b> Timely implementation of tariff increases</p> <p><b>Risk</b> PMO, WUAs or local bodies do not have adequate technical and financial resources to manage the facilities and services sustainably.</p>
<p><b>Outputs</b> 1. Improved WSS infrastructure</p>	<p><b>In project towns by 2020</b> About (i) 1,450 kilometers of supply pipelines installed; (ii) 78,000 additional households connected to piped water supply; and (iii) 26 wastewater treatment plants with an estimated capacity of 50,000 m<sup>3</sup>/day constructed (covering all poor, female headed household, and vulnerable households in project areas)</p> <p>Around 20,300 additional private and 26 public toilets with septic tanks constructed (covering all poor, female headed household, and vulnerable households)</p> <p>14 septage treatment facilities<sup>b</sup> and two</p>	<p>(For all indicators) Project progress reports by PMOs, WUAs or local bodies, and reports by the Ministry of Urban Development (through SEIU)</p>	<p><b>Assumptions</b> Timely availability of cofinancing resources</p> <p>Timely approval of national budget</p> <p>No delays in obtaining required clearances, environmental approval, and resettlement approval during implementation</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>decentralized wastewater treatment plants (2,500 m<sup>3</sup>/day) constructed</p> <p>Drainage master plans for estimated five towns with flooding risk measures and priority drains completed</p> <p>About five lots of existing water supply systems rehabilitated or expanded</p> <p>Nonrevenue water kept at around 10% in project towns; and about 100 tons of carbon dioxide emission reduced<sup>c</sup></p>		
2. Strengthened sector policy, regulatory and institutional capacity, and service delivery	<p><b>By 2020</b></p> <p>Tariff guidelines prepared, adopted, and implemented in small towns</p> <p>ISSAU established in DWSS; central office building of DWSS built; and business plans for DWSS, National Water Supply and Sanitation Training Centre (NWSSTC), SEIU, and WUAs adopted.</p> <p>Town Development Fund restructured to strengthen its capacity and allow flexible financing of WSS projects in small towns</p> <p>Solid waste management plans completed and adopted for project towns</p> <p>Women executives in WUAs or local bodies trained for leadership (target: 100% of female executives trained in project WUAs or local bodies)</p> <p>Minimum 200 staff of project WUAs or local bodies trained in technical, financial, and utility management (target: 100% of female staff in the WSS trained)</p> <p>Computerization of billing and collection system completed and operational in project towns</p> <p>At least 20,300 households received awareness-raising information on water conservation; livelihood enhancement; solid waste management; and water, sanitation, and hygiene (target: at least 80% women).</p>	(For all indicators) Project progress reports by PMOs, Town Development Fund, ISSAU, and SEIU	<p><b>Assumptions</b></p> <p>Government's timely approval of qualified staff for ISSAU and NWSSTC.</p> <p>Government's continued commitments to improve the Town Development Fund's capacity as financial intermediary for WSS sector</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks										
3. Improved project implementation	<p><b>By 2020</b> Staff of central and regional PMOs fully trained in project management (target: at least 30% women)</p> <p>Project implemented on time and within budget</p>	(For all indicators) Project progress reports by PMOs											
<p><b>Activities with Milestones</b></p> <p><b>1 Output 1: Improved WSS infrastructure</b></p> <p>1.1 Finalize detailed engineering design and issue bid documents for WSS packages in 12 towns (Q4 2014)</p> <p>1.2 Sign management agreements (Q4 2014)</p> <p>1.3 Finalize detailed engineering design and issue WSS bid documents for remaining towns (Q3 2015)</p> <p>1.4 Protect water supply source and prepare water safety plans for project towns (Q3 2016)</p> <p>1.5 Award contracts for all towns (first quarter 2016)</p> <p>1.6 Complete construction (Q1 2019)</p> <p><b>2 Output 2: Strengthened sector policy, regulatory and institutional framework, and service delivery</b></p> <p>2.1 Develop and adopt business plans for DWSS, National Water Supply and Sanitation Training Centre, and participating WUAs or local bodies (Q2 2016)</p> <p>2.2 Produce annual sector performance reports, and establish performance monitoring and evaluation system in SEIU (every year starting from 2015)</p> <p>2.3 Complete awareness training in project towns, PMOs, and DWSS (Q3 2017)</p> <p><b>3 Output 3: Improved project implementation</b></p> <p>3.1 Allocate adequate budget for project (Q2 2014)</p> <p>3.2 Recruit all consultants under the project (Q1 2015)</p> <p>3.3 PMOs established and fully staffed (by Q1 2015)</p> <p>3.4 Establish project performance management system (Q2 2015)</p>		<p><b>Inputs</b></p> <p><b>Loans:</b></p> <table border="0"> <tr> <td>Asian Development Bank</td> <td>\$60 million</td> </tr> <tr> <td>OPEC Fund for International Development</td> <td>\$20 million</td> </tr> </table> <p><b>Grant:</b></p> <table border="0"> <tr> <td>Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility</td> <td>\$1.3 million</td> </tr> <tr> <td>Government</td> <td>\$23.1 million</td> </tr> <tr> <td>Beneficiaries</td> <td>\$4.6 million</td> </tr> </table>		Asian Development Bank	\$60 million	OPEC Fund for International Development	\$20 million	Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility	\$1.3 million	Government	\$23.1 million	Beneficiaries	\$4.6 million
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ADB = Asian Development Bank, DWSS = Department of Water Supply and Sewerage, ISSAU = institutional support and service advisory unit, lpcd = liters per capita per day, m3 = cubic meter, NWSSTC = National Water Supply and Sanitation Training Centre, O&M = operation and maintenance, PMO = project management office, Q = quarter, SEIU = sector efficiency improvement unit, WSS = water supply and sanitation, WUA = water users' association.

<sup>a</sup> Vulnerable people are defined as those suffering the effects of marginalization within or outside their community due to their ethnicity, gender, caste, religion, disability, health, education, or socioeconomic status. For the purpose of the project, this specifically includes Dalit, disabled, disaster-affected, marginalized, and endangered indigenous groups that are politically, socially, or economically excluded.

<sup>b</sup> Institutional strengthening and physical facilities for septage management in four towns will be carried out with support from the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

<sup>c</sup> The target is indicative only.

Source: Asian Development Bank.

## APPENDIX 2: SUBPROJECT SELECTION CRITERIA

1. Small towns and subprojects will only be eligible for financing under the 3<sup>rd</sup> Small Towns Water Supply and Sanitation Sector Project (the Project) if they meet the following criteria:

### A. Town Selection

2. **Scoring for Town Selection.** Scores will be given in the following manner (see Table A1) to select towns:

- (i) If a town does not fit the definition of a small town,<sup>1</sup> it is automatically excluded.
- (ii) The local bodies, concerned village development committees (VDCs) or municipalities has included/ agreed to include the subproject in their planning either directly or through their district Water, Sanitation and Hygiene (WASH) coordination committee (CC), with an endorsement from the concerned village WASH CC (VWASH CC) or municipality WASH CC (MWASH CC), depending on where the subproject is located, and has submitted a formal subproject application to the Department of Water Supply and Sewerage (DWSS).
- (iii) Poverty is weighted so that towns with a higher proportion of poor people score more. The lowest band is set at the poverty line (i.e., people below the poverty line).<sup>2</sup>
- (iv) The town will have willingness and ability to pay for the subprojects.
- (v) If a town does not have a piped system, it should be awarded maximum points. If it has a piped system, the scoring is according to the proportion of the population not served by it.
- (vi) As a measure of hardship, intermittent systems providing less than 10 hours service per day are scored inversely by the number of hours.
- (vii) Sanitation is scored proportionate to the number of households not having sanitary latrines.
- (viii) Project readiness with regard to source identification and land availability, with no or minimum involuntary resettlement (IR) and indigenous people (IP) impacts as per ADB's SPS (2009), are scored higher.
- (ix) Potential for growth is measured so that towns with high population growth rates will also be awarded additional points.

3. Towns with high scores will be selected among those who submit the application/ project proposal to DWSS.<sup>3</sup> When the town selection has been made, the project management office (PMO) will send to ADB for review and concurrence (i) a narrative summary of town selection together with the score of towns considered and showing how they meet the agreed town selection criteria; and (ii) a location map.

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<sup>1</sup> A small town is defined as a town with a (i) population of 5,000–40,000; (ii) located on a road linked to the strategic road network; (iii) has perennial road access; grid power; telecommunications – i.e, potential for growth; (iv) has an average population density of 10 persons per hectare; and (v) has jurisdiction of one administrative boundary (this may be waived with justification in exceptional circumstances for particular service delivery needs).

<sup>2</sup> Nepal Living Standards Survey in 2011 set the average national poverty line as NPR19,261 per person per year, which adjusted to 2014 prices is NPR 23,306 per person per year or NPR1942 per person per month. .

<sup>3</sup> DWSS calls for proposal publicly from towns for their improvement of water supply and sanitation publishing these criteria.

**Table A1: Priority Scoring of Subprojects**

Criterion/Indicator	Details	Points
Meets definition of small town:	Yes/No	Include/exclude
DDC, VDC/Municipality approval	Yes/No	Include/exclude
Project towns are not in sensitive sites and are not declared protected areas as per ADB SPS (2009).	Yes/ No	Include/ exclude
<b>Poverty:</b>		
Matrix scoring based on % BPL from NLSS or census 2011		20x % BPL/100
<b>Water Supply</b>		
Piped system	No	25
% of population not served by piped system		10x %/100
% of poor areas not served by piped system		10x %/100
<b>Existing water supply</b>		
Quantity < 45 liters per capita per day		5
Number of hours supply per day	0–4 hours	5
	4–10 hours	3
	> 10 hours	0
<b>Sanitation</b>		
% of population without sanitary latrines		20x %/100
<b>Community Interest</b>		
Is WUA registered with DDC		3
<b>Project Readiness</b>		
Source identified	Yes	5
Land available for main structures	25% and above	10
<b>Urbanization and Growth Potential</b>		
Population growth in the last decade (% per annum)	5% and above	5
	3–5%	3
	Less than 3%	1
<b>Total Score</b>		

Source: Department of Water Supply and Sewerage assessment.

## B. Subproject Selection

4. **General Criteria.** Before the subproject is submitted to ADB for concurrence, the PMO will ensure that the specific criteria, including the following, have been satisfied:

- (i) The subproject has been identified and designed in a participatory manner during the prefeasibility and feasibility stages and appropriate physical and socioeconomic surveys have been carried out to allow effective designs. The water users' association (WUA) or local body has agreed with the design and cost of the subproject, and the responsibility for the O&M of the same. WUA or local body has also committed (in management agreement with DWSS) to provide minimum operational staff to operate the particular facilities sustainably.
- (ii) The subproject request application has a minimum 33% female signatories and maximum participation of women, poor and vulnerable in the project identification.
- (iii) The design of each of the subproject ensures the least-cost of the combined capital and of O&M expenditures in achieving its objectives. The subproject has an economic internal rate of return of 12% or higher.
- (iv) The subproject complies with all requirements of relevant national laws and regulations, including, among others, the Government's Environmental Protection Rules (1997) and their amendment in 2007, and of ADB's policies, including *Safeguard Policy Statement (SPS), 2009*.
- (v) The subproject has been assessed and screened in accordance with the environmental assessment and review framework (EARF), the resettlement framework (RF) and the indigenous people planning framework (IPPF) agreed for

the project. Subprojects that will cause significant<sup>4</sup> involuntary resettlement impacts and/or cause adverse negative impact to the indigenous people communities will not be selected. Subprojects that will cause significant impacts to the environment, protected areas and sensitive receptors as a result of the project design will not be selected.

- (vi) The design of the facilities has been made in accordance with DWSS's design guidelines for small towns, and all other relevant Government guidelines and design standards.
- (vii) A pre-project management agreement has been signed between DWSS and the participating Water Users' Association (WUA) or local body specifying, among other things, the proportion of cost sharing for both water supply and sanitation systems, and the principle of integrated water supply and sanitation, agreement to adhere to the tariff guidelines, and output-based aid (OBA), before the commencement of detailed design work.<sup>5</sup>
- (viii) Before the handover of the system for its O&M, a management agreement will be signed between WUA<sup>6</sup> or local body and DWSS, witnessed by the local body (if signed between WUA and DWSS) and TDF, specifying, among other things, (a) the responsibilities of each party; (b) the tariff guidelines for small towns and proposed level of tariff to be collected by the concerned WUA or local body; (c) WUA's or local body's commitment to recover payment and repayment, operation costs; and (d) the target and level of grant to be given under the OBA.
- (ix) O&M responsibilities and costs have been developed and agreed. O&M manuals of each of the subproject will be prepared, and WUA or local body has committed to implementing the same.
- (x) The subprojects and the participating WUAs or local bodies will have and maintain an annual operating ratio (OR) of less than 1. The OR is defined as the ratio of total expenditure to total revenue and includes debt service (principal and interest). To ensure that this required level of OR is maintained, WUAs or local bodies shall agree to deposit adequate cash into the designated escrow account, as necessary, to meet the potential shortage in the revenue to meet the expected expenditures.

5. **Water Supply.** The specific criteria include the following:

- (i) The subproject is prioritized using the criteria in Table A1.
- (ii) The WUA or local body has agreed to the design of the subproject, initial community contribution of 5% upfront cash contribution, for which WUA or local body has agreed that households identified as poor and vulnerable HH will be excluded from (upfront cash contribution requirement), the setting of the tariff will be within the tariff guidelines and at a level to cover at least necessary debt service to Government and all operation and maintenance expenditures. An ability-to-pay survey has confirmed that the tariff structure is affordable for all users.
- (iii) For raw water extraction, necessary agreement and approval have been obtained in accordance with relevant laws and regulations of the country.

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<sup>4</sup> Involuntary resettlement impacts are considered significant when 200 or more people experience major impacts. "Major impacts" is defined as involving affected people (i) being physically displaced from housing; and/or (ii) having 10% or more of their productive, income-generating assets lost.

<sup>5</sup> This will mean the commencement of detailed design review for towns where the detailed design is already available.

<sup>6</sup> Signed by WUSC as the representative of WUA.

- (iv) Detailed investigations (e.g. hydrogeological surveys, bore tests, etc.) are carried out to confirm adequate and sustainable yield is available from the proposed source for supply of minimum 100lpcd.
- (v) Water quality test of the proposed source is carried out to ensure and confirm it meets National Drinking Water Quality Guidelines (NDWQG). Water source with arsenic levels above the national standards will not be selected. If small traces of arsenic (below the national standards) have been detected, testing for arsenic will be conducted once a month for the duration of 3 months. Test results will need to be submitted to ADB for review before the water source is developed for drinking purposes.
- (vi) Intake of the source is located at least 30m upstream of any sanitation facilities. Where this cannot be maintained, the design and implementation will ensure that (i) septic tanks will be sealed to make them water tight and emptied as per the design requirements; (ii) appropriate borehole case and screen are installed; and (iii) a test pit is established and water quality monitoring is conducted regularly (at least once every quarter).
- (vii) Design of the water supply system incorporates a water safety plan to be implemented throughout the operation and maintenance phase.
- (viii) Design of the distribution system is carried out on a district metering area (DMA) basis.
- (ix) No infrastructure, such as OHT, WTP, is established in floodplains, and all pipes are designed to be constructed underground.
- (x) The WUA or local body has agreed to provide free connections to all the eligible poor, FHH and vulnerable HH as the subproject's beneficiaries. The Government has agreed to provide 100% subsidy for such connections.

6. **Household Sanitation.** The specific criteria include the following:

- (i) The WUA or local body has agreed to use the OBA process for providing household latrines and includes all the eligible poor, FHH and vulnerable HH as the subproject's beneficiaries.
- (ii) The design of the facilities suits the requirements of women, children, and the disabled.
- (iii) Septic tanks will be designed as per national standards and DWSS's design guidelines to allow for maximum retention of septage (minimum 3 years) and water sealing.
- (iv) Toilets will be established at least 30m downstream of the drinking water source. Where this cannot be maintained, the design and implementation will ensure that (i) septic tanks of the toilets will be sealed to make them water tight and emptied as per the design requirements; (ii) appropriate borehole case and screen are installed; and (iii) a test pit is established and water quality monitoring is conducted regularly (at least once every quarter).
- (v) Toilets will not be established in floodplains or flood prone areas.
- (vi) An O&M plan to be developed will provide details on the frequency and responsibility for collection & disposal of septage at approved site, and identify roles and responsibilities for each of the tasks.
- (vii) Hygiene promotion campaign and educational program is developed, and the WUA or local body commits to implementing the same.

7. **Public Toilets.** The specific criteria include the following:

- (i) The proposed public toilet is located in, or adjacent to, a frequently used public area on the WUA or local body land with no or minimum involuntary resettlement/ social impacts.
  - (ii) If the local body doesn't have adequate capacity, the WUA has agreed to manage the public toilet on behalf of the local body until the local body has adequate capacity.
  - (iii) The WUA and local body where the proposed public toilet lies have agreed to jointly contribute 15% of the capital cost<sup>7</sup> and cover 100% of the O&M cost.
  - (iv) Septic tanks will be designed as per national standards and codes to allow for maximum retention of septage (minimum 3 years) and water sealing.
  - (v) Toilets will be established at least 30m downstream of the drinking water source, and not in floodplains or flood prone areas. Where this cannot be maintained, the design and implementation will ensure that (i) septic tanks of the toilets will be sealed to make them water tight and emptied as per the design requirements; (ii) appropriate borehole case and screen are installed; and (iii) a test pit is established and water quality monitoring is conducted regularly (at least once every quarter).
  - (vi) An O&M plan is developed providing details on the frequency and responsibility for collection and disposal of septage at approved site, and commitment to provide minimum operational staff and operate the facilities sustainably is given by WUAs or local bodies.
  - (vii) Hygiene promotion campaign and educational program is developed to promote ODF in the towns, and WUA or local body commits to implementing it.
8. **Septage Management:** The specific criteria include the following:
- (i) If the local body does not have adequate capacity, then the WUA has agreed to manage the septage facility on behalf of the local body until the local body has adequate capacity.
  - (ii) Public or WUA land with no or minimum involuntary resettlement impacts is available for construction. The WUA and local body where the subproject lies have agreed to jointly contribute 15% of the capital cost<sup>8</sup> and cover 100% of the O&M cost.
  - (iii) The site selected to establish the facility is at least 300m away from the nearest dwelling, 30m downstream from any drinking water source, not in a protected or religious area, and in relatively flat land with no more than 8% slope.
  - (iv) Site is not where food crops are grown. Septage facility can be established in a community forest or woodland that is not declared as a protected area.
  - (v) Facility is designed in accordance with appropriate standards. In the absence of national standards, international standards, such as those prescribed by the Environmental Protection Agency of the United States of America, may be used.
9. **Decentralized Wastewater Treatment (DEWAT):** The specific criteria include the following:
- (i) The subproject is located in the town core (most densely populated) area and with an existing or proposed water supply that provides sufficient flow to achieve self-cleansing velocities in the sewers. In case of the latter, water supply subproject will have been completed before the DEWAT is commissioned.

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<sup>7</sup> WUAs may make contributions either in cash or in kind.

<sup>8</sup> WUAs may make contributions either in cash or in kind.

- (ii) The WUA and local body have agreed to jointly contribute 15% of the capital cost of the subproject. WUA or local body will cover 100% of the O&M costs through water tariff increments.
  - (iii) Public or WUA land with no or minimum involuntary resettlement impacts is available for construction.
  - (iv) The zone(s) covered by the subproject has a projected population density of at least 100 per hectare in 2017.
10. **Stormwater Drainage:** The specific criteria include the following:
- (i) The town center experiences severe disabilities during heavy rainstorms, such as flooding of roads and buildings, severe water logging, disruption of traffic and general unsanitary conditions;
  - (ii) Prior to design - a stormwater master plan has been prepared and approved for the town that shows a feasible drainage solution and prioritizes the first phase/ segments for investment.
  - (iii) The local body is able to develop the means and resources to maintain the proposed drains in a serviceable manner.
  - (iv) The local body has agreed to contribute 15% of the capital cost and cover 100% of the O&M cost.
  - (v) The local body will use the existing road and drainage right-of-way (ROW) with no or minimum involuntary resettlement impacts. Drainage construction using or crossing private lands should be avoided. If involuntary resettlement impacts are identified for the street vendors/shops/stalls, regardless of their legal status, located in the proposed subproject an appropriate resettlement plan (RP) will be prepared in accordance to the agreed Resettlement Framework.
  - (vi) Drainage capacities to be designed are based on one in a fifty year flood event.
  - (vii) No drainage should be established in protected areas, near sensitive receptors and within the setback distance of a historical or cultural heritage site.
11. Before subproject tendering/ implementation, the PMO will submit to ADB for concurrence and disclosure: (i) a summary sheet showing that the criteria have been met; (ii) salient features of each subproject; (iii) preliminary design of each subproject; (iv) environmental and social safeguards assessment screening results; (v) financial and economic analysis of the subproject., (vi) resettlement plans/ indigenous people plans if any subproject involves involuntary resettlement and/or land acquisition or causing adverse impacts to indigenous people communities based on the detail design; (vii) initial environmental examinations (IEEs) or Environmental Impact Assessment (EIA) and other safeguard documents, as applicable; and (viii) feasibility studies and/or detailed design reports.

## APPENDIX 3: PROCUREMENT PLAN

### Basic Data

<b>Project Name: Third Small Towns Water Supply and Sanitation Sector Project</b>	
<b>Country: Nepal</b>	<b>Executing Agency:</b> Ministry of Urban Development, Government of Nepal
<b>ADB Financing (ADF Loan):</b> \$60 million	<b>Loan Number:</b> Yet to be requested
<b>Non ADB Financing:</b> \$20 million (OFID Loan)	
<b>Date of First Procurement Plan</b> 21 July 2014	<b>Date of this Procurement Plan:</b> 21 July 2014

### A. Process Thresholds, Review and 18-Month Procurement Plan

1. **Project Procurement Thresholds.** Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding (ICB) for Works	Above \$1,000,000
International Competitive Bidding for Goods	Above \$500,000
National Competitive Bidding (NCB) for Works	Beneath that stated for ICB, Works
National Competitive Bidding for Goods	Beneath that stated for ICB, Goods
Shopping for Works	Below \$100,000
Shopping for Goods	Below \$100,000
Community Participation in Procurement	Below \$10,000

2. **ADB Prior or Post Review.** Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement Method	Prior or Post	Comments
<b>Procurement of Goods and Works</b>		
ICB Works	Prior	
ICB Goods	Prior	
NCB Works	Post	First document will be prior reviewed
NCB Goods	Post	First document will be prior reviewed
Shopping for Works	Post	First document will be prior reviewed
Shopping for Goods	Post	First document will be prior reviewed
Community Participation in Procurement	Post	First document will be prior reviewed
<b>Recruitment of Consulting Firms</b>		
Quality- and Cost-Based Selection (QCBS)	Prior	
Consultants Qualifications (CQS), Individual Selection (ICS) and Direct Charge <sup>1</sup>	Prior	
<b>Recruitment of Individual Consultants</b>		
Individual Consultants	Prior	

<sup>1</sup> For grant component supported by the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

3. **Goods and Works Contracts Estimated to Cost More than \$1 Million.** The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

Package Ref.	General Description	Goods or Works	Contract Value \$million	Procurement Method	Pre-qualification Yes/ No	Advertisement Date
W1	Water Supply and Sanitation Improvement for Rukum, Salyan, Chandrouta (in 3 Lots)	W	5.850	ICB	No	July 2014
W2	Water Supply and Sanitation Improvement for Charaali, and Mahendranagar (in 2 Lots)	W	4.978	ICB	No	July 2014
W3	Water Supply, Drainage, and Sanitation Improvement for Tikapur	W	6.475	ICB	No	Jan 2015
W4	Water Supply and Sanitation Improvement for Mahendra Nagar, Ilam and Shiraha (in 3 Lots)	W	9.194	ICB	No	Sept 2014
W5	Water Supply and Sanitation Improvement for Dhumre and Nirmalpokhari in 2 Lots)	W	5.078	ICB	No	Sep 2014
W6	Water Supply and Sanitation Improvement for 3 towns including Bidur (in 3 Lots)	W	10.553	ICB	No	Oct 2014
W7	Water Supply and Sanitation Improvement for 4 additional towns (in 4 Lots)	W	9.234	ICB	No	June 2015
W8	Water Supply and Sanitation Improvement for 2 project towns (in 2 Lots)	W	10.157	ICB	No	Oct 2015
W9	Rehabilitation and expansion of existing water supply schemes in small towns (in 2 Lots)	W	7.926	ICB	No	Oct 2015
W10	Construction of DWSS Head Office Building	W	2.753	ICB	No	Jan 2015
W11	Water Supply and Sanitation Improvement for 3 project towns (in 3 Lots)	W	10.025	ICB	No	Oct 2015
W12	Water Supply and Sanitation Improvement for 3 project towns (in 3 Lots)	W	10.157	ICB	No	Oct 2015

4. **Consulting Services Contracts Estimated to Cost More Than \$100,000.** The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months, including price contingency.

<b>General Description</b>	<b>Contract Value</b>	<b>Recruitment Method</b>	<b>Advertisement Date (quarter/year)</b>	<b>International or National Assignment</b>	<b>Comments</b>
Design Review and Technical Audit Consultants	0.836	QCBS	2/2014	National	
Western Region Design, Supervision and Management Consultants	3.19	QCBS	2/2014	National	Cost ratio will be 90:10 for all QCBS packages
Eastern Region Design, Supervision and Management Consultants	3.19	QCBS	2/2014	National	
Institutional Support and Service Advisory Consultant for DWSS	0.540	QCBS	3/2014	National	
Septage management consultants <sup>2</sup>	0.225	ICS and QCBS	3/2014	International (ICS) and National firm (QCBS)	

5. **Goods and Works Contracts Estimated to Cost \$1 Million and Less and Consulting Services Contracts \$100,000 and Less.** The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

<b>Package No</b>	<b>General Description</b>	<b>Value of Contracts (cumulative)</b>	<b>Number of Contracts</b>	<b>Procurement / Recruitment Method<sup>1</sup></b>	<b>Advertisement Date</b>
1	WUAs Office Setup (furniture and equipment )	0.052	Estimated 2	Shopping	August 2014 (first)
2	WUA computers and equipment	0.079	Estimated 3	Shopping	December 2014
3	Septage and Sanitation Management (Works)	1.319	Estimated 10	Community Participation (5) NCB (7)	April 2015 (first)
4.	Test Drilling Work (Works)	0.360	2	NCB	August 2014 (first)
5.	Procurement of Vehicles for PMO, RPMO, ISSAU, and Field Offices	0.560	3	NCB	August 2014 (first)
6.	Office Equipment (Computer, printer and photocopiers for the PMO and RPMOs)	0.124	4	Shopping	Sept 2015 (first)
7	Institutional Development Support Consultants for TDF (Individuals)	0.503	7	ICS	December 2014
8	Construction of septage plants in 4 pilot towns <sup>3</sup>	0.900	2	NCB	March 2015

<sup>2</sup> From Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

<sup>3</sup> From Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

9	Architectural firm for DWSS office building	0.100	1	QCBS	December 2014
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6. **Indicative List of Packages Required Under the Project.** The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of the project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the comments section.

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
<b>Goods</b>					
Vehicles	0.560	3	NCB		Four Wheel Vehicles and Two wheel vehicles
Office Equipment	0.203	7	Shopping		For PMO, RPMOs and WUA or local bodies
<b>Works</b>					
Civil Works for Water Supply and Sanitation Improvement	89.632	11	ICB	Yes	Around 2 contracts will be funded by OFID
Test drilling	0.3560	3	NCB		3 contracts
Construction of DWSS Head Office Building	2.753	1	ICB	Yes	
Septage and sewerage management	1.93	14	NCB (9) and Community Participation (5)		2 NCB packages will be funded by WFPF.
<b>Services</b>					
Design Review and Technical Audit Consultants	0.836	1	QCBS (90:10)		
Eastern Region Design, Supervision and Management Consultants	3.268	1	QCBS (90:10)		
Western Region Design, Supervision and Management Consultants	3.268	1	QCBS (90:10)		
ISSA Consultant	0.540	1	QCBS		
Individual Consultants	0.78	10	ICS		Includes 3 International consultants
Septage management consultants	0.248	2	ICS and QCBS		International and national to be funded by WFPF
Architectural firm for DWSS office building	0.100	1	QCBS		

## **B. National Competitive Bidding**

National competitive bidding (NCB) shall be in accordance with that described as "by inviting bids and a national level" as set forth in "The Public Procurement Act, 2007" (PPA) and "The Public Procurement Regulations, 2007" (PPR) and subject to the following:

1. The first NCB document for both goods and works procurement shall be reviewed and approved by ADB prior to issue. These will be used for all NCB procurement under the project. The document shall include qualification and evaluation criteria and ADB's right to audit and inspect in accordance with para 1.14 of ADB's Procurement Guidelines. No other criteria other than that described in the bidding document may be used to determine the lowest evaluated responsive bidder and no form of domestic preference may be employed. A positive assessment of a bidder's qualifications to perform a contract will be a pre-requisite to an award.
2. All qualified ADB member bidders and ADB member produced goods, services and works shall be eligible. Registration and licensing shall be permitted only as a condition of contract award and not participation in bidding. No award may be withdrawn for failure to obtain tax registration; license or fulfill any similar requirement without ADB's prior concurrence. No bidder will be held ineligible based on provision 63 of the PPA without ADB prior concurrence.
3. Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids. Invitations for bids for contracts estimated at \$500,000 or more for goods and \$1,000,000 or more for civil works shall be advertised on ADB's website. No restriction will be placed on the sale of bidding documents.
4. The approved Standing List of a Procuring Entity prepared in accordance with the law shall only be accepted to supplement an advertised open pre-qualification exercise for the specific contract provided that those on the standing list meet the qualification criteria.
5. Bids shall be opened at a single location immediately after the deadline for submission. Multiple locations for submission and opening are not acceptable.
6. Government-owned enterprises in Nepal shall be eligible to participate only if they meet the conditions of para 1.8 (c) of the Procurement Guidelines.
7. Extension of bid validity of more than 4 weeks beyond the original validity shall not be allowed without the prior concurrence of ADB.
8. Cancellation of bidding and re-bidding shall not be carried out without the prior concurrence of ADB.
9. Percentage variations from rates fixed by a district rate fixation committee shall not be used for the purpose of evaluating bids.  
In the event of a conflict between these provisions and the law, these provisions shall prevail.

## **APPENDIX 4: OUTLINE TERMS OF REFERENCE FOR CONSULTANTS**

### **A. Regional Design and Supervision Management Consultants**

1. The Project Management Office (PMO) of the Department of Water Supply and Sewerage (DWSS) will engage two national consulting firms as the Design and Supervision Management Consultants (DSMCs), one for eastern region and one for western region, in accordance with the Quality and Cost Based Selection (QCBS) procedure of Asian Development Bank's (ADB's) *Guidelines on the Use of Consultants, 2013*, for 669 person-months each. The two regional DSMCs will be based at and support the two regional PMOs (RPMOs) of DWSS in conducting design, overall implementation management and construction supervision in their respective regions' towns– eastern and western. They will report to RPMO directly, and PMO as required.

2. The scope of services of the regional DSMCs includes, but is not necessarily be limited to, the following tasks.

#### **1. Induction, Setting of Systems and Initial Training of RPMOs and WUAs or local bodies**

- (i) familiarize and induct RPMOs, Water Users' Associations (WUAs) and others on the Project requirements and processes. This will include project scope, design features, covenants and assurances, safeguards requirements, subproject selection criteria, design parameters and guidelines, all aspects of financing, as well as all environmental, social and land acquisition requirements; and
- (ii) set all required systems and processes in the RPMOs and WUAs or local bodies for smooth implementation of the project, such as project accounting, QA/QC, with guidance from PMO and RPMOs, and induct both RPMOs and WUAs or local bodies staff on the same.

#### **2. Feasibility Studies (for each project towns)**

- (i) collect existing information pertaining to water supply and environmental sanitation<sup>1</sup> for the subproject town and analyze the existing situation;
- (ii) in liaison with the local DWSS office, RPMO staff, WUA or local body, identify and prioritize deficiencies in these sectors and finalize the area to be covered by the system;
- (iii) study existing and alternative sources of raw water taking into consideration factors such as water quality, safe yields, sustainability, other uses, environmental impact, climate change, and suggest best possible sources;
- (iv) carry out a topographical survey and a socio-economic survey for the system. Both surveys should be adequate to allow the completion of detailed design. The socio economic survey will cover a representative sample of 10% of the service area to generate a gender-disaggregated socio-economic profile. This will be complemented with a simple 100% census survey to identify the exact number of poor and vulnerable households;

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<sup>1</sup> Environmental sanitation includes solid and liquid waste disposal which is: on-site latrine coverage, sewerage, stormwater drainage, and solid waste management.

- (v) study existing and alternative sanitation options, considering factors such as current practices, costs, environment, and suggest best possible courses of action including community awareness campaigns. This will include at a minimum, the number of household latrines required to make the town ODF; and public toilets if the WUA or local body commits to their upkeep;
- (vi) prepare and compare alternative solutions for improving water supply and sanitation and present them to primary stakeholders (mainly WUA or local body and DWSS) and assist them in selecting the optimal alternative;
- (vii) assess and recommend appropriate connection costs, fees and tariffs, in line with tariff guidelines adopted by DWSS for small towns, taking into consideration issues such as affordability, ensuring access of all the poor in the service area to the subprojects' benefits, WUA's or local body's cash flows;
- (viii) prepare report that verifies feasibility with cost estimates and drawings showing all proposed components including land. This will contain: i) proposed tariffs and any other charges to cover operation and maintenance and debt service; ii) proposed implementation arrangements; iii) operational responsibilities and costs; iv) water safety plan. Feasibility should also demonstrate compliance with all Government and ADB safeguards and other project preparation requirements, including benefits, risks, and action plans that confirm inclusive access to subproject benefits; and
- (ix) present to the WUA or local body for agreement, the feasibility findings, particularly financial aspects, in an easily understandable manner. Revise the feasibility report to accommodate comments agreed by DWSS and the WUA or local body and obtain their written agreement before proceeding to detailed design.

### **3. Master Plan Preparation (for each project town)**

- (i) prepare a master plan for waste management with guidance from PMO SWM expert. This will include, an analysis of: i) waste (SWM and septage) generation, both domestic and non-domestic; ii) existing disposal practices including equipment used and the informal sector; iii) any ongoing or previous waste management initiatives and if there are champions to promote improved environmental sanitation; iv) local government's capacity to manage waste<sup>2</sup>. Key outputs will be: i) identification of household-level measures and initiatives for maximizing and practicing 3R principles; ii) suggested equipment, such as composting bins for poor and other requirements, focusing on household level; iii) activities such as training and awareness campaigns; iv) implementation arrangements, including potential for outsourcing operation; v) phasing and costs;
- (ii) the DSMC will assist PMO and RPMO in identifying the towns with high risks of flooding, and thus require storm-water drainage master plan (DMP). Where such plans are required, after agreeing with RPMOs, the DSMC will conduct: a) identification of the areas of the town that suffer from inundation with an assessment of frequency and damage caused; b)

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<sup>2</sup> In coordination with the national and international septage management consultants, engaged under the WFPF grant component of the project.

using 50 year flood event, identification of priority segments for flood control and outline costs and phasing of the same; (c) preparation of DMP for the town. A detailed map with contours at intervals sufficient to allow detailed design must be prepared as part of the topographical surveys described in the section above; and

- (iii) for high priority areas, upon agreement with RPMOs, the DSMC will prepare detailed designs and tender documents as described below.

#### **4. Detailed Design and Tender Document Preparation (For each project town)**

- (i) prepare engineering designs in sufficient detail, and with adequate QA/QC to ensure clarity and understanding by the WUAs or local bodies and other relevant stakeholders. All designs should conform to DWSS's design guidelines for small towns and other national engineering standards. Where no national engineering standards exist, DSMC will seek RPMO's advice in appropriate design standards to be adopted;
- (ii) carry out soil surveys as necessary for structural design of subprojects;
- (iii) detailed designs will include references to DWSS's design guidelines and parameters used and contain calculations and implementation schedule. Detailed costs, using the latest schedule of rates from the subproject district, will be developed from an accurate bill of quantities (BoQ) taken off from detailed technical design drawings that show all design aspects and can be approved by the RPMO;
- (iv) estimate the operation and maintenance needs for the first year of operation of the water supply system including staff, material and power costs, and prepare performance standards for this operation to be included in the tender documents;
- (v) where there is a substantial modification from the feasibility study for whatever reason, this should be agreed with the RPMO and WUA or local body. Any cost deviation over 10% from the feasibility study costs should be adjusted into a revised proposed tariff and agreed with the WUA and PMO;
- (vi) proper design of distribution system reduce system losses and improve services. The DSMC will design the distribution system in hydraulically isolated district metering areas (DMAs) and identify and implement measures to achieve the desired NRW reduction in each of the project towns;
- (vii) prepare tender documents using standard ADB documents including all necessary information including: detailed technical specifications; BoQ; detailed construction drawings that permit contractors to carry out construction; specific conditions of contract; evaluation criteria;
- (viii) draft the bid invitation and assist the PMO in its issuance; prepare any addendums, and clarifications to bidders' queries for the PMO's response;
- (ix) for turnkey works such as water treatment plants, prepare the Employer's Requirement section of the tender documents with drawings in sufficient details based on the preliminary design for tendering, review and approval of contractor's design and drawings; and
- (x) present to the WUA or local body the key points of the detailed design and brief them on the roles and responsibilities of the WUA, DWSS and the contractor during construction. Obtain their written agreement before proceeding to the next step.

**5. Construction Management (For each project town)**

- (i) work as the employer's representative as defined in the conditions of contracts;
- (ii) regularly monitor physical and financial progress against the milestones as per the contract so as to ensure completion of contract in time;
- (iii) monitor and enforce the quality of inputs, processes, and outputs during all activities of construction to ensure the quality of works conforms with the specifications and drawings;
- (iv) check Contractors' interim payment statements and recommend for the payment to the Client within 28 days after receiving such statements with sufficient supporting documents;
- (v) check all construction to ensure conformity with the contract, propose any change in the plans, if required;
- (vi) assess and enforce, as per standard Construction Management System, the adequacy of contractors' inputs in terms of material, equipment, construction machinery, labor, construction approach and methodologies;
- (vii) prepare a Safety Manual for the works and enforce its implementation to ensure safety of construction workers, engineers, and citizens;
- (viii) ensure compliance with the Resettlement and Environmental Management Plans;
- (ix) furnish detailed drawings, with revisions as necessary, to the contractor, check contractors' design and drawings for lump sum Design and Build contracts;
- (x) attend third party inspections as necessary and provide certification on the quality of the supplies based on such inspections;
- (xi) examine contractors' claims for time extension, variations, additional compensation etc. and recommend appropriate decisions;
- (xii) assist the client in resolving contractual issues; and
- (xiii) after physical completion of the works; check installation and commissioning; monitor preparation of the "as built" drawings.

**6. Safeguards implementation, including GESI Action Plan, and compliance monitoring (For each project town)**

- (i) prepare new IEEs and EMPs in accordance with the EARF and applicable Government rules;
- (ii) include EMPs in bidding documents and civil works contracts;
- (iii) comply with all government rules and regulations;
- (iv) take necessary action for obtaining rights of way;
- (v) oversee implementation of EMPs including environmental monitoring by contractors;
- (vi) take corrective actions when necessary to ensure no environmental impacts;
- (vii) submit monthly environmental monitoring reports to PMO;
- (viii) address any grievances brought about through the Grievance Redress Mechanism in a timely manner as per the IEEs;
- (ix) review, update prepared draft RPs upon completion of detail design;
- (x) screen impacts and prepare new RPs and IPPs in accordance with RF and IPPF, and government rules;
- (xi) engage in ongoing meaningful consultations with stakeholders and affected persons particularly through implementation of the consultation and participation;

- (xii) ensure provision of timely payments to the affected persons by the WUA before displacement/impact occurs in project sites ready for construction;
- (xiii) oversee implementation of RPs and/or by WUAs;
- (xiv) advise/take corrective actions when necessary to minimize/avoid social safeguards impacts;
- (xv) submit monthly social safeguards monitoring reports to PMO;
- (xvi) establishment of GRC at VDC/Municipality level and address any grievances brought about through the Grievance Redress Mechanism (GRM) in a timely manner;
- (xvii) Act as focal person for Municipality or VDC level of GRM process;
- (xviii) Conduct sensitization on ADB's policies and guidelines on environment and Involuntary Resettlement and Indigenous People; and
- (xix) Implement all measures in the GESI Action Plan and CAPP in consultation with and guidance of the RPMOs and guidance of the DRTAC social and gender experts.

3. The key personnel requirements and indicative inputs for the DSMC are in Table 1.

**Table 1: Indicative Inputs of Personnel**

<b>Designation</b>	<b>Indicative Inputs</b>
Team Leader - Water Supply Construction and Supervision Specialist	54
Water Supply Design Engineers (2 persons)	36
Construction Supervision Engineers (13 persons)	416
Procurement Specialist	5
Financial Expert and Economist	8
Contract Management Specialist	30
SWM Engineer	10
Environmental Specialist	30
Social Safeguards Specialist	30
GESI Specialist	30
Electro mechanical, Structural, Hydrologist and Sanitation Specialist (4 person months each)	20
<b>Total<sup>1</sup></b>	<b>669</b>

Note: <sup>1</sup>: Social mobilizers (13 persons) and EMP monitors (13 persons) will also be engaged under each of the DSMC for the entire construction period in each DSMC.

## **B. Design Review and Technical Audit Consultants (DRTAC)**

4. The Design Review and Technical Audit Consultants (DRTAC) will provide support to the PMO and RPMOs with the main aim of ensuring that the quality of the designs and construction of all water supply and sanitation components implemented under the Project are to the required standards. The DRTAC will also assist the PMO, and RPMOs if required, with overall planning, implementation and monitoring of the Project during all stages of implementation including adherence to environmental and social safeguards compliance in accordance with ADB's and the Government's safeguards policies and guidelines.

### **1. Performance Monitoring and Project Management Assistance to PMO and RPMOs**

5. Assist the PMO in planning, implementing, managing and monitoring project activities, and advise PMO and RPMOs on all project-related issues, such as policy, loan covenants and

special conditions. Ensure and PMO in establishing all the required systems and processes in the PMO and RPMOs for smooth implementation of the project.

6. Assist the PMO in collect baseline data, establish and implement the Project Performance Management System (PPMS) for the project following ADB's guidelines and Government requirements. Assist the PMO to prepare a baseline survey and subsequent evaluation surveys at Project mid-term and completion.

7. Further develop the computerized subproject monitoring system prepared under the second project for each subproject, and overall Project implementation. The system should be compatible with the reporting systems established under the second project and modifications should be agreed with the PMO and tested at the RPMO and subproject levels before being incorporated.

8. Further improve reporting systems to ensure monthly updating of the PPMS with information flowing from the subprojects via the RPMOs to the PMO.

9. Assist the PMO with the use of the PPMS's outputs by continuously monitoring Project progress and prepare monthly progress reports and quarterly summaries identified in the PPMS and, based on these reports, suggest appropriate corrective action to the PMO.

10. Assist the PMO and RPMOs to review the deliverables of and monitor DSMCs' compliance with their assigned tasks. Prepare performance monitoring indicators for all aspects of the DSMC work and monitor their performance regularly and provide suggestions as necessary for improving performance.

11. Regularly undertake visits to subprojects sites, review activities, conduct technical audits and provide corrective actions and suggestions for improvement.

12. Work with the PMO and RPMOs to establish a proper financial accounting and control system for the project, as well as for the project towns, to ensure accurate financial statements, timely report submissions, smooth funds flow from all parties, and disbursement.

13. Ensure that the local bodies and WUAs approve each key stage of the subproject preparation process, particularly with regard to financial contributions, by providing their formal consent to move to the next stage to DWSS.

## **2. Preparation and Implementation Monitoring of Standards, Guidelines and Manuals**

14. Review and update the existing engineering design guidelines of DWSS to reflect agreed changes in the design parameters, incorporate climate change assessment and other agreed design improvements during the project preparation with ADB and other stakeholders.

15. Prepare a Quality Assurance (QA) and Quality Control (QC) manual for the project. The manual should define a consistent, comprehensive and uniform system of QA and QC at each key stage of subproject implementation, including: (i) identification; (ii) feasibility; (iii) detailed design; (iv) procurement; and (v) construction and supervision. This will involve preparation of processes, inspections and checklists, and clear identification and responsibilities of personnel involved in doing so, in order to demonstrate that work has been carried out with due diligence,

that outputs proposed are optimal solutions and of high quality, and that works constructed comply with the contract's specifications.

16. Prepare template operation manuals, OH&S manual, design standards for the project so that DSMCs and contractors can prepare subproject specific ones that can be tailored for each specific subproject and subsequently used by the operator, and review the same prepared by DSMCs and ensure consistency across towns and DSMCs. Assist the PMO and RPMOs in organizing training workshops for their wide use and dissemination to all relevant stakeholders at appropriate timings to ensure their effective use.

### **3. Technical Audits and Design Reviews**

17. DRTAC will assist the PMO and RPMO in reviewing all engineering designs completed by the DSMCs.

18. At each stage of every subproject implementation the DRTAC will carry out technical checks and audits. Specifically for each stage this will involve ensuring that:

- (i) Identification – the subproject has been prioritized correctly - in that the town has a deficiency in water supply and sanitation services, and that there is:
  - (a) a demand from the potential users who are willing to contribute to the system construction and for its subsequent operation;
  - (b) a defined area to be covered by the subproject;
  - (c) adequate available source (or sources) that can meet the future design demand;
  - (d) land available for any major structures, or it can be easily acquired; and
  - (e) subproject meets the requirement outlined in the agreed subproject selection criteria of PAM.
- (ii) Feasibility –will aim to ensure that the subproject as proposed is viable. Particular focus should be on two main areas: (a) technical feasibility and ensuring that the most cost effective technical option has been selected; and (b) affordability to ensure that the proposal is affordable to all users, the WUA and local body. Feasibility should also ensure that the environmental and social safeguards have been comprehensively included in the design. The feasibility check should also review the topographic and socioeconomic survey outputs to verify their accuracy. Waste management and stormwater drainage master plans should also be checked to ensure baseline data is correct and that proposals made are feasible and cost effective.
- (iii) Detailed design –should be verified to show that the design is the most cost effective, that the bill of quantities is complete and correct and uses updated local costs and that the drawings are adequate and correct. Where costs vary substantially from the feasibility study, these should be checked and reasons for the variation determined.
- (iv) Procurement – tender documents should be checked to confirm that they are complete and allow potential bidders to submit competitive bids and construct the subproject as designed.
- (v) Construction supervision –will ensure that the quality of material, labor and equipment used is as specified in the contract. The checks will also contain details of the type, frequency and procedures for on-site inspections and laboratory tests to be followed to ensure that requisite quality standards are met.

19. For items (ii), (iii) and (iv) above the DRTAC should prepare and test checklists that can be used to ensure compliance with the QA and QC manuals.
20. Monitor the task of DSMCs in carrying out surveys and preparing all maps and ensure that copies are provided to the PMO.
21. Review and give concrete suggestions to improve feasibility reports, detailed engineering design reports and tender documents of all subprojects.
22. Review and recommend for approval to the PMO and WUA or local body all subproject feasibility studies, designs and drawings; and tender documents.
23. Establish a system to proof-check all structural and process designs prepared by DSMCs.
24. Analyze regularly the physical and financial progress of each subproject.
25. Assess reasons for delay and recommend ways to accelerate project implementation and identify measures to improve quality.
26. Prepare practical tests to assess operators and their staff in operating water supply systems. Suggest training focus areas and needs to the DWSS's NWSSTC.
27. Act as third party monitor for verification of OBA, household surveys and poverty identification as outlined in Appendix 6 of the PAM.
28. Conduct field technical audits of each subprojects, with PMO, twice every year as a minimum.

#### **4. Safeguards Compliance Monitoring, including GESI Action Plan**

29. The DRTAC will assist PMO in safeguards compliance monitoring by carrying out the following tasks:  
*(Environmental)*
  - (i) Review and confirm existing IEEs and EMPs are updated based on detailed designs , that new IEEs/EMPs prepared by DSMCs are in accordance with the EARF and government rules; and recommend for approval to PMO;
  - (ii) confirm EMPs are included in bidding documents and civil works contracts;
  - (iii) provide oversight on environmental management aspects of subprojects and ensure EMPs are implemented by regional project management offices (RPMOs) and contractors;
  - (iv) establish a system to monitor environmental safeguards of the project, and all subprojects, including monitoring the indicators set out in the monitoring plan of the EMP;
  - (v) facilitate and confirm overall compliance with all Government rules and regulations regarding site and environmental clearances as well as any other environmental requirements as relevant;
  - (vi) supervise and provide guidance to the RPMOs to properly carry out the environmental monitoring and assessments as per the EARF;
  - (vii) review, monitor and evaluate effectiveness with which the EMPs are implemented, and recommend necessary corrective actions to be taken;

- (viii) consolidate monthly environmental monitoring reports from RPMOs and submit semi-annual monitoring reports to ADB;
- (ix) ensure timely disclosure of final IEEs and EMPs in project locations and in a form accessible to the public; and
- (x) address any grievances brought about through the Grievance Redress Mechanism in a timely manner as per the IEEs.

*(Social)*

- (i) ensure that the RF provisions are adhered to and the Resettlement Plans (RPs) are updated based on detailed designs; and that new RP/IPPs, as required, are prepared in accordance with the RF, IPPF and government rules;
- (ii) review, approve, RPs for new subprojects with support from the social safeguards expert of PMC;
- (iii) provide oversight on social safeguards policy compliance of subprojects and ensure RPs/IPPs are timely implemented by regional project management offices (Eastern RPMO and Western RPMO) prior to the starts of civil works;
- (iv) supervise and provide guidance to the RPMOs to properly carry out the monitoring and assessments as per the RF and IPPF;
- (v) consolidate monthly environmental monitoring reports from RPMOs and submit semi-annual monitoring reports to ADB. The monitoring reports should record the progress of resettlement activities and any compliance issues, grievances, corrective actions taken, follow-up actions required and status of compliance with relevant loan covenants.
- (vi) ensure timely disclosure of final RPs/IPPs in project locations and in a form accessible to the public; and
- (vii) ensure any grievances brought about through the Grievance Redress Mechanism are addressed in a timely manner as per the RPs and IPPs.

*(GESI Action Plan)*

- (i) prepare all training modules, such as leadership, livelihood enhancement and awareness raising on WASH, water conservation and 3Rs (SWM) and train the DSMC trainers on its implementation
- (ii) monitor implementation of and compliance with the agreed GESI Action Plan; and
- (iii) prepare GESI Action Plan compliance reporting, as part of the safeguards report semi-annually.

*(Capacity Building)*

30. The DRTAC's safeguards experts (environmental and social) will be responsible for training the (i) PMO's safeguards officers (environmental and social); (ii) RPMOs' engineers and social development officers. Training modules will need to cover safeguards awareness and management in accordance with both ADB and government requirements as specified in Chapter VII of the PAM.

**Table 2: Indicative Inputs of Personnel for DRTAC**

<b>Designation</b>	<b>Indicative Inputs (pm)</b>
QA/QC Specialist (International) <sup>3</sup>	6
Project Implementation Specialist (Team Leader)	60
Contract Management Specialist	6
Water Supply and Sanitation Design Review Engineers *2	12

<sup>3</sup> To be engaged separately as an individual consultant.

<b>Designation</b>	<b>Indicative Inputs (pm)</b>
Environmental Specialist	12
Financial Management Specialist	12
Social Development (GESI) Specialist	24
Social Safeguard Specialist	12
Technical Auditor	34
Electro-mechanical, water treatment, procurement and hydrogeological specialists	20
<b>Total</b>	<b>198</b>

### **C. Institutional Support and Service Advisory Consultants (ISSAC)**

31. The PMO will engage a consulting firm to support the establishment and initial operations of the ISAAU. The main tasks of IASSC would be to provide advisory services at two levels - first at the DWSS level and second to the WUAs or local bodies in the small towns that are operating the subprojects. The ISAAC will also assist NWSSTC in its mandate as a knowledge and training resource center for the water and sanitation sector. A total 136 person months of national consulting services will be required. The consultants will report to and work under the overall guidance of the DWSS or ISSAU. The outline scope of work will include but not be limited to the following:

#### **1. Planning**

- (i) prepare a detailed plan of action for the period of consultancy in discussion with the key stakeholder's including the DWSS and PMO; and
- (ii) carry out a detailed assessment of the current business portfolio and the WUAs/ local bodies, NWSSTC and other relevant parties. Once this initial work plan is approved, ISSAC will take into consideration all existing business related information, rules, plans that has been prepared and have been approved. In case, the consultant comes across potential areas of conflict arising out of those existing and those proposed at each stage, these areas should be highlighted and solutions advised.

#### **2. Advisory Support for WUAs or local bodies**

- (i) check and ensure that the WUAs or local bodies have all necessary systems established for efficient utility management when the systems are taken over by them;
- (ii) develop business plan for the WUAs that includes process guidance framework for the appropriate legal structure (corporatizing/ company/ board) for appropriate levels of population/service area. The consultants would review the existing management structure of WUA's and assess this structure with reference to current water demands. Based on this assessment the consultants would recommend a detailed road map including alternatives such as boards, corporate entities as the towns demand increases;
- (iii) utility management guidelines - relevant standard operating procedures for maintenance, consumer complaints redress and handling emergencies. The consultants are expected to detail the existing SOP's, identify areas of improvement with respect to all aspects of maintenance, consumer grievances responses and crisis management;

- (iv) assist WUA's in accounting, and financial management, including preparation of financial statements and audit requirements. The consultants would review current accounting and financial management procedures and propose changes, if necessary within the context of accounting standards for utility companies. The consultants would review audit compliance procedures including internal risk management systems and identify measures to strengthen them; and
- (v) assist WUA in billing and computerization. The consultants would study the existing billing and payments system, process for handling arrears and penalties and recommend improvements. Study hardware and software needs and suggest customized software for generation of demands, bank reconciliations and settlements.

### **3. Advisory Support for DWSS**

- (i) review and update the DWSS business plan within the context of all rules and regulations and directives issued by the government. The consultant would review the existing business plan of DWSS in the context of the Operational Directives issued by the government and propose a 5 year detailed business plan that contains a review of the existing core activities, in the context of sector needs. The consultants are expected to suggest and discuss key strategic options with the department, and assist in identifying the preferred option. Based on the chosen option the consultant would detail the sources of finance, and the internal resources needed for implementing an action plan based on the chosen strategy. The consultant would review all standard operating procedures, identify and propose changes if needed and produce revised SOP's. The consultant would also study the existing allocation of workflow between regions and the WSSDO - communication needs between the head office and regions, monitoring and performance reviews;
- (ii) review and update the NWSSTC business plan - assist in developing training needs assessment, of the sector as a whole, training calendar and a plan for staffing. The consultant will review the existing systems for trainings with reference to relevance and needs, suggest a annual calendar for the staff identified and indicate budgets needed. The consultant will also identify the resources (trainers) needed and suggest a balance between internal and external resources. This 5 year business plan will contain a review of existing training being provided in the sector and identify potential for partnerships between NWSSTC and other similar institutions so that effort and resources are not duplicated but harmonized; and
- (iii) provide advisory support to DWSS on financial issues -such as cost recovery, legal support for developing customized agreements with other parties such as user groups, and developing sector standards and plans. The consultant would assist DWSS in developing financial models, examine the viability of its various schemes, study the current tariff structures in the schemes implemented by DWSS and identify improvements for the same. The consultants would also from time to time review all legal agreements that DWSS enters into with various entities – such as contractors, user groups, and identify improvements from the viewpoint of efficiency and enforceability.

**Table 3: Indicative Inputs of Personnel for ISSAC**

<b>Designation</b>	<b>Indicative Inputs (pm)</b>
Water Utility Specialist – (Team Leader)	36
Financial Management Specialist	20
IT and MS Specialist	24
Legal Specialist	24
Institutional Expert	12
Operations and NRW Reduction Specialists*2	20
<b>Total</b>	<b>136</b>

#### **D. Institutional Development and Implementation Support Consultants (Individuals) for TDF**

32. The PMO will engage for TDF and SEIU individual consultants to support strengthening of its financial intermediation function (for TDF) and sector policy and monitoring (for SEIU). A total of 282 months of consulting services will be required - 6 person-months international and 276 months national. The consultants will report to and work under the overall guidance of TDF (7 consultants) and SEIU (2 consultants). The outline scope of work for TDF consultants will include but not be limited to the following:

- 1. Preparing a Detailed 5 Year Strategy and Action Plan for strengthening TDF's financial intermediation function.**
  - (i) carry out a detailed assessment of the current business portfolio and prepare a initial work plan. The consultant should take into consideration all existing business related information, rules, plans that has been prepared and have been approved. In case, the consultant comes across potential areas of conflict arising out of those existing and those proposed at each stage, these areas should be highlighted and solutions advised. The consultant should spend sufficient time with TDF's client: visit and interview each of the main functional units, personnel in the DWSS; collect data and other evidences (e.g. directives of government, standard procedures) before proceeding to the tasks;
  - (ii) assess and develop the action plan and strategy in line with the TDF Act - equity and debt structure, and Articles of association; and
  - (iii) form the strategy and action plan, breaking it into deliverable annual action plans, for: (a) the targeted period (over 5 years); and (b) interim period of identified amount (NRs. million equivalent ) funding capacities in the near term.
  
- 2. Preparation of 5 feasibility studies (bankable projects) projects in water, sanitation and environmental infrastructure.** The consultant should prepare feasibility reports for 5 potential borrowers from TDF. This should include the following:
  - (i) selection of borrowers in conformity with TDF policies;
  - (ii) rationale for project selection, choice of technology, economic and financial analysis and safeguards as per TDF's policies; and
  - (iii) assessment of the borrowing capacity, and institutional arrangements for project implementation and operations and maintenance.

**3. Operational and Investment Guidelines.** The consultant will assess and advise on the operation focus and investment policies including:

- (i) Assess the current product mix and proposing a product mix for servicing municipalities and respective entities.
- (ii) Assess current and proposing pricing (loan) policy that would facilitate market development with adequate interest margin.
- (iii) Assess the current investment policy and proposing guidelines for future policies
- (iv) Assess current funding and capital structure with specific focus on the options for gradually tapping into the local private financial markets over time; and
- (v) Assess the non-lending fee-based services and advise pricing, focus, and policy

**4. Business Development Forecast.** The consultant will propose medium-long term business development forecast with financing plans in two or three scenarios based on the results listed in tasks above including:

- (i) financial projections;
- (ii) capital structure and gradual expansion of funding to respond to the growing future market demand;
- (iii) key financial ratios and performance indicators; and
- (iv) sensitivity analysis.

**Table 4: Indicative Inputs of IDISC and other Individual Consultants**

<b>Designation</b>	<b>Indicative Inputs</b>
(TDF) Financial Intermediation Specialist (International)	6
Business Development Specialist (National)	36
Finance Manager (National)	36
Municipal Water and Sanitation Engineer (National)	36
Fund Management Specialist (National)	36
Environment and Social Safeguards Specialist (National)	36
PME specialist (National)	36
(SEIU) Water Utility Specialist (National)	48
(SEIU) Institutional Specialist (National)	12
<b>Total</b>	<b>282</b>

## **APPENDIX 5: FRAMEWORK FOR INCLUSION OF POOR AND VULNERABLE HOUSEHOLDS**

### **A. Background**

1. This framework outlines the strategy for inclusion and coverage of poor and vulnerable households in the participating towns (the Project towns) under the Third Small Towns Water Supply and Sanitation Sector Project (the project). The project envisages provision of free water supply connections to 100% of poor and vulnerable households (HHs) in the Project towns, for which grants will be given upfront to the participating Water User and Sanitation Committees (WUSCs) or the local bodies of the towns. Output Based Aid (OBA) was introduced as an innovative feature of Second Small Towns Water Supply and Sanitation Sector Project (the second project) to deliver water supply and sanitation services to the poor and vulnerable groups in Project towns.<sup>1</sup> Under the project, OBA will continue for sanitation, while a 100% targeting approach to poor and vulnerable HHs in Project towns will be adopted for water supply. This framework provides the identification process and eligibility criteria for beneficiaries and fund flow mechanisms for water supply and sanitation to beneficiaries. The essential difference between the two is that for water supply, the grant for connections to poor is disbursed upfront, whereas for sanitation the grant is disbursed after completion of toilet construction by the beneficiary as certified by the *Town Social Mobilization Committee* (TSMC).

### **B. Provision of Water Supply Services to the Poor**

#### **1. Beneficiary Identification**

2. Eligible beneficiaries for free water supply connections will be identified through:
- (i) A 100% rapid census of households proposed in each project town, which will capture the socio-economic characteristics of each household (income source, vulnerability, land/house ownership status, housing type, asset ownership, and food sufficiency) to identify poor and vulnerable households;
  - (ii) Confirmation/ cross checking/verification of survey results through participatory appraisal, that will tap the knowledge of the community and its perceptions of poverty, to be facilitated by the DSMC social mobilisers;<sup>2</sup> and
  - (iii) Validation of final beneficiary list by the design review and technical audit consultant (DRTAC)'s Social Development Expert.

#### **2. Eligibility Criteria and application**

3. Eligible beneficiaries are poor and vulnerable households identified through the census and possess at least three of the following characteristics:
- (i) Indigenous people (IP) or Dalit households, households headed by a female or disabled or elderly person;
  - (ii) Households dependent on one daily wage laborer;
  - (iii) Landless households / households with land holding less than 0.5 ha;<sup>3</sup>

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<sup>1</sup> Output-based aid (OBA) is a method for using explicit performance-based grants to support delivery of basic services where policy concerns justify public funding to complement or replace user charges.

<sup>2</sup> The results will be cross-checked using key informant interviews if the community appears to be divided, with high levels of mistrust.

<sup>3</sup> As per an FAO assessment of food and nutrition security in Nepal, 2010, a minimum of 0.5 ha of agricultural land is required for household food security.

- (iv) Kucchi (temporary) housing (more than 75% of the house structure is made up of light materials)
- (v) Households without TV or refrigerator; and
- (vi) Households having less than 2 productive cattle.

### 3. Extent of Grant

4. A 100% grant will be paid upfront to the contractor through the WUA or local bodies for water supply connections to poor households<sup>4</sup>. The baseline survey conducted in sample towns in 2012 reveals the presence of an average of 34% poor households across towns, and varies from 24% to 41% in different towns.

## C. Provision of Sanitation Services to the Poor

### 1. Beneficiary Identification and eligibility

5. Eligible beneficiaries for OBA are proposed to be identified through:
- (i) a 100% rapid census of households proposed in each project town, which will help identify:
    - a) poor and vulnerable households (using the same criteria as for water supply);
    - b) households without individual toilets; and
    - c) availability of space for toilet within or adjacent to the house.
  - (ii) confirmation of survey results through participatory appraisal by DSMC social mobilisers;
  - (iii) willingness to pay 10% of actual cost of toilet construction either in cash or kind by beneficiary, to be determined through consultations by the DSMC social mobilisers; and
  - (iv) validation of beneficiary list for OBA by DRTAC social development expert .

### 2. Extent of Grant and Mode of Payment

6. The ratio of grant to beneficiary contribution will be 95:5. A fixed unit grant amount of NPR 10,000 per household will be provided. As construction of a latrine by a household is essentially an individual choice, it is desirable that construction be done by individual householders as per his or her choice. The Project through the WUA or local bodies and DSMC will give all information and will support the household in making an informed decision regarding the type of model, cost of model, minimum specifications, sourcing the material, etc. Payment of the grant amount will be made to the WUA or local bodies after completion of toilet construction has been verified.

## D. Implementation Arrangements

7. The following process will be followed in the implementation of water supply and sanitation subsidy:

### 1. Identification, Endorsement, and Application

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<sup>4</sup> In order to ensure the quality of house connection, minimize leakages at the connection point, and reduce occurrences of frequent road cuts, house connection for water supply will be executed by the main civil works contractor.

- (i) The Project Management Office (PMO), Regional Project Management Office (RPMOs), DRTAC experts, DSMCs, WUAs or local bodies responsible unit should be in place and fully functional.<sup>5</sup>
- (ii) The DSMC, in collaboration with the WUA or local bodies, identifies the poor households as per the eligibility criteria and participatory consultative process of identification mentioned in this framework.
- (iii) After identification of target beneficiaries, the WUA or local bodies organizes a meeting of water users associations and the list of target beneficiaries is read out in this meeting, objections invited and corrected, and the final list endorsed. Representatives of concerned village development committees (VDC) or municipality, RPMO and DSMC will also attend this meeting.
- (iv) DRTAC will conduct a random sample survey to confirm that all eligible beneficiaries are included in the project and there is no elite capture of benefits and no exclusion of eligible beneficiaries
- (v) The WUAs or local bodies with the help of DSMC's social mobilisers will explain to target beneficiaries the level of grant and process of delivery of water supply and sanitation services, etc.<sup>6,7</sup>
- (vi) Voluntary application by the target beneficiary to the WUA or local bodies should be obtained by the DSMC social mobilisers, verified, compiled, and recommended to the WUA or local bodies for approval.

## 2. Flow of Grant Fund and Civil Works Procedures

### a. Water Supply

- (i) A list of eligible approved target beneficiaries will be prepared by the DSMC's social mobiliser and a copy will be made available to the main civil works contractor for the town.
- (ii) The actual work of installing water supply connection is carried out by the main civil works contractor for house connection.
- (iii) The contractor will submit an estimate to the WUA or local bodies along with details of work proposed for the target beneficiaries such as name, address, length of pipe proposed for connection, fixtures and fittings, water meter, valve, etc., user's contribution, and the amount claimed for each household. The DSMC will certify the estimate of the contractor.
- (iv) The WUA or local bodies will get the list of beneficiaries verified through the DRTAC so as to ascertain that the house connections have actually been made to the intended beneficiaries and that the desired outputs have been achieved.

<sup>5</sup> The census of all the households in the sample towns is to be carried out by consultants with guidance of PMO and RPMOs.

<sup>6</sup> In the case of water supply, the details of house water supply connection—including length of pipe, fixtures, water meters, and valves—method of construction by the main contractor, and responsibility of the household for oversight and quality control in this regard should be explained by DSMC social mobiliser to the target beneficiary household.

<sup>7</sup> In the case of sanitation, the DSMC social mobiliser should explain the OBA framework to target beneficiaries in the list, including the level of grant, extent of coverage, and process of delivery of sanitation services, etc. The responsibility of the household for oversight and quality control in this regard should be explained to the target beneficiary household. It includes details of different types of latrine models, cost of each model, type and unit costs of material required, specifications, level of grant, method of payment of grant, etc. The choice of the model should be ascertained and documented. The responsibility of construction by the beneficiary has to be clearly explained to the household and the likely time frame of construction by the household should also be ascertained and documented.

- (v) The WUA or local bodies will get upfront funds from the RPMO based on the estimates submitted by the contractor.
- (vi) The WUA or local bodies will make full payment to the contractor from the grant funds available.

**b. Sanitation**

- (i) The WUA or local bodies will provide grants to the household, either in cash or in the form of materials needed, together with some guidance for procurement of materials, if the household chooses to procure materials on its own.
- (ii) The minimum specifications for toilet construction will be given to the beneficiaries.
- (iii) The actual work of latrine construction is carried out by the concerned household or by a contractor appointed by the community.
- (iv) Once a latrine has been constructed and made operational by an individual household, such household will send a statement to the WUA or local bodies informing it of the completion of the work. (The DSMC social mobilisers will provide the format for this application.)
- (v) The WUA or local bodies will ask the DSMC social mobiliser to verify that the latrine has been constructed, the quality and workmanship of construction, and whether it is operational, and issue a verification report.
- (vi) The WUA or local bodies will send a request for reimbursement of the grant to the RPMO together with a verification report and have it reimbursed.

**E. Evaluation**

8. Evaluation will be carried out by the DRTAC Social Development Expert, with help from DSMCs. The choice of respondents will be done using random sampling methods.

**F. Detailed OBA Implementation Guidelines**

9. A combined OBA guideline for both water supply and sanitation (toilets) construction was prepared by DWSS for the second project. Based on the lessons learned from the implementation of the same, a detailed OBA guideline for sanitation component under the project will be prepared and submitted to ADB for no objection prior to implementation of any sanitation subprojects.

## APPENDIX 6: CONSULTATION AND PARTICIPATION PLAN

C&P Activity	Target Stakeholders	Type of Participation	Objectives of the C&P Activity	Responsible Unit/Persons	Time	Cost Estimate
Project Workshops for government officials, PMO/RPMO staff, project consultants, WUAs or local bodies and contractors on the project (1 whole day)	Orientation Government officials and staff consisting of representatives from MOUD (including Social Coordination Section), DWSS officials PMO/RPMO staff, concerned DWSSDOs, WUAs or local bodies and concerned Forests, Roads and other departments, DRTAC, DSMCs and Contractor(s).	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Consultation</li> <li>• Shared responsibility</li> <li>• Shared decision-making</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce the project, objectives, anticipated outputs, outcomes, roles and responsibilities of project stakeholders</li> <li>• Safeguards frameworks and requirements; GESI Action Plan, Framework for Inclusion of Poor and Vulnerable; Grievance redress mechanism</li> <li>• Discuss potential environmental and social risks and their mitigation</li> <li>• Seek feedback and agree on recommendations</li> </ul>	RPMO/ PMO Facilitator Project Director	Year 1 of each batch: 1 Project orientation workshop	\$1,000 x 4= <b>4,000</b>
Strategic and Action Planning Workshop (1 whole day)	PMO, RPMOs, DRTAC, DSMC, project contractor(s), local civil society, representatives of local stakeholders	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Shared responsibility</li> <li>• Shared decision-making</li> <li>• Control</li> </ul>	<ul style="list-style-type: none"> <li>• Develop strategic action plans in line with the sector road map under the 15 Year Plan</li> <li>• Review compliance with social safeguards, environment, gender and inclusion frameworks and plans</li> <li>• Discuss progress in implementation, including problems encountered and mitigation measures</li> <li>• Regularly report on the progress of implementation</li> <li>• Half yearly review of project implementation and coordination/clearance issues between departments</li> </ul>	MOUD, DWSS PMO, RPMOs PM consultants DSMC, WUA or local bodies, ADB Project Team	Planning Workshop: Annually  PMO, RPMO, DSMC, Contractors, quarterly monitoring meetings	Planning workshop: \$500 x 5 years = <b>\$2,500</b> Quarterly monitoring meetings: \$200 x 4 x 5 years = <b>\$4000</b> PCC meetings \$500x2x5 years = <b>\$5000</b>
PMO/RPMO/DSMC/DRTA C Meetings (half day)						
Project Coordination Committee (PCC) meetings	Chair and members of PCC				PCC Meetings: Half yearly	
Orientation workshop for contractors/ laborers	All project-related staff and laborers in contractor's teams	<ul style="list-style-type: none"> <li>• Information sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Construction management</li> <li>• Quality assurance</li> <li>• Core labor standards,</li> </ul>	PMO, RPMOs, consultants	Year 1 of each batch	\$1000x4 workshop= <b>\$4000</b>

C&P Activity	Target Stakeholders	Type of Participation	Objectives of the C&P Activity	Responsible Unit/Persons	Time	Cost Estimate
			<ul style="list-style-type: none"> <li>HIV/AIDS, equal pay for men and women, among others.</li> <li>Framework for inclusion of poor and vulnerable; environmental and social safeguards compliance; grievance redress mechanism, and contractors' role in GESI Action Plan</li> <li>Assistance to affected persons during construction</li> </ul>	WUAs or local bodies Contractors		
1 Project orientation seminar (POS) in each town in the first year of implementation for community members (end users and affected persons) ( <i>half day</i> )	<ul style="list-style-type: none"> <li>100 community members, with at least 30 women participating per project orientation. Civil society groups, youth clubs, IPs, dalits, poor including non-titleholders (squatters and encroachers)</li> </ul>	<ul style="list-style-type: none"> <li>Information sharing</li> <li>Consultation</li> <li>Shared decision-making</li> </ul>	<ul style="list-style-type: none"> <li>Introduce the project, its importance to the community</li> <li>Demonstrate the link between improved water supply and sanitation to good health, women's empowerment, environmental conservation</li> <li>Health and hygiene</li> <li>Discuss scale of investments, O&amp;M costs and importance of cost recovery</li> </ul>	PMO, RPMOs, DSMCs, WUAs or local bodies consultants	Year 1 in each town: 20 workshops	POS: \$ 1000 x 20 = <b>\$20,000</b>
20 Project orientation seminars (1 per town) for women only ( <i>half day</i> )	<ul style="list-style-type: none"> <li>At least 30 women community members including women from poor households per project orientation seminar</li> </ul>		<ul style="list-style-type: none"> <li>Present safeguards and social frameworks and plans, benefits for poor and vulnerable</li> <li>Gather concerns and views on present level of service</li> <li>Gather recommendations for project design and safeguards</li> <li>Generate consensus and support for the project</li> </ul>		Year 1 in each town : 20 workshops	POS for women only: \$ 500 x 20 = <b>\$10,000</b>  <b>Total:            \$30,000</b>

C&P Activity	Target Stakeholders	Type of Participation	Objectives of the C&P Activity	Responsible Unit/Persons	Time	Cost Estimate
Public meetings with affected persons and beneficiaries on resettlement, entitlement, compensation, special protection measures for vulnerable, mitigation and management measures, subsidies for poor and vulnerable, other benefits under the project (1 hour each)	<ul style="list-style-type: none"> <li>affected persons: titled and non-titled APs, Involve women, men in the FGD</li> </ul>	<ul style="list-style-type: none"> <li>Information sharing</li> <li>Consultation</li> </ul>	<ul style="list-style-type: none"> <li>Introduce the project</li> <li>Demonstrate link between improved water supply and sanitation infrastructure and good health, women's empowerment, and environmental conservation.</li> <li>Responsibilities of beneficiaries</li> <li>Subsidies and other benefits available under the Project;</li> <li>Possible livelihood/ special protection measures for vulnerable</li> <li>Solicit the views of APs on resettlement and compensation. Mitigate potential conflict</li> <li>Agree on resettlement processes and compensation</li> <li>Inform about grievance redress mechanism and contacts</li> <li>Discuss potential disruptions and assistance available for shifting to nearby locations</li> <li>Gather recommendations</li> <li>Agree on mitigation measures</li> </ul>	RPMO, DSMC, WUA or local bodies, Contractors, DSMC WUA or local bodies	Years 1-5: 40 meetings in towns/ project areas; at least 1 in low income area in each town	\$ 200 x 2 FGDs x 20 towns = <b>\$8000</b>
Additional consultations with affected persons/beneficiaries as per need						<b>2,000</b>
1 consultation workshop with low income/IP/Dalit communities (end users and affected persons) from project areas in each town (half day)	Representatives of low income groups, dalits, IPs, displaced community	<ul style="list-style-type: none"> <li>Information sharing</li> <li>Consultation</li> </ul>	<ul style="list-style-type: none"> <li>Introduce the project, its importance and benefits</li> <li>Discuss importance of participation in WUAs, maintenance of facilities, opportunities in the project</li> <li>Discuss draft designs and proposed facility locations in the communities, seek feedback</li> <li>Discuss public health and personal hygiene issues</li> </ul>	RPMO, DSMC WUA or local bodies and Contractors	Year 1	Consultation workshops = 20 x <b>\$500</b> = <b>\$ 10000</b>
<b>Total:</b>						<b>\$ 10,000</b>

C&P Activity	Target Stakeholders	Type of Participation	Objectives of the C&P Activity	Responsible Unit/Persons	Time	Cost Estimate
			<ul style="list-style-type: none"> <li>Mitigate potential conflict</li> </ul>			
20 Consultation workshops ( <i>half day</i> ) with community members (end users and affected persons), including school/college students, teachers, academicians, NGOs on the plans, design, location, management of water supply infrastructure, environmental and social mitigation measures	30 representatives of community (at least 30% women and poor, vulnerable HHs), academia, students, teachers NGOs/civil society representatives, per consultation workshop	<ul style="list-style-type: none"> <li>Information sharing</li> <li>Consultation</li> </ul>	<ul style="list-style-type: none"> <li>Introduce the Project</li> <li>Inform community members of the draft design, plans, location, management of water supply and sanitation services; seek feedback</li> <li>Explain benefits of the project including benefits to poor and vulnerable, project costs and need for cost recovery</li> <li>Share information on proposed mitigation measures</li> <li>Create awareness on water conservation, health and hygiene, demand management, community outreach through school/college going children</li> </ul>	RPMOs, DSMC WUA or local bodies	Year 1 : 1 workshop per town	consultation workshops \$ 500 x 20 = <b>\$10,000</b>
Workshops to be followed by debates, quizzes and painting competitions for schools and colleges	4 schools and colleges in each town					
Participatory Review Meetings in project towns ( <i>half day</i> )	10-12 representatives (50% women) from the community and civil society (representatives of CBOs, residents/traders associations, poor/slum/IP/Dalit communities, private sector)	<ul style="list-style-type: none"> <li>Information sharing</li> <li>Shared responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Surface issues and concerns during project implementation</li> <li>Discuss and recommend measures to mitigate / address the problems</li> <li>Monitor progress of project implementation</li> </ul>	RPMOs, WUA or local bodies Contractors	Participatory Monitoring Meetings: Semiannually	\$300 x 2x20 x 2 years = <b>\$24,000</b>
<b>TOTAL COST OF CONSULTATION AND PARTICIPATION</b>						<b>\$ 103,500</b>

ADB = Asian Development Bank, C&P = consultation and participation, CBO = community-based organizations, DSMC=Design, Supervision and Management Consultants, FGD = focus group discussion, HH = household, PMO=Project Management Office, RPMO = Regional Project Management Office, POS = project orientation seminar, PSC = Project Steering Committee, VDC=Village Development Committee.

## APPENDIX 7: GRIEVANCE REDRESS MECHANISM

1. A project-specific grievance redress mechanism (GRM) will be established to receive, evaluate and facilitate resolution of affected persons' concerns, complaints, and grievances related to social, environmental and other concerns on the project. The GRM will aim to provide a time-bound and transparent mechanism to resolve such concerns.

2. A common GRM will be in place for social, environmental or any other grievances related to the project. The GRM will provide an accessible forum for receiving and facilitating resolution of affected persons' grievances related to the project. Project will publish the sample grievance registration form on its website, and publish it in local language, at the hoarding board of each of the participating WUA or local bodies' office. Every grievance shall be registered with careful documentation of process adopted for each of the grievance handled, as explained below. The environmental and social safeguards officer (ESO/SSO) at the project management office (PMO) will have the overall responsibility for timely grievance redress on environmental and social safeguards issues. The Social Development Officer at the Regional Project Management Office (RPMO) will be the focal person for facilitating the grievance redress at the local level.

3. A town-level public awareness campaign will be conducted on a regular basis as shown in the communication and Public Participation Plan (CAPP) of the project to ensure awareness on the project and its GRM. The social and environmental safeguards experts of the DRTAC and DSMCs will support the WUA or local bodies in conducting town-wide awareness campaigns, which will ensure that all stakeholders including poor and vulnerable are aware of the GRM and project's entitlements.

4. A Grievance Redress Committee (GRC) will be formed at the town/VDC/Municipality level, comprising the Chairperson of V/M/D WASH CC as the chairperson of GRC, and Secretary of concerned WUA or local bodies as the GRC secretary. The GRC members will comprise of (1) RPMO social development/environmental (as relevant) officer, (2) representative of affected persons, (3) DSMC's safeguards specialist (social/environment as relevant), (4) a representative of reputable CBO/SHG/organisation working in the project area<sup>1</sup>, and (5) contractor's representative. The secretary of the GRC will be responsible for convening timely meetings and maintaining minutes of meetings. The concerned social safeguards expert of DSMC will support the RPMO safeguard's officer and Project Manager of RPMO to ensure that grievances, including those of the poor and vulnerable are addressed. All GRCs shall have at least two women committee members. Along with representatives of the APs, civil society and eminent citizens can be invited as observers in GRC meetings.

5. The functions of the local GRC are as follows: (i) provide support to affected persons on problems arising from environmental or social disruption; asset acquisition (if necessary); and eligibility for entitlements, compensation and assistance; (ii) record grievances of APs, categorize and prioritize them and provide solutions within 15 days of receipt of complaint by WUA or local bodies; and (iii) ensure feedback to the aggrieved parties about developments regarding their grievances and decisions of the GRC. The GRM procedure is depicted in **Figure 1**, and is outlined below in detail, with each step having time-bound schedules and responsible persons to address grievances and indicating appropriate persons whose advice is to be sought at each stage, as required:

<sup>1</sup> If the complaints are related with IP/Dalits/other vulnerable groups, specific NGO/CBO that actively involved in development of these communities should be involved.

- (i) **First Level of GRM** (WUA or local bodies-level): The first-level, which is also the most accessible and immediate venue for quick resolution of grievances will be the contractors, DSMC field engineers and RPMO supervision personnel, who will immediately inform the WUA or local bodies. Any person with a grievance related to the project works can contact the Project to file a complaint. The town-level field office of the RPMO, in WUA's building, will document the complaint within 24 hours of receipt of complaint in the field, and WUA or local bodies will immediately address and resolve the issue at field-level with the contractor, supervision personnel of RPMO and DSMC field engineers within 5 days of receipt of a complaint/grievance. The assigned DSMC's Social Mobilizer will be responsible to fully document: (i) name of the person, (ii) date of complaint received, (iii) nature of complaint, (iv) location and (v) how the complaint was resolved. If the complaint remains unresolved at the local level within 5 days, the WUA or local bodies will forward the complaint to the village/ municipality level GRM to be dealt by its relevant WASH CC.
- (ii) **Second Level of GRM** (Village/ Municipality level): The complainant will be notified by the WUA or local bodies that the grievance is forwarded to the VDC/Municipality-level GRC. The V/M level GRC will be called for a meeting, called and chaired by the V/M WASH CC chairperson. The GRC will recommend corrective measures at the field level and assign clear responsibilities for implementing its decision within 10 days of receipt of complaint by WUA or local bodies. If the grievance remains unresolved within 10 days of receipt of complaint by WUA or local bodies, the matter will be referred to the third level. The RPMO Social Development Officer (SDO) will be responsible for processing and placing all papers before the GRC, recording decisions, issuing minutes of the meetings and taking follow up actions so that formal orders are issued and decisions are carried out.
- (iii) **Third Level of GRM** (PMO Level): Any unresolved or major issues at Municipality/Village level will be referred to the PMO for final solution. The PMO's Project Director (PD) and FedWASUN chairperson/ representative will have special meeting to find solutions. Decision has to be made within 15 days of receipt of complaint by WUA or local bodies. The PD will sign off on all grievances received by the PMO. The environmental and social safeguards officers (ESO & SSO) of PMO will be involved with support from the DRTAC's social/environment safeguards experts. The SSO will be responsible to convey the final decision to the complainant.

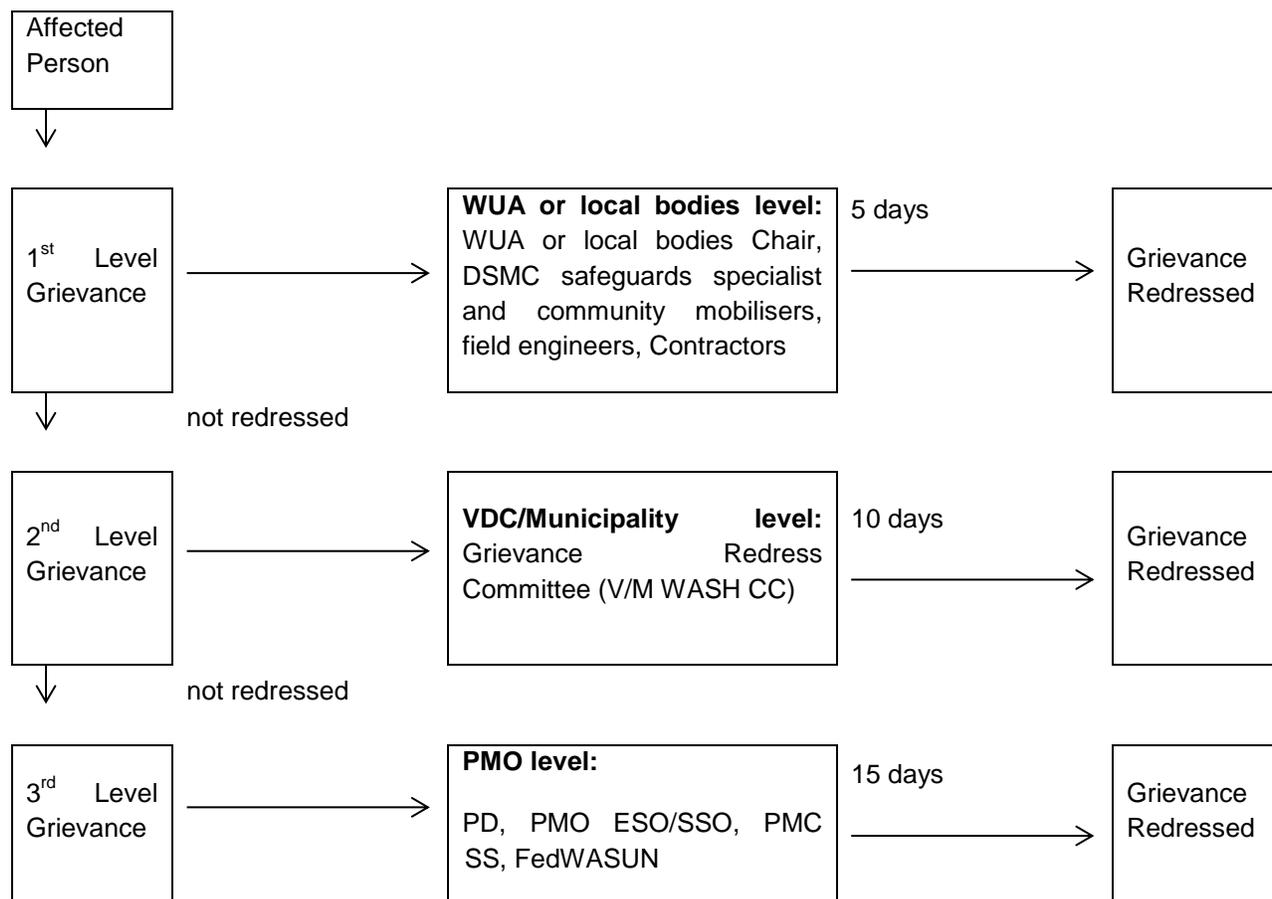
6. All paperwork (details of grievances) needs to be completed by the WUA or local bodies member secretary and circulated to the WUA or local bodies Chairperson and members. At Village/Municipality level, the Village/Municipality SDO will be responsible for circulation of grievances to the Regional Project Manager, DWSS and other GRC members, prior to the scheduled meetings. The RPMO's SDO will be responsible for follow-through of all escalated grievances. All decisions taken by the GRC will be communicated to the APs by the RPMO's SDO.

7. Despite the project GRM, an aggrieved person shall have access to the country's legal system at any stage, and accessing the country's legal system can run parallel to accessing the GRM and is not dependent on the negative outcome of the GRM.

8. In the event that the established GRM is not in a position to resolve the issue, the affected person also can use ADB's Accountability Mechanism (AM) through directly contacting

(in writing) the Complaint Receiving Officer (CRO) at ADB headquarters or the ADB Nepal Resident Mission. The complaint can be submitted in any of the official languages of ADB's developing member countries (DMCs). The ADB's AM information will be included in the Project Information Datasheet (PID), to be published in web and distributed to the affected communities, as part of the project GRM.

**Figure 1: Grievance Redress Process**



DSMC=design, supervision and management consultant; ESO = environmental and social safeguards officer; GRC = grievance redress committee; PD = project director; PMC = project management consultant; PMO = project management office.

9. **Record keeping and disclosure.** Records at the town-level will be kept by the concerned WUA or local bodies member secretary, of all grievances received, including contact details of complainant, date the complaint was received, nature of grievance, agreed corrective actions and the date of the incident and final outcome. The number of grievances recorded and resolved and the outcomes will be displayed/disclosed in the PMO office, WUA or local bodies, and on the web, as well as reported in the safeguards monitoring reports submitted to ADB on a semi-annual basis. For any grievance escalated to RPMO/VDC/Municipality level, the RPMO's SDO will be responsible for record-keeping, calling of GRC meetings and timely sharing of information with WUA or local bodies. For grievances escalated to PMO and above, the PMO's SSO will be responsible for maintenance of records, sending copies to RPMO and WUA for timely sharing of information with the person filing complaint.

10. **Periodic review and documentation of lessons learned.** The PMO's SSO will periodically review the functioning of the GRM at town or WUA level and field level and record information on the effectiveness of the mechanism, especially on the project's ability to prevent and address grievances. Indicators pertaining to grievance redress (no. of grievances received, no. redressed/resolved to be reported by Member Secretary, WUA to RPMO SDO, and by RPMO to PMO SSO) in monthly and quarterly progress reports.

11. **Costs.** All costs involved in resolving the complaints (meetings, consultations, communication and reporting/information dissemination) at local (field/ward/town) level will be borne by the concerned focal organizations at each level: WUA or local bodies at town level; RPMO at regional level and PMO at central level. Cost estimates for grievance redress are included in resettlement cost estimates.

## APPENDIX 8: STATEMENT OF AUDIT NEEDS TEMPLATE

### A. Background

1. The ADB and the Government of Nepal (GON) have entered into a Loan Agreement whereby, ADB shall provide \$60 million for the purpose of financing Third Small Towns Water Supply and Sanitation Sector Project (STWSSSP) in Nepal. The GON shall contribute \$23.1 million against this funding. This will be carried out by the Water User Associations (WUAs) or Local Bodies in the selected sub project towns through the Department of Water Supply and Sewerage (DWSS). DWSS shall maintain separate books of account which will be consolidated by its Project Management Office (PMO) with respect to this Project, including all items of expenditure financed out of the proceeds of the loan and grant agreement. Fund shall be channeled to the Water User Associations (WUAs) as loan through Town Development Fund (TDF), while PMO will pay the grant portion for the subprojects either by itself or through its two regional PMOs established for the Project. PMO shall ensure that records are maintained for expenditure incurred by all Project WUAs or local bodies under the subprojects and that this expenditure is also subject to audit. Project financial statements shall include all sources of funds including the grant and loans on-lent to WUAs by TDF. The project financial statements shall include all uses of funds including all expenditure incurred by DWSS, PMO/ RPMO and WUAs or local bodies relating to this Project.

### B. Project Development Objectives

2. The Project is designed to improve living conditions in up to 26 small towns of Nepal. It will support physical investments in water supply and sanitation (WSS) infrastructure in selected small towns (project towns)<sup>1</sup> and non-physical investments in strengthening sector policy, regulatory and institutional capacity, service delivery and project management. The project outputs are given in the RRP and linked documents.

### C. Financial Reporting and Audit Requirements

3. DWSS will prepare Third STWSSP consolidated<sup>2</sup> financial statements on a cash basis, in accordance with the Government Auditing Standards Part 3: Segment Audit Guidelines for Project Financial Statements issued in October 2005 as modified by this Statement of Audit Needs. This shall not be construed to refer to the financial statements of DWSS as a whole.

4. The audit of the project financial statements shall be carried out by the Office of the Auditor General (OAG) of Nepal in accordance with the GON Auditing Standards<sup>3</sup> as supplemented by this Statement of Audit needs. The auditor will review that the funds received from all sources and expenditures incurred during the reporting period are as per agreed terms and conditions. This will include all expenditure to the extent that it relates to the activities of the DWSS and the WUAs supporting this Project.

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<sup>1</sup> Project towns mean up to 26 selected small towns where the project will support new WSS facilities and selected small towns where the project will support rehabilitation/ expansion of existing facilities. Based on data from 12 pre-identified project towns, average population of project towns is estimated at around 15000.

<sup>2</sup> Consolidated financial statements refers to the consolidated activities of all the WUAs in the small towns as well as PMO and administrative costs incurred by DWSS under this project

<sup>3</sup> OAG has adopted Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI)

DWSS will submit to ADB audited project financial statements as of 15 July each year, within 9 months of the end of the fiscal year 2015 and 2016, within 8 months of the end of the FY 2017 and 2018 and within 6 months of the end of the FY 2019 and 2020 in English. A complete set of audited project financial statements includes:

- (i) Audit Opinion on the Project Financial Statements in accordance with International Standard of Supreme Audit Institutions (ISSAI) 1800 or national equivalent;
- (ii) Audit Opinion on Specific Donor Requirements<sup>4</sup> (in accordance with ISSAI 4100 and/or 4200 or national equivalent);
- (iii) Project Financial Statements and Statement of Budget vs. Actual along with complete notes to the financial statements including necessary break downs and details, summary of accounting policies and descriptive explanatory notes; and
- (iv) Management Letter (*see paragraph F below*).

5. To ensure the timely submission of audited project financial statements, DWSS will formally request the OAG to include Third STWSSP project audits in their yearly work plan prior to loan negotiations. DWSS shall also ensure that progress against the Financial Reporting Table is monitored.<sup>5</sup> To support timely submission, unaudited project financial statements should be submitted to the OAG for audit within 5 months of the end of the fiscal year 2015 and 2016, within 4 months of the fiscal year 2016 and 2017 and within 3 months of the end of the FY 2019 and 2020 Where WUAs have their own financial statements audited by local private auditors, OAGN may rely on the work of these auditors provided that (i) OAGN ensures that the auditors appointed are independent and competent, (ii) Copies of such audited financial statements are made available to OAGN and ADB, and (iii) OAGN can access the working papers of the private auditors' if they require. Management Agreement's with WUAs should incorporate that WUAs shall ensure that OAGN is provided access to all books and records.

6. In addition, TDF shall submit its annual audited financial statements to ADB within one month of their approval by the governing authority. TDFs auditors shall also give an audit opinion as to whether financial covenants stipulated in the loan agreement pertaining to TDF have been complied with. (See para 10 below)

#### **D. Specific Audit Needs**

7. The audit would cover the entire Project, i.e. covering all sources and application of funds, including the ADB, co-financiers, the GON and beneficiary contributions provided to the WUAs both through DWSS and TDF, and direct payments, if any. The Project Director shall provide all pertinent information to the Auditors including preservation and use of resources procured and its reflection in the project accounts, so as to facilitate comprehensive audit coverage. The audits should be carried out annually from commencement of the Project. The audit for the first year should also cover transactions, which occurred from the commencement of the project, i.e. till the end of the fiscal year. In case the period is less than 6 months, GON may agree with ADB to provide APFS from the commencement of the Project to the end of the subsequent fiscal year.

8. The auditor will provide assurance as to whether the project financial statements present a true and fair view of the receipts and expenditures, or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

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<sup>4</sup> This may be combined with (i) above or given separately

<sup>5</sup> Timetable given as Annexure to the PAM

9. In addition, ADB will also require an assessment by the auditors of compliance with provisions of the financing agreement with ADB, especially those relating to accounting and financial matters. Positive assurance should be provided in accordance with ISSAI 4200. An audit opinion shall be provided that will inter alia include verification that:

- (i) All funds, including counterpart funds, have been used in accordance with the conditions of the loan agreements, , and only for the purposes for which the funds were provided;
- (ii) The DWSS and WUAs were in compliance as at [insert date] with all financial covenants of the loan agreement;
- (iii) With respect to SOEs, (a) adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursement of expenditures incurred, and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for financing under the Loan Agreement; and
- (iv) The Imprest Account gives a true and fair view of the receipts collected and payments made during the year ended [insert date], and these receipts and payments support the Imprest Account Liquidation/ replenishments during the year.

10. ADB requires assurance from TDFs statutory auditors that the following specific financial loan covenants have been complied with:

- (i) Loan Agreement – Schedule 5 – Paragraphs 20 and 21

#### **E. Project Financial Statements (PFSs)**

11. Project Financial statements shall be prepared on a cash basis of accounting in accordance with GON accounting policies. These should include:

- (i) Sources and Consolidated Uses of Funds showing the funds received and expended from ADB and GON for Third STWSSP, as well as imprest account balance for the current year, prior year and cumulative year to date;
- (ii) Statement of Budget vs. Actual showing expenditure for the current year and cumulative year to date;
- (iii) Detailed notes to the financial statements including explanatory notes, break down of expenditure, reconciliation of reimbursements, Details of expenditure by Currency/Method of Funding/Output Component, Statement of Imprest Account, and Accounting Policies; and
- (iv) Annexure to the APFS shall include the (a) Statement of Expenditure (b) Imprest Account Ledger (c) Imprest Account Reconciliation Statements (d) Reconciliation Statement of Reimbursable Fund (e) Disbursement Details (f) Photocopy of the Imprest Account Bank Statement and (g) Bank voucher for unspent balances.

12. Project Books of Account shall be maintained by the Project Management Office (PMO)

13. Project Financial Statements shall provide sufficient level of detail to identify types of expenditures as identified in the allocation Table of the Loan Agreements; namely civil works, consulting services, training, equipment, incremental recurrent costs etc.

14. The project financial statements shall also provide sufficient level of detail to be able to identify expenditure relating to each of the 3 Outputs of the Project; namely, (i) Output 1: Improved water supply and sanitation infrastructure in up to 26 new small towns, (ii) Output 2

Strengthened sector policy, regulatory and institutional capacity and service delivery and, (iii) Output 3: Improved Project Implementation

15. Template financial statements are provided in the Annexure given the Government Auditing Standards<sup>6</sup>, which shall be tailored by the PMU to incorporate the requirements of the Nepal Public Sector Accounting Standards (NPSAS), which have been approved for adoption by the GON in 2009. Although these are not yet effective in Nepal, given the elevated status of the NPSAS on the government's accounting reform agenda, template Project Financial Statements have incorporated some of the key requirements.<sup>7</sup> This is even more relevant since under ADB's revised Public Disclosure Policy 2011, Project Financial Statements shall be disclosed on ADB's website. Please note that any financial statement template is a working draft, which may require adjustment based on the actual activities of the Project as well as the Chart of Accounts in use.

## **F. Management Letter**

16. In addition to the audit report, ADB will require a separate management letter. The management letter should be prepared in accordance with Annexure 12 of the Government Auditing Standards Part 3: Segment Audit Guidelines for Project Financial Statements issued by the Office of the Auditor General, Nepal in October 2005.

17. The management letter should specifically:

- (i) Give comments and observations on the notes to the accounts, accounting records, systems, and internal controls that were examined during the course of the audit;
- (ii) Identify specific deficiencies and areas of weakness in systems and internal controls and make recommendations for their improvement including DWSS response to the identified deficiencies;
- (iii) Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the Project; and
- (iv) Follow-up audit recommendations made in preceding years

18. Serious issues, which affect the auditor's opinion as to whether the financial statements give a true and fair view, should be referred to in the audit opinion. Management Letter should include only those issues which do not affect the fairness of the financial statements.

## **G. General**

19. Review missions and normal program supervision will monitor compliance with financial reporting and auditing requirements and will follow up with concerned parties, including the external auditor.

20. ADB has made GON and DWSS aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited financial statements<sup>8</sup>. ADB

<sup>6</sup> Government Auditing Standards Part 3: Segment Audit Guidelines – Project Financial Statements issued by the OAG in October 2005 Annexure 1 prepared to cater to donor requirements by the OAG

<sup>7</sup> Key modifications to the template are the inclusion of (i) prior year comparative information in all statements and notes (ii) details of expenditure by Output (iii) detailed descriptive explanatory notes

<sup>8</sup> ADB Policy on delayed submission of audited project financial statements:

- When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six

reserves the right to require a change in the auditor in a manner consistent with the constitution of the borrower, or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed.

21. ADB retains the right to verify or have audited (i) the project, (ii) the validity of DWSS's certification for each withdrawal application, and (iii) that ADB's financing is used in accordance with ADB's policies and procedures.

22. In case an external auditor needs to be commissioned for a supplementary audit, the auditor should be given access to all legal documents, correspondences, and any other information associated with the commission and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding with ADB and the Government, etc.

## H. Public Disclosure

23. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by ADB's Public Communications Policy (2011)<sup>9</sup>. After review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days upon date of their receipt by posting them on ADB's website. The Audit Management Letter and entity level financial statements will not be disclosed.

*Note: This is a statement of audit needs for ADB and does not in any way intend to limit the scope of the statutory audit.*

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months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.

- When audited project financial statements are not received within six months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursements, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.
- When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

<sup>9</sup> Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>