

---

GRANT NUMBER 0405-NEP(EF)

GRANT AGREEMENT  
(Externally Financed)

(Third Small Towns Water Supply and Sanitation Sector Project)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED 25 NOVEMBER 2014

---

NEP 35173

**GRANT AGREEMENT  
(Externally Financed)**

GRANT AGREEMENT dated 25 November 2014 between NEPAL (“Recipient”) and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) by a loan agreement of even date herewith between the Recipient and ADB (“ADB Loan Agreement”), ADB has agreed to make a loan to the Recipient from ADB’s Special Funds resources an amount in various currencies equivalent to thirty eight million nine hundred twenty-one thousand Special Drawing Rights (SDR38,921,000) for the purposes of the Project described in Schedule 1 to the ADB Loan Agreement;

(B) the Recipient has, through ADB, applied to the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility (“WFPF”) for a grant for the purposes of financing certain activities under Output 1 of the Project, as further described in Schedule 1; and

(C) ADB has agreed to make the proceeds of the grant from Sanitation Financing Partnership Trust Fund under the WFPF available to the Recipient upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Grant Regulations; Definitions**

Section 1.01. All provisions of the Externally Financed Grant Regulations of ADB, dated 8 April 2009 (“Grant Regulations”), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations and in the ADB Loan Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Grant Agreement have the following meanings:

(a) “ADB Loan Agreement” means the agreement between Recipient and ADB referred to in Recital (A) of this Grant Agreement;

(b) “Consulting Services” means the services to be financed out of the Grant, as referenced in paragraph 2 of Schedule 1 to this Grant Agreement;

(c) “Project” for the purposes of this Grant Agreement, means the activities described in Schedule 1 to this Grant Agreement; and

(d) "Works" means construction or civil works to be financed out of the proceeds of the Grant, including services such as excavations, mapping and any project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services;

## **ARTICLE II**

### **The Grant**

Section 2.01. ADB agrees to make available to the Recipient a grant from the Sanitation Financing Partnership Trust Fund under the WFPF in the amount of one million three hundred thousand Dollars (\$1,300,000) ("Grant").

## **ARTICLE III**

### **Use of Proceeds of the Grant**

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

Section 3.02. The proceeds of the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 4 to the Loan Agreement.

Section 3.04. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2019 or such other date as may from time to time be agreed between the Recipient and ADB.

## **ARTICLE IV**

### **Particular Covenants**

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

Section 4.02. (a) The Recipient shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish 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, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements 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.

(c) The Recipient shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Recipient's financial affairs where they relate to the Project with the auditors confirmed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Recipient, unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the Works, and any relevant records and documents.

Section 4.04. The Recipient acknowledges and agrees that this Grant Agreement is entered into by ADB, not in its individual capacity, but as grant administrator for the Sanitation Financing Partnership Trust Fund under the WFPF. Accordingly, the Recipient agrees that (i) it may only withdraw Grant proceeds to the extent that ADB has received proceeds for the Grant from the Sanitation Financing Partnership Trust Fund under the WFPF; and (ii) that ADB does not assume any obligations or responsibilities of the Sanitation Financing Partnership Trust Fund under the WFPF in respect of the Project or the Grant other than those set out in this Grant Agreement.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) and 9.02(c) of the Grant Regulations: the ADB Loan Agreement shall have been duly executed and

delivered on behalf of the Recipient, and all conditions precedent to its effectiveness shall have been fulfilled.

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

## **ARTICLE VI**

### **Miscellaneous**

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

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

#### For the Recipient

Ministry of Finance  
Singha Durbar  
Kathmandu, Nepal

Facsimile Number:  
(977 1) 421-1164.

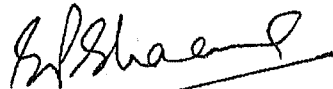
#### For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines


Facsimile Numbers:  
(63 2) 636-2444  
(63 2) 636-2293.

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

NEPAL

By   
\_\_\_\_\_  
SUMAN PRASAD SHARMA  
Secretary  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
KENICHI YOKOYAMA  
Country Director  
Nepal Resident Mission

## **SCHEDULE 1**

### **Description of the Project**

1. The Project will comprise of three outputs as follows:
  - (i) Strengthening of regulatory and institutional arrangements for septage management and the required capacity building support;
  - (ii) Feasibility study, design and construction and operation of septage treatment facilities; and
  - (iii) Operationalization of regulatory framework for the service providers, ongoing training and public awareness campaign.
2. Consulting Services will be provided to undertake the above.
3. The Project is expected to be completed by 31 January 2019.

## SCHEDULE 2

### Allocation and Withdrawal of Grant Proceeds

#### General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Grant and the allocation of the Grant proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

#### Basis for Withdrawal from the Grant Account

2. Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

#### Reallocation

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

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

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

#### Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

#### Retroactive Financing

5. Withdrawals from the Grant Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Grant Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to 10% of the Grant amount.



**TABLE**

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Third Small Towns Water Supply and Sanitation Sector Project)</b>			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated (\$) Category</b>	<b>Basis for Withdrawal from the Grant Account</b>
1	Civil Works and Equipment- Septage Management	1,100,000	73% of total expenditure claimed
2	Consulting Services	200,000	88% of total expenditure claimed
	Total	1,300,000	