
LOAN NUMBER 3566-NEP(COL)

LOAN AGREEMENT
(Ordinary Operations [Concessional])
(Regional Urban Development Project)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED 27 NOVEMBER 2017

NEP 47252

LOAN AGREEMENT
(Ordinary Operations [Concessional])

LOAN AGREEMENT dated 27 November 2017 between NEPAL ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Project will be carried out by the Ministry of Urban Development, and with the assistance of the Municipalities (as defined below); and

(C) ADB has agreed to make a concessional loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All provisions of ADB's Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2017 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

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

- (a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);
- (b) "Consulting Services" means the services to be financed out of the proceeds of the Loan as described in paragraph 3 of Schedule 1 to this Loan Agreement;
- (c) "CRIPP" means combined resettlement and indigenous peoples plan for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the CRIPPF and cleared by ADB;

- (d) "CRIPPF" means combined resettlement and indigenous peoples planning framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (e) "DUDBC" means the Department of Urban Development and Building Construction of MOUD, and any successor thereto;
- (f) "EA" or the "Project Executing Agency" for the purpose of, and within the meaning of, the Loan Regulations, means MOUD working through DUDBC, and any successors thereto acceptable to ADB, which is responsible for carrying out the Project;
- (g) "EARF" means the environmental assessment and review framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (h) "EMP" means each and any environmental management plan for each of the Subprojects, including any update thereto, incorporated in the IEE;
- (i) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (j) "GESI Action Plan" means the Gender Equality and Social Inclusion Action Plan prepared for the Project and approved by the Borrower;
- (k) "GIS" means geographic information system;
- (l) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;
- (m) "IEE" or "Initial Environmental Examination" means each initial environmental examination of each of the Subprojects, including any updates thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;
- (n) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;
- (o) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;
- (p) "km" means kilometers;
- (q) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);

- (r) "MOUD" means the Ministry of Urban Development of the Borrower, and any successor thereto;
- (s) "Municipality" means individually any of, and "Municipalities" means collectively all of, the municipalities, metropolitan cities and sub-metropolitan cities, as applicable, of Bheemdatt, Biratnagar, Birgunj, Dhangadhi, Godavari, Nepalgunj, Shuklaphanta and Siddharthanagar;
- (t) "O&M" means operation and maintenance;
- (u) "PAM" means the project administration manual for the Project dated 7 July 2017 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
- (v) "PBSEDP" means performance-based socio-economic development program;
- (w) "PCO" means project coordination office established by DUDBC to manage Project implementation and coordination and as provided for in detail in the PAM;
- (x) "PIU" means each and any project implementation unit established respectively by the municipalities of Biratnagar, Birgunj, Nepalgunj, and Siddharthanagar;
- (y) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);
- (z) "Procurement Plan" means the procurement plan for the Project dated 7 July 2017 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;
- (aa) "Project facilities" means the facilities to be constructed and the Goods to be provided under the Project;
- (bb) "PSC" means the Project Steering Committee referred to in the PAM;
- (cc) "RP" means resettlement plan for a Subproject, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the CRIPPF and cleared by ADB;
- (dd) "R-PIU" means the regional project implementation unit for the Municipalities of Bheemdatt, Dhangadhi, Godavari and Shuklaphanta;
- (ee) "Rupee" means the currency of the Borrower;
- (ff) "Safeguard Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with

implementation and compliance with the EMP, RP and CRIPP, including any corrective and preventative actions;

- (gg) "SPS" or "Safeguard Policy Statement" means ADB's Safeguard Policy Statement (2009);
- (hh) "Subproject" means each and any subproject under Part 1 and Part 2 of the Project to be carried out by the Municipalities utilizing the Loan proceeds; and
- (ii) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount in various currencies equivalent to one hundred eight million eight thousand Special Drawing Rights (SDR108,008,000).

(b) The Loan has a principal repayment period of 24 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

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

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

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

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

ARTICLE III**Use of Proceeds of the Loan**

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

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

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

Section 3.04. Withdrawals from the Loan Account in respect of Goods, Works, and Consulting Services shall be made only on account of expenditures relating to:

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

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2023 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV**Particular Covenants**

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

Section 4.02. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards 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 auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, 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 6 months after the end of each related fiscal year, 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 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed 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 Borrower, unless the Borrower shall otherwise agree.

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

ARTICLE V

Effectiveness

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary, Ministry of Finance, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

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

For the Borrower

Secretary
Ministry of Finance
Singha Durbar
Kathmandu, Nepal

Facsimile Number:

+977 1 421-1165

For ADB

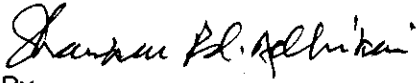
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:


(632) 636-2444
(632) 636-2333.

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

NEPAL


By _____
SHANKAR PRASAD ADHIKARI
Secretary
Ministry of Finance

ASIAN DEVELOPMENT BANK


By _____
MUKHTOR KHAMUDKHANOV
Country Director
Nepal Resident Mission

SCHEDULE 1**Description of the Project**

1. The objective of the Project is improving quality, sustainability and disaster resilience of urban services and competitiveness in the Municipalities.

2. The Project shall comprise:

Part 1. Developing urban infrastructure in the Municipalities, including

- (a) construction and/or rehabilitation of about 200 km of storm water drains;
- (b) improving about 240 km of key roads and at least 40 km of footpaths, both responsive to the needs of the elderly, women, children, and people with disabilities;
- (c) construction of sanitary landfills and resource recovery centers through O&M embedded contracts;
- (d) construction of about 20 km of sewers in Biratnagar;
- (e) construction of septage treatment facilities in Bheemdatt, Dhangadhi and Godavari and
- (f) ensuring that at least 30% of the PBSEDP is spent on socio-economic infrastructure and GESI-related activities.

Part 2. Strengthening the capacity of the Municipalities, including

- (a) ensuring that urban master plans, including poverty pockets and planning and building bylaws with disaster risk resilience features are adopted in Bheemdatt, Dhangadhi, Godavari and Shuklaphanta;
- (b) ensuring that O&M plans are prepared and budgeted for in all Municipalities;
- (c) ensuring that GIS-based house numbering system and utility database are developed in all Municipalities;
- (d) introducing or strengthening integrated property tax system; and
- (e) constructing energy-efficient and disaster-resilient municipal office buildings in Godavari and Shuklaphanta; and

- (f) ensuring that the improved organizational structure, including a social development section, for Godavari and Shuklaphanta is approved by the respective legislative body of the Municipality.

Part 3. Improving project preparation capacity, including

- (a) ensuring adoption and operationalization of the project development facility guidelines and operational manual for the new Urban Planning and Development Center in DUDBC;
- (b) preparing pre-feasibility study and detailed projects for multi-sector, subregional investment programs; and
- (c) preparing at least two detailed project reports in solid waste management, drainage, roads, water supply and/or sanitation.

3. Consulting Services will be provided to support the above stated activities.
4. The Project is expected to be completed by 31 December 2022.

SCHEDULE 2

Amortization Schedule

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 February 2026	2,250,167
15 August 2026	2,250,167
15 February 2027	2,250,167
15 August 2027	2,250,167
15 February 2028	2,250,167
15 August 2028	2,250,167
15 February 2029	2,250,167
15 August 2029	2,250,167
15 February 2030	2,250,167
15 August 2030	2,250,167
15 February 2031	2,250,167
15 August 2031	2,250,167
15 February 2032	2,250,167
15 August 2032	2,250,167
15 February 2033	2,250,167
15 August 2033	2,250,167
15 February 2034	2,250,167
15 August 2034	2,250,167
15 February 2035	2,250,167
15 August 2035	2,250,167
15 February 2036	2,250,167
15 August 2036	2,250,167
15 February 2037	2,250,167
15 August 2037	2,250,167
15 February 2038	2,250,167
15 August 2038	2,250,167
15 February 2039	2,250,167
15 August 2039	2,250,167
15 February 2040	2,250,167
15 August 2040	2,250,167
15 February 2041	2,250,167
15 August 2041	2,250,167
15 February 2042	2,250,167
15 August 2042	2,250,167
15 February 2043	2,250,167
15 August 2043	2,250,167
15 February 2044	2,250,167
15 August 2044	2,250,167
15 February 2045	2,250,167
15 August 2045	2,250,167
15 February 2046	2,250,167
15 August 2046	2,250,167
<u>15 February 2047</u>	2,250,167

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 August 2047	2,250,167
15 February 2048	2,250,167
15 August 2048	2,250,167
15 February 2049	2,250,167
15 August 2049	<u>2,250,151</u>
TOTAL	108,008,000

* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan 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 Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table.)

Basis for Withdrawal from the Loan Account

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

Interest Charge

3. The amount allocated to Category "Interest Charge" is for financing the interest charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan 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 Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

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

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works, equipment, consulting services and administrative costs, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing (SDR)	Basis for Withdrawal from the Loan Account
1	Civil Works	76,569,000	71% of the total expenditure claimed
2	Vehicles and Equipment	432,000	89% of total expenditure claimed
3	Consultancy Services	10,081,000	100% of total expenditure claimed
4	Performance-based Socioeconomic Development Program	2,346,000	80% of total expenditure claimed
5	Incremental Recurrent Costs	2,003,000	50% of total expenditure claimed
6	Interest Charge	4,476,000	100% of amount due
7	Unallocated	12,101,000	
	TOTAL	108,008,000	

SCHEDULE 4**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. Except as ADB may otherwise agree, Goods and Works shall be procured and Consulting Services shall be selected and engaged only on the basis of the procurement methods and the selection methods set forth below. These methods are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the procurement methods and the selection methods or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.
3. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

4. Goods and Works shall be procured on the basis of the procurement methods set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding;
 - (c) Shopping; and
 - (d) Community Procurement.

Domestic Preference

5. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

National Competitive Bidding

6. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

Community Participation in Procurement

7. The Borrower may use community participation in procurement for Works contracts for the PBSEDP in accordance with the agreed procedures set out in the Procurement Plan.

Conditions for Award of Contract

8. The Borrower shall not award any Works contracts in a Municipality until the Municipality has developed, at the detailed design stage, a sanitation action plan, which includes septage management plan to improve regular cleaning of septic tanks and safe disposal of septage, and cost recovery mechanisms.

9. The Borrower shall not award any Works contracts until MOUD has:

(a) approved of the IEE; and

(b) incorporated the relevant provisions from the EMP into the Works contract.

10. The Borrower shall not award any Works contract involving involuntary resettlement impacts and/or indigenous peoples impacts for a Subproject until the Borrower has prepared and submitted to ADB the final RP/CRIPP for such Subproject based on the Subproject's detailed design, and obtained ADB's clearance of such RP/CRIPP.

Consulting Services

11. The Borrower shall apply Quality- and Cost-Based Selection for Consulting Services.

12. The Borrower shall recruit the individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

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

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

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

ADB's Review of Procurement Decisions

15. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5**Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower shall ensure, and cause the Municipalities to ensure, that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

2. The Borrower, including through MOUD, shall undertake best efforts to ensure that the same qualified persons will continue to be assigned for a reasonable period of time of at least 2 years to positions of executive officers of the Municipalities concerned and key positions in the PCO and PIUs including, without limitation, the Project director of the PCO and Project managers of the PIUs.

Environment

3. The Borrower shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project, each Subproject and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the respective IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Resettlement and Indigenous Peoples

4. The Borrower shall ensure that all land and all rights-of-way required for the Project, each Subproject and all Project facilities are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the CRIPPF; and (d) all measures and requirements set forth in the RP/CRIPP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

5. Without limiting the application of the Involuntary Resettlement Safeguards or the RPs/CRIPPs, the Borrower shall ensure that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RPs/CRIPPs; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RPs/CRIPPs.

6. The Borrower shall ensure that the preparation, design, construction, implementation and operation of the Project, and all Project facilities comply with (a) all

applicable laws and regulations of the Borrower relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) all measures and requirements set forth in the RP/CRIPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

7. The Borrower shall make available necessary budgetary and human resources to fully implement the EMP, RP and CRIPP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

8. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and any RP/CRIPP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction implementation or operation of the Project that were not considered in the IEE, EMP, RP or CRIPP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local structure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

9. The Borrower shall do the following:

- (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, EMP, RP or CRIPP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures

and requirements set forth in the EMP, RP or CRIPP promptly after becoming aware of the breach.

Prohibited List of Investments

10. The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

11. The Borrower shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; and (e) allow freedom of association and effectively recognize the right to collective bargaining.

Gender and Development

12. The Borrower shall ensure that (a) the GESI Action Plan and the Community Awareness and Participation Plan are implemented in accordance with their terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GESI Action Plan; (c) adequate resources are allocated for implementation of the GESI Action Plan; and (d) progress on implementation of the GESI Action Plan, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Counterpart Support

13. The Borrower shall provide, as necessary, counterpart staff, land, facilities, and funding required for timely and effective implementation of the Project, including, without limitation, any funds required (a) to meet any shortfall between cost and revenues for the O&M of Project facilities; (b) to mitigate unforeseen environmental or social impacts; and (c) to meet any additional costs arising from design changes, price escalation in construction costs and/or unforeseen circumstances. The Borrower shall make the resources thus required available on an annual basis for each fiscal year.

14. The Borrower shall ensure, or cause the Project Executing Agency to ensure, that each Municipality provides adequate funds from budgetary allocations or other sources to cover, at a minimum, O&M costs for the relevant Subproject(s) and Project facilities.

Financial Sustainability

15. The Borrower shall ensure, or cause the Project Executing Agency to ensure, that the financial management action plan as set out in the PAM is implemented in accordance with the PAM.

16. The Borrower shall ensure that the Municipalities will be responsible for the financial sustainability of the Subprojects.

17. The Borrower shall ensure that the PCO regularly monitors and provides reports to ADB, at least semi-annually, the progress on implementing the updated and approved business plan and comprehensive financial management improvement plan for each Municipality as referred to in paragraphs 28 and 29 below.

Operation and Maintenance

18. The Borrower shall ensure that, during detailed design stage, Bheemdatt, Biratnagar, Dhangadhi, Godavari and Shuklaphanta municipalities will adequately assess the possibility of an appropriate modality for engaging the private sector in O&M of the integrated solid waste management systems, including billing and collection system from the viewpoint of effective and efficient system operation, and reflect the findings in the bidding documents as appropriate.

19. The Borrower shall ensure that each project municipality develops a municipal-wide asset inventory, and prepares a detailed asset management plan and operations and maintenance plan no later than 18 months prior to the scheduled completion of the construction work for the relevant Subproject. The Borrower shall ensure or cause MOUD to ensure that each Municipality selects or establishes a unit responsible for the solid waste management system, roads, sanitation and drainage systems, assigns an adequate number of staff, and ensures their training to a level and degree commensurate with the roles and functions of each Municipality in O&M.

Project Performance Management System

20. The Borrower shall ensure that, within 6 months from Effective Date, DUDBC shall establish a project performance management system satisfactory to ADB. The Borrower shall ensure or cause DUDBC to ensure that, within 12 months from Effective Date, framework for baseline data corresponding to indicators and targets set out in the GESI Action Plan, disaggregated by sex, caste, and ethnicity is established and data collection commenced.

Reports

21. The Borrower shall ensure that MOUD, DUDBC, and the Municipalities coordinate amongst themselves as appropriate and ensure that the quarterly and other reports to be prepared by the Municipalities and R-PIU are consolidated with the reports to be prepared by PCO and submitted to ADB in a timely manner.

Subprojects

22. The Borrower shall ensure or cause MOUD to ensure, that Subprojects are implemented in a manner satisfactory to ADB.

Municipalities

23. The Borrower shall enforce the cost-sharing for each Subproject and each municipality as set forth in detail in the PAM. The Borrower shall ensure that MOUD further

ensure that the Municipalities secure budget allocation to recover at least project contribution and O&M expenditures, through tariff collections for sewerage and solid waste management where relevant, and increases in revenue generation whether through changes in tax regime, and/or use of charges and/or other measures.

24. The Borrower shall ensure that the Municipalities enforce their planning and building bylaws, and operationalize a digitized house numbering system at least 6 months before the relevant works contracts are due for completion.

25. The Borrower shall ensure that each Municipality put in place the integrated property tax system, and implement the integrated property tax billing system at least 18 months before the relevant works contract is scheduled for completion.

26. The Borrower shall ensure that each Municipality reflects in its budget and financial reports the revenues and expenses related to the Project.

27. The Borrower shall ensure that the Municipalities promptly implement the sanitation action plan, which includes septage management plan to improve regular cleaning of septic tanks and safe disposal of septage, and cost recovery mechanisms.

28. For Biratnagar, Birgunj, Siddharthanagar and Nepalgunj municipalities, within 3 months of the Effective Date, the Municipalities shall have approved the comprehensive financial management improvement plan that has been developed by the Municipalities and ADB, and shall implement the first year revenue enhancement measures as specified in the plan within 12 months of the Effective Date and update the plan annually.

29. For Bheemdatt, Dhangadhi, Godavari and Shuklaphanta Municipalities, within 12 months of the Effective Date, the Municipalities shall have approved the comprehensive financial management improvement plan that has been developed by the Municipalities and ADB, and shall implement the first year revenue enhancement measures as specified in the plan within 18 months of the Effective Date and update the plan annually.

Others

30. The Borrower shall ensure that the Municipalities and other entities responsible for the O&M of the systems developed or improved under the Project will secure and allocate adequate funds for proper O&M of the systems, by providing necessary technical and financial support.

31. The Borrower shall ensure that there will be complementarity and no overlap of activities between Subprojects and projects funded by other development partners.

32. The Borrower shall ensure that an annual program is developed for the Urban Planning and Development Centre and budget allocated annually from fiscal year 2017-18. The Borrower shall also ensure that minimum staff is provided for the Centre as per the approved organizational structure.

Governance and Anticorruption

33. The Borrower, MOUD and the Municipalities shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.
34. MOUD and the Municipalities shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.
35. Within 2 months after the Effective Date, DUDBC shall create a project website to disclose key project-related information, including costs, safeguards, procurement such as the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods/services procured. The website shall also include general Project information, Project progress, and contact details for the Project Executing Agency's counterpart staff in Nepali and English languages, and shall link to ADB's Integrity Unit website at <http://www.adb.org/Integrity/complaint.asp> for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project and/or Project activities. The Borrower shall cause the Project Executing Agency to ensure that all Project staff are fully aware of ADB's procedures, including, but not limited to, procedures for implementation, procurement, use of consultants, disbursements, reporting, monitoring, and prevention of fraud and corruption.
36. Within 12 months from the Effective Date, the PCO shall prepare a grievance redress mechanism, acceptable to ADB, and establish a special committee to receive and resolve complaints/grievances or act upon reports from stakeholders on misuse of funds and other irregularities, including grievances due to safeguards issues. The special committee shall (a) be independent of, and has no conflict of interest with, the Municipalities; (b) make public of the existence of this grievance redress mechanism; (c) review and address grievances of stakeholders of the Project, in relation to either the Project, any of the service providers, or any person responsible for carrying out any aspect of the Project; and (d) proactively and constructively responding to them.
37. The Borrower shall ensure, or cause each of the Municipalities to ensure, that citizen charter shall be displayed at the Municipality's office and public audit shall be organized through regular and effective meetings at the community level.
38. The Borrower shall ensure, or cause MOUD to ensure, that the PCO hires technical auditors affiliated with the national vigilance center to carry technical audit of Subprojects on random basis at least three times during project implementation. The technical auditor will share the report with MOUD and ADB on confidential basis. Contractors shall be made to disclose basic information of contracts in each construction site through a display board.