

CONFORMED COPY

GRANT NUMBER H101-BD

Development Grant Agreement

(Water Supply Program Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2004

GRANT NUMBER H101-BD

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 30, 2004, between the PEOPLE'S REPUBLIC OF BANGLADESH (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

WHEREAS (B) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05 and Article VII, are deleted in their entirety.

(b) Wherever used in the General Conditions, the following terms are modified to read as follows:

- (i) The term "Borrower" is modified to read "Recipient".
- (ii) The term "Credit" is modified to read "Grant".
- (iii) The term "credit" is modified to read "grant"; except that where used in Sections 6.02(a)(ii) and 6.02(c)(i), as modified below, the term "credit" shall continue to read "credit".
- (iv) The term "Credit Account" is modified to read "Grant Account".
- (v) The term "Development Credit Agreement" is modified to read "Development Grant Agreement".

(c) Article IV is modified as follows:

(i) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable

(a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(ii) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

(iii) Section 4.03 and its heading are modified to read as follows:

“Section 4.03 Amount of the Grant.

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02(a)(ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02(c)(i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

(e) The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

- (f) Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “ADP” means the Recipient’s Annual Development Plan furnished to the Association pursuant to paragraph 2 of Schedule 4 to this Agreement;

(b) “Beneficiary” means any private enterprise or a non-governmental organization, for whose benefit a Sub-project (as hereinafter defined) is being, or will be, carried out;

(c) “DPHE” means the Recipient’s Department of Public Health Engineering

(d) “FY” or “Fiscal Year” means the Recipient’s fiscal year commencing on July 1 and ending on June 30;

(e) “IDCOL” means the Infrastructure Development Company Limited, a body corporate established and existing under the Bangladesh Companies Act (1994);

(f) “MLGRDC” means the Recipient’s Ministry of Local Government, Rural Development and Cooperatives;

(g) “Operational Manual” means the Operational Manual to be prepared by the Recipient, pursuant to Section 5.01 of this Agreement, for use in the carrying out of the Project, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the Operational Manual;

(h) “PMU” means the Project Management Unit within DPHE, and referred to in paragraph 3 of Schedule 4 to this Agreement;

(i) “Performance Indicators” means indicators referred to in Schedule 5 to this Agreement;

(j) “Pourashava” means any of the municipalities to be covered by the Project;

(k) “Procurement Regulations” means the Recipient’s Public Procurement Regulations, 2003, satisfactory to the Association, published in the Recipient’s Gazette;

(l) “PWSE” means Pourashava Water Supply Entity, referred to in paragraph 8(a) of Schedule 4 to this Agreement;

(m) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this agreement;

(n) “Special Account” means the Convertible Taka Special Account referred to in Part B of Schedule 1 to this Agreement and described in the Circular dated September 2, 1991 as revised on May 4, 1992 and December 24, 1992 of the Finance Division of the Recipient’s Ministry of Finance entitled “Procedures for Operation of Convertible Taka Special Account (CONTASA) of IDA-Aided Development Projects Under Government, Departments, Autonomous, Semi-Autonomous Bodies,” as such Circular may be amended from time to time in agreement with the Association;

(o) “Sub-loan” means a loan made or proposed to be made out of the proceeds of the Grant, under Part E of the Project;

(p) “Sub-project” means any scheme, activity or service financed, or proposed to be financed under Part A or B or C of the Project;

(q) “Taka” means the currency of the Recipient; and

(r) “Upazila” means a sub-district, the lowest administrative unit in the territory of the Recipient.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-seven million six hundred thousand Special Drawing Rights (SDR 27,600,000).

Section 2.02. The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the

reasonable cost of goods, works, and services to be financed out of the proceeds of the Grant.

Section 2.03. The Closing Date shall be April 30, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on February 1 and August 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Recipient on said plan.

Section 3.04. In the carrying out of Part B of the Project, the Recipient shall:

(a) enter into an agreement on the amount of grant to eligible Pourashavas and the on-lending terms to PWSE for repayment of non-grant element to the Recipient; (b) enter into an agreement with Pourashava to promptly act on tariffs as agreed upon in the contract with the private operator; and (c) take, or cause to be taken, all necessary measures to ensure that its agencies and the Pourashavas promptly pay their water supply charges to PWSE.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain or cause to be established and maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such

other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association) as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations elsewhere in this Agreement, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in implementation of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of the Project; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) the Recipient has prepared an Operational Manual, in form and substance satisfactory to the Association; and

(b) the Recipient has approved the Project Proforma.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Secretary, or the Additional Secretary, or any Joint Secretary, or Deputy Secretary, or Senior Assistant Secretary, or Assistant Secretary, or Joint Chief, or Deputy Chief, or Senior Assistant Chief, or Assistant Chief of the Economic Relations Division of the Ministry of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

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

Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD

Telex:

642226 SETU BJ

Facsimile:

88028113088

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS 6391 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Dhaka, People's Republic of Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Badiur Rahman

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ David Hughart

Acting Country Director
Bangladesh

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works (under Part C)	2,140,000	80%
(2) Sub-projects (under Part A)	7,030,000	50%
(3) Sub-projects (under Part B)	7,310,000	90%
(4) Consultant's services	1,660,000	80%
(5) Training and Studies	2,070,000	80%
(6) Goods	900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 70% of local expenditures for other items procured locally
(7) Service Charge	280,000	100%
(8) Sub-loans under Part E	3,170,000	100%
(9) Operating Costs	830,000	85%
(10) Unallocated	2,210,000	
TOTAL	<u>27,600,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient;

(c) the term “Service Charge” means the financing of the differential-amount for services identified in a specific contract between the Recipient and a private operator selected to provide a number of services in an eligible Pourashava, consistent with the Operational Manual, under Part B of the Project; and

(d) the term “operating costs” means costs incurred by the PMU on account of the administration of the Project, including the maintenance of equipment, costs of consumables, fuel, office rentals, incremental salaries, office utilities and supplies.

3. Notwithstanding the provisions of paragraph 1 above, (a) no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 350,000 may be made on account of payments made for expenditures before that date but after September 30, 2003; (b) no withdrawals shall be made in respect of payments made for expenditure under Part B.1 of the Project, unless the eligible Pourashava has established a PWSE with separate financial accounts and entered into a management contract with private operator for a period of no less than 10 years; (c) no withdrawals shall be made in respect of payments made for expenditures for Sub-projects, unless the Sub-projects have been made in accordance with the procedures and on the terms and conditions set forth in the Operational Manual; and (d) no withdrawals shall be made in respect of payments made for expenditures for Sub-loans, unless the Sub-loans have been made in accordance with the procedures referred to in paragraph 10 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts costing less than \$200,000 equivalent each; (ii) goods under contracts costing less than \$200,000 equivalent each (iii) services of firms under contracts costing less than \$100,000 equivalent each; (iv) services of individual consultants under contracts costing less than \$50,000 equivalent each; (v) training, workshops, seminars; and (vi) Service

Charge, Sub-loans, and Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Taka a special deposit account, on terms and conditions satisfactory to the Association for carrying out the Project.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent

withdrawal or for cancellation in accordance with the provisions of this Grant Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of Taka 150,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to Taka 90,000,000 until the aggregate amount of withdrawals from the Grant Account allocated to Categories (1) through (9) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 7,000,000.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts, which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals, as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the

Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to the Recipient's efforts to achieve the Millennium Development Goals (MDGs) in water supply and sanitation by 2015, specifically by piloting innovative measures to scale up the provision of safe water supply free from arsenic and pathogens in rural areas and small towns.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

Part A: Rural Piped Water Supply

Provision of technical advisory services to private sponsors (including NGOs, private companies, cooperatives and community-based organizations) to design, implement and operate sustainable piped water supply systems Sub-projects in rural villages and growth centers and to other stakeholders (including Union Parishads and communities) on related operational aspects of piped water systems, including the provision of capital construction grants to private sponsors for implementation of the Sub-projects.

Part B: Water and Sanitation Services in Medium-size Cities

1. Pourashavas and Private-Sector Involvement in Piped Water Supply

(a) Improving water supply service in 3 to 5 mid-sized Pourashavas by promoting participation of the local private sector as a viable option to design, build, and operate the water supply systems, on a pilot basis, including: (i) rehabilitation and construction of the Pourashava water supply system; (ii) 24-hour supply of water; (iii) provision of arsenic free and bacteriologically safe water by substituting contaminated Pourashava production wells and by offering an alternative to households relying on contaminated water from hand pumps.

(b) Provision of technical advisory services for the preparation, bidding and supervision of construction related to the activities described in paragraph (a) above, including the legal instrument and operational manual necessary for the design of a water supply entity in the Pourashava.

(c) Strengthening of capacity to raise awareness and understanding of private sector participation, including training of central and local staff in the supervision and monitoring of contracts with the private operator.

(d) Provision of professional services for the technical and financial audit of private operator performance.

2. Urban Sanitation

Carrying out of pre-feasibility studies for urban sanitation, including: (i) preparation of alternative sanitation options (including condominal sewer systems, individual house units and latrines); and (ii) definition of institutional options and financial arrangements to operate and maintain public sanitation systems.

Part C: Non-piped Arsenic Mitigation Activities

1. Carrying out of arsenic mitigation activities through the communities (wards and Union Parishads), on a demand-driven basis, including availing funds to wards for implementation of action plans for villages up to 200 households, located in arsenic-affected Hot Spot Upazilas.

2. Provision of complementary services in fringe areas of those villages where piped water supply will be supplied, but where it will not be feasible, for technical reasons, to cover all households.

1. Capacity Building and Training

(a) Provision of technical advisory services, capacity building programs, and training and workshops for potential sponsors, communities, Union Parishad officials, DPHE staff, and other support entities on issues related to rural piped water supply services.

(b) Provision of technical advisory services through experts in conversion of municipal water departments to commercially viable entities.

(c) Provision of a series of capacity building programs including: (i) for monitoring, planning, implementation and operations of investments; (ii) technical assistance, through NGOs-to-Union Parishads and Ward Arsenic Committees to procure, implement, monitor and maintain the chosen arsenic mitigation package; and (iii) design and implementation of client satisfaction surveys in communities.

2. Regulatory Frameworks

Provision of technical advisory services for the development or the strengthening of regulatory frameworks in two key areas: (i) involvement of the private sector (cooperatives, NGOs and private companies) in rural and urban piped water supply with community participation; and (ii) groundwater management and administration.

3. Water Monitoring

Provision of technical advisory services, equipment or logistical assistance to strengthen water quality monitoring routines and capacity at national (DPHE), Union Parishad and Pourashava levels including: (i) institutional arrangements to support water quality monitoring through DPHE and local governments respectively through appropriate capacity building measures; (ii) groundwater monitoring; and (iii) development and testing of the application of risk-based approaches to water safety management

Part E: Development of Local Credit Market and Risk Management Instruments for Village Piped Water

Developing local credit market and risk management instruments for village piped water supply, including the operation of a funding and financial support mechanism, administered through IDCOL or similar financial institution, and provision of funds therefor.

Part F: Project Monitoring and Evaluation

Provision of technical advisory services, logistical assistance and equipment for the carrying out, through the PMU, of monitoring and evaluation of Project activities.

Part G: Project Management

Provision of goods, equipment, technical advisory services and logistical assistance required by PMU for the management of the Project.

* * *

The Project is expected to be completed by October 31, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Except as the Association shall otherwise agree, procurement of the goods and works to be financed out of the proceeds of this Grant shall be governed by the provisions of this Section I.

Part B: International Competitive Bidding

1. All goods estimated to cost the equivalent of \$300,000 or more per contract and works estimated to cost the equivalent of \$5,000,000 or more per contract, shall be procured under contracts awarded in accordance with the provisions of Section II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 (the Guidelines), and paragraph 5 of Appendix 1 thereto.

The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the selection of sponsors under Part A of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

All contracts for works estimated to cost less than \$5,000,000 equivalent per contract, and all contracts goods estimated to cost less than \$300,000 equivalent per contract, may be procured under National Competitive Bidding procedures in accordance with the Recipient's Procurement Regulations.

2. National Shopping

All contracts for goods estimated to cost less than \$20,000 equivalent per contract, may be procured in accordance with the National Shopping method in accordance with the Recipient's Procurement Regulations.

3. Direct Contracting

All contracts for goods estimated to cost less than \$2000 equivalent per contract, may be procured under Direct Contracting method, in accordance with the Recipient's Procurement Regulations.

4. Force Account

Procurement related to the tariff gap financing and credit markets may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of the Recipient's Procurement Regulations.

5. BOT Procurement

(a) A Sub-project under Part B of the Project shall be constructed, and operated and subsequently transferred under a contract awarded to an entrepreneur on the basis of international competitive bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13(a) thereof. The goods, works and services required for the construction of such Subproject shall then be procured in accordance with the applicable procedures of said entrepreneur.

(b) In those cases where an entrepreneur has not been selected in accordance with the procedures set forth in subparagraph (a) hereof, the goods and works to be financed out of the proceeds of the Grant required for a Sub-project under Part B to be constructed by such enterprise shall be procured under contracts awarded on the basis of international competitive bidding procedures in accordance with, respectively, the provisions of Section II of the Guidelines, paragraph 3.13(b), and according to Parts C(1) and (2) of this Schedule.

6. Concession Contract

As an alternative to the BOT procurement referred to in paragraph 5 above,

Sub-projects under Part B of the Project may be implemented through concessioning arrangement, satisfactory to the Association, through an entrepreneur on the basis of international competitive bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13(a) thereof. The goods, works and services required for the construction of such Sub-project shall then be procured in accordance with the applicable procedures of said entrepreneur.

(b) In those cases where an entrepreneur has not been selected in accordance with the procedures set forth in subparagraph (a) hereof, the goods and works to be financed out of the proceeds of the Grant required for a Sub-project under Part B to be constructed by such enterprise shall be procured under contracts awarded on the basis of international competitive bidding procedures in accordance with, respectively, the provisions of Section II of the Guidelines, paragraph 3.13(b), and according to Parts C(1) and C(2) of this Schedule.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for works estimated to cost the equivalent of \$200,000 or more, and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) Notwithstanding the provision of paragraph (a) above, the Association may, at its own discretion, carry out post review of any contract awarded in accordance with this Section.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 10 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

All local consultants' services under the Project, estimated to cost less than \$200,000, shall be procured in accordance with the Recipient's Procurement Regulations.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

(a) With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

(b) Notwithstanding the provision of (a) above, the Association may, at its own discretion, carry out post review of any contract awarded in accordance with this Section.

SCHEDULE 4

Implementation Program

1. Except as the Association shall otherwise agree, the Recipient shall, in the carrying out of the Project, apply the rules, procedures and guidelines, specified in the Operational Manual, and shall not assign, amend, abrogate or waive the Operational Manual or any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.
2. The Recipient shall, by no later than March 31 each year, furnish to the Association, for review and comment, an ADP for the following year indicating detailed program of activities, including cost, output and performance targets and having regard to the budget estimates based on the annual work plan of the Project.
3. For the purpose of assisting DPHE in the planning, monitoring and coordination of the Project, the Recipient shall promptly establish, and maintain until the completion of the Project, a Project Management Unit (PMU), with terms of reference satisfactory to the Association, including a level of gender balance reflecting the important role of women in water supply management. The PMU, headed by the Project Director of the Project, including key staff agreed with the Association, shall implement the Project.
4. The Recipient shall carry out the Program in accordance with the agreed Environment Assessment Report and ensure that:
 - (a) the Environmental Management Framework, including the environmental screening for Sub-projects, is, at all times, consistently and satisfactorily applied;
 - (b) the annual appraisal of the work plans and third party environmental audits examine the implementation of environmental management measures, and outputs of such appraisal/audit are used to improve the implementation of the Program in the subsequent years.
5. (a) The Recipient shall:
 - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

- (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
- (iii) review with the Association, by March 31, 2007, or such later date as the Association shall request, the report referred to in sub-paragraph (ii) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

(b) The mid-term review referred to in (a) above shall, inter alia, cover the:
(i) Project scope, design and implementation arrangements, and institutional changes;
(ii) implementation progress against agreed indicators in the annual operational plans;
(iii) procurement performance; (iv) performance of consultants; (v) fund flows; and
(vi) lessons learned.

Criteria for the Selection of Sub-projects under Part A of the Project

6. The Sub-projects shall be selected according to the criteria established in the Operational Manual.

7. Unless the Association shall otherwise agree, no Sub-project shall receive a capital construction grant of more than 50% of the total cost.

Criteria for the Selection of Sub-projects under Part B of the Project

8. Unless the Association shall otherwise agree, no Sub-project shall be considered eligible if it does not satisfy the following criteria:

- (a) the Pourashava has been selected in accordance with criteria agreed with the Association, including: (i) presence of arsenic in the water of the service area; and
(ii) the Pourashava's commitment to implement needed reforms to create an autonomous Pourashava Water Supply Entity and to contract with a private operator the management of these services for at least 10 years;

(b) the feasibility study of the proposed Sub-project has included a review of the technical, social, environmental and financial aspects of such Sub-project and confirms that the proposed works are sound;

(c) each proposal clearly indicates: (i) the technical and financial viability; (ii) the appropriate phasing of proposed investments, particularly with regard to proper sequencing of rehabilitation of existing assets; (iii) the institutional reforms required for sustainable operation of those existing assets; (iv) proposed design and construction supervision arrangements; (v) institutional arrangements for the water supply entity that will ensure ongoing viability, including legal status of that entity and its relationship to the Pourashava; (vi) explicit measures to be taken to ensure continuing financial viability and separate financial accounts for the Pourashava; (vii) provisions for water supply to the poor; (viii) terms and conditions of employment for key technical and management staff adequate to attract and retain required expertise; (ix) evidence of additional financing to be provided from Pourashava own resources or private partners, if applicable; and (x) the water supply agency will contract with a private operator the management of its water supply system for a period of not less than 10 years; and

(d) 50% of the total cost of the rehabilitation and construction of the water supply system financed under the grant will be repaid to the Recipient under terms and conditions satisfactory to the Association.

Criteria for the Selection of Sub-projects under Part C of the Project

9. Unless the Association shall otherwise agree, no Sub-project shall be considered eligible if it does not satisfy the following criteria:

(a) the Sub-project is located: (i) in one of the three selected Upazilas agreed to by the Association; or (ii) adjacent to a Sub-project implemented under Part A and due to technical reasons not all households can be connected to piped water supply;

(b) there is consent by consumers to the location of the proposed point source, including a brief analysis of the suitability of the proposed location to provide access for all consumers;

(c) there is consent by the consumers to contribute to at least 10% of the capital cost of the point source, and to periodic assessments over time payable to the union for required maintenance;

(d) there are arrangements by the union to maintain transparent, ring-fenced water accounts for each source to meet construction costs and meet maintenance costs over time;

(e) there are satisfactory design and construction management arrangements; and

(f) there is provisions for access by/supply to households that reside beyond a defined distance from the source.

10. For the purpose of channeling Sub-loans to the eligible Beneficiary under Part E of the Project, the Recipient shall cause IDCOL or any other financial institution, to enter into agreements in form and substance satisfactory to the Association as a condition for the making of Sub-loans. The terms and conditions of each such agreement shall, inter alia:

(a) require that the Beneficiary: (i) carries out the activities with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) maintains adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the activities carried out from the proceeds of the Sub-loan;

(b) require that the goods, works and services to be financed from the proceeds of the Sub-loan shall be procured in accordance with procedures ensuring efficiency and economy; and

(c) reserve for the Recipient the right to:

(i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, and construction financed by the proceeds of the Sub-loan, the operations thereof and any relevant records and documents;

(ii) obtain all information as the Recipient or the Association shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and

(iii) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-loan upon the failure by the Beneficiary to perform any of its obligations under the agreement.

SCHEDULE 5

Performance Indicators

1. Approximately 300 villages provided with functioning piped water supply schemes.
2. At least 3 Pourashavas provided with improved and functioning water supply systems operated through private sector participation.
3. Approximately 200 villages (approximately 2,000 point sources) provided with sustainable alternative water supply options at sufficiently high service levels where arsenic mitigation through piped water supply is not feasible.