



**GUIDELINES ON
REVOLVING FUNDS
FOR
CONSTRUCTING LATRINES AND
WATER CONNECTIONS
IN
Luang Prabang, Lao PDR**

Mekong Region Water and Sanitation (MEK-WATSAN) Initiative

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PREFACE

Urbanization is placing an enormous burden on many secondary towns in Lao PDR, which will become ever more onerous as we move to the MDG target year of 2015. Urban areas are growing at 4.9 per cent in Lao PDR. The vast majority of the new urban citizens are poor, newly arrived rural migrants. They invariably have to pay higher prices for their water or use unsafe water, as well as endure unsanitary conditions.

Although urbanization drives economic growth, it brings with it serious challenges. Without policy and institutional reform, there is a real risk of urban services becoming unsustainable. Leading to environmental degradation and serious health problems. These outcomes ultimately undermine the competitiveness of towns and cities and make them less liveable. In Lao PDR, with the exception of the capital, Vientiane and the other provincial capitals, water supply and sanitation coverage in secondary and district towns remains a major concern for the government. Relatively high unit capital costs and large numbers of poor pose a special challenge for the government.

UN-HABITAT at the request of the Government of Lao PDR is supporting a fast-track activity in the town of Xieng Nguen in Lao PDR. This is a community-based initiative in which the community and the local service provider are each contributing around 20 per cent to the overall cost of the water supply and sanitation intervention. This pilot project will be a very useful demonstration of how community can mobilize and work effectively with local authorities to meet MDGs. UN-HABITAT is providing both financial and technical assistance for this initiative which will benefit the target population within a short period of one year.

In order to encourage households to construct latrines and also have individual household piped water connections, two revolving funds have been created by the Water Supply Enterprise which will be operated by Nam Papa Xieng Nguen branch. The principles, conditions and agreement between the revolving funds and the borrowers for constructing latrines and water connections are given in this guide document. The design of the revolving fund for latrines and water connections fully outlines the loan procedures as well as the institutional setup for the sustainability of the revolving funds.

These revolving funds will enable provision of water and sanitation services reach the urban poor and make them both affordable and acceptable.

Andre Dzikus
Programme Manager
Water for Cities Programmes
UN-HABITAT, Nairobi

Introduction

Asian region is seriously threatened by the growing water and sanitation crisis and the scale of challenge is of much higher order. Eighty percent of the global population without access to improved sanitation and almost two thirds without access to improved water supply live in Asia. Many Asian countries are ill equipped to provide the needed safe water and sanitation to their growing population. An additional 1.5 billion people in Asia will need access to adequate sanitation facilities and an additional 980 million for access to safe water, if the Millennium Development Goals (MDG) set to halve the world's population without access to safe water by 2015 and to achieve improvement in the lives of slum dwellers by 2020, were to be met.

Investments and Funding Scenario

The levels of investments in the sector within the region are quite inadequate to bridge the widening demand-supply gap and to extend services to low income and vulnerable sections of the society. There are no immediate prospects for rapid increase in external investments into the sector. Most governments are increasingly becoming aware of the need for more intensified domestic mobilization of funds including funds for advocacy, information and education to the people who need most. 'Funding' becomes the key instrument as an institution that administers the quantity of capital, raised with a special purpose.

Various types of loans/subsidies have helped to fill gaps in the more conventional financing, available for the development works but not the costs relating to community executed water and sanitation schemes. There is a need to devise innovative funding mechanisms that focus on filling the critical financing gap by providing loans to community-based organizations to initiate development of water and sanitation facilities. 'Revolving Fund' is one such solution for financing community initiatives to manage drinking water supply or construction of individual household toilets for safe sanitation.

'Revolving Fund' and its modalities

Concept

By definition 'Revolving Fund' is a capital raised with a certain purpose which can be made available to the same users **more than once**. 'Revolving' represents that the fund's resources circulate between the Fund and the Users. Revolving funds are established with an intention that they should be self-sufficient and sustainable.

Establishing Revolving Fund

Revolving funds are established in order to achieve a particular purpose or assist a particular target group. This could be possible if its continuity is guaranteed. Conflicts may occur if the purpose cannot be achieved or the target groups may be assisted in some other way. It is important to consider whether it could be attained effectively by means of an independent Revolving Fund or through a Revolving Fund associated with the existing institutions. One has to analyze the reasons in terms of risk factors, securities, profitability, institutional policies, past experiences, availability of funds, etc and adopt appropriate solutions. The following are some of the suggestive illustrations:

Difficulties may lie in the institutional structure, decision making systems and the statutory provisions. Eliminating such obstacles ought to form part of the project activities. It is necessary to analyze the causes of the past failures and if not available, it would be worthwhile to establish an experimental

Revolving Fund in cooperation with the existing institution. Providing the right funding as a part of the project activity would solve the institution's funding problems. Consideration may be given for improving the access of the target group to the existing institutional facilities for strengthening the cooperation between the target group and the institution.

Financing of Revolving Fund

A fund may be financed by its users or by users of projects or it may be financed by third parties or by both. In most cases, the fund will take time to become fully established if it depends on small injections of funds in the form of contributions, savings deposits or phased donor financing. Contributions may be voluntary or compulsory. Obtaining contributions from outside the fund's target group is termed as 'external financing' such as donor funds.

In development cooperation, many Revolving Funds initially draw on donor funds, which is true of credit funds and of guarantee funds. In majority of cases, the involvement of the users in enabling the fund to be financed by them is minimal or non-existent. Although there are no technical objections to hundred percent financing, experiences show that the financial involvement of the target group is a major precondition for successfully achieving the aim of the fund. When setting up a Revolving Fund, the aim should be to ensure that the target groups are financially involved, either voluntarily or compulsorily. Participation in Revolving Fund by a donor may be in the form of grants, interest-free advances, loans, combinations of any of these and guarantees. However, dependence on donor funding should be temporary and be gradually phased out. As regards, advances and loans to the Revolving Fund, the multi-year financial prognoses relating to the fund should indicate when repayment will be possible and the schedule for phasing out guarantees.

Legal status

It is important to know who is legally authorized to represent the fund and who owns or manages it. This determines the manner in which the fund can act vis-à-vis the financiers and the users, actions to be taken for transfer of funds and the influence the financier/donor can bring to bear or the requirements can be imposed on the fund.

It is necessary for the fund to acquire legal status for a clear relationship between the fund, its financiers and the users, which can be possible by giving the fund itself a legal status or by attaching the fund to an existing body with legal personality which will administer the fund under the terms of agreement. The type of legal personality which is felt to be appropriate for a fund, will depend on the aim of the project. When a fund acquires legal status, it shall be registered as a fund with appropriate public authority. Besides the requirement of legal status, it will also be necessary to comply with the statutory requirements.

Building up of Revolving Fund for Self-sufficiency

There are two possible ways of using Revolving Fund, namely, 'making the fund's capital available to the users' and the other, 'making income from the fund available to the users'. In the former case, the availability of fund's capital to users depends on lending periodicity and prompt repayments. In the case of later, the fund's capital is not directly available to the users and only yield from the investment of the capital is made available. The capital is not depleted and the interest received by the fund is lent to users and even part of these loans are subsequently repaid to the fund. Thus, the fund's capital grows. If the accumulated interest assumes the role of the original capital, the original capital can be repaid to the donors, provided the establishment of Revolving fund is by means of donor financing.

The fund itself can provide guarantees to enable local fund to be borrowed. The amount of capital which the fund possess determines the maximum guarantee it can provide.

Management and Administration of Revolving Fund

Revolving Fund has financial relationships with the financiers and the users of the fund which entail obligations to make payments or repayments and to submit reports. If the fund has independent legal status, there will be a statutory obligation to submit regular financial reports. This makes it necessary to keep separate financial records on the Revolving Fund at all times. In many countries, the financial reporting obligation and the form in which the reports have to be submitted are laid down by Law.

The financial report shall include profit and loss account, cash flow statement indicating overview of sources and applications of funds and a balance sheet approved by the fund's trustees and by an external auditor and shall be finalized annually within three months of the end of the financial year. It is advisable to produce profit and loss account quarterly for use in monitoring and planning a Revolving Fund Project together with a cash flow forecast for the rest of the year. Depending on the type of the project, a quarterly balance sheet may also be useful. The fund's multi-year planning must consist of a minimum of five year cash flow forecast, which should be adjusted and extended annually on the basis of the results achieved. The staffing of the Revolving Fund Project should be such to enable maintenance of adequate records including records on premiums, contributions, loans and advances. The information on the personal particulars and all financial aspects relating to the users should be kept confidential by storing and securing the relevant information and records appropriately. Third parties should not have access to them.

A fund may be terminated by premature termination, termination without transfer, termination combined with transfer or by change of fund's terms of reference with or without transfer. The termination may be due to the exhaustion of funds, external factors which impede activities or misuse.

Sustainability of Revolving Fund

The Revolving Fund is expected to become self-sufficient after an initial period. Its capital is expected to remain at a constant level more or less without any fresh external financing. The factors that affect the operation of a Revolving Fund are the interest rates (for lending and/or borrowing), levels of premiums; administrative expenses; payments/repayments and failure to make them; inflation and the liabilities. In order to keep the Revolving Fund self-sufficient and sustainable, appropriate measures would be required to be adopted to effectively appraise and monitor these factors for its improved operations.

The appraising of proposals for Revolving funds should include the reasons for setting up Revolving Fund, its purpose, administrative and management practices, financial mechanisms including auditing systems, forecasting, monitoring and evaluation procedures, etc. The operations of Revolving Funds should be monitored and evaluated periodically against its objectives in terms of the characteristics of users, volume of transactions, advances, loans and claims, promptness of payments/repayments, write-offs, rate of circulation, procedures for processing and rapidity of collections, organizational and financial administration and the effects on users and other stakeholders. The practice prompt recovery of the costs is expected to generate a sense of ownership and ensure the financial viability and sustainability of the schemes. These measures would help strengthen the stakeholders with the necessary framework for effective formulation and implementation and thereby achieving sustainability.

Mekong Region Water and Sanitation (MEK-WATSAN) Initiative

About MEK-WATSAN

In response to requests from several governments in the Greater Mekong Sub-region (GMS), UN-HABITAT developed a three-phased strategy for a Mekong Region Water and Sanitation Initiative (MEK-WATSAN) in 2005, being implemented under the Water for Asian Cities Programme. The initiative is focusing on capacity building; project design, planning and implementation; and follow-up investments. The MEK-WATSAN initiative is supporting participating governments to achieve the Millennium Development Goals for water supply and sanitation, with emphasis on innovative solutions and speedy delivery. The main focus of the MEK-WATSAN Initiative is on the secondary towns in the GMS. The specific objectives of MEKWATSAN are to:

- (i) expedite pro-poor water and sanitation investments in secondary towns,
- (ii) enhance institutional and human resource capacities at local and regional levels to sustain water and sanitation services,
- (iii) operationalise upstream sector reforms at the local level,
- (iv) enhance capacities of local private sector entities in service delivery,
- (v) reduce the adverse environmental impacts of urbanisation on catchments, such as that of the Mekong River,
- (vi) support economic development in secondary towns through improved water and sanitation and related income generating activities, and
- (vii) support cooperation between the countries of the Mekong region.

MEK-WATSAN Programme in Lao PDR

Lao PDR is unique in GMS, in that it has very high per capita capital investment costs for water supply. With a small industrial base, it needs to import almost all equipment and materials from overseas, leading to higher costs. In addition, the population density in its urban areas is very low, which undermines efforts to achieve any economy of scale.

UN-HABITAT under the MEKWATSAN initiative has taken up a fast-track community-based water supply and sanitation demonstration project in the one of the secondary town of Xieng Nguen in Luang Prabang. This town is the third largest in the province of Luang Prabang in terms of population - the largest being the capital, which has been officially listed as a World Heritage site to preserve its unique cultural heritage. The total cost of the project is US\$ 450,000. Under the Agreement, UN-HABITAT is providing US\$ 250,000 and the counterpart contribution from the local community of Xieng Ngeun is US\$ 100,000 and the provincial water supply enterprise is further contributing US\$ 100,000.

This project has demonstrated as to how communities can mobilize and work effectively with local authorities to meet MDGs. The project is nearing to be completed by December 2006.

PRINCIPLES, CONDITIONS AND AGREEMENT
BETWEEN THE REVOLVING FUND
FOR
LATRINE AND BORROWERS

1. Introduction

The community-based water supply and sanitation pilot project in Xieng Ngeun District, Luang Prabang, Lao PDR is being implemented under the Mekong Region Water and Sanitation Programme (MEKWATSAN) through an Agreement of Cooperation between the United Nations Human Settlements Programme and the State-Owned Water Supply Enterprise of the Province of Luang Prabang (WSE).

The following are the objectives of the Project:

- Demonstration of how community can work with a water supply entity to acquire safe water and adequate sanitation that meet its needs.
- Demonstration of pro-poor connection charges and tariffs.
- Improved community awareness of environmental sanitation.
- Enhanced capacity of the WSE and local artisans.

Therefore, in order to achieve these objectives, among various activities revolving fund for latrines is designed and will be tested.

2. Design of Revolving Fund for Latrine

a) Principles

Framework and design of revolving fund is developed to include both management of revolving fund and pre-requisite condition like hygiene education, community preparation and technical training. An orientation meeting on revolving funds will be held with participation of district and villages administration authorities and project officers as well as villagers. The purpose of the workshop was to orient the participants on the concept of revolving fund and to discuss on management and procedures, and on pre-requisite condition for the loans.

Participatory approach will be used in the process to let the villagers decide by themselves what would suit best to their actual conditions. Discussion will be made on how much for the loan for constructing a sanitary latrine? How much for interest rate? How long for the loan term? What should be loan condition, cash or materials? etc.

WSE will be responsible for the overall management of the revolving fund and Nam Papa Xieng Ngeun Branch will be responsible for its implementation.

b) Fund Transfer

Fund from UN-HABITAT is transferred to WSE, which will transfer the fund to Nam Papa Xieng Ngeun Branch. Xieng Ngeun will open a new bank Account. Agreement on the use of the revolving fund will be signed between the General Manager of WSE and the Chief of Nam Papa Xieng Ngeun Branch. If the fund is found misused, the WSE will withdraw fund from the Xieng Ngeun Branch immediately.

c) Institutional set-up

A WATSAN Team at district level and a WATSAN Team at village level for each village were established on 23 June 2006.

The WATSAN Team at district level has the following duties:

- Coordinating all technical issues concerning water supply and sanitation in the Xieng Ngeun Town.
- Promoting citizens of Xieng Ngeun Town to use water supply and to have hygienic latrine.
- Providing advice to the project on management and use of revolving fund for water connection and revolving fund for latrine construction for poor households.

The WATSAN Teams at village level have the following duties:

- Organizing and promoting villagers to construct and use of hygienic latrine.
- Organizing and persuading villagers to have water connection.
- Mobilizing villagers to participate in hygienic activities, development of hygienic education and implementing of basic activities of the village and advising villagers to pay for water and repay the loan back to the revolving fund as scheduled.
- Collaborating with WSE proposing or defining criteria for villagers to receive loan from the revolving fund for water connection and latrine construction.
- Establishing in each village water users' group for the useful use of water resources at the sufficient and effective level; reducing and stop wasting water.
- Responsible for hygienic activities and education for sustainability.
- Providing recommendations on cleanness, maintenance of taps and latrines in the houses.
- Assisting Nam Papa Xieng Ngeun Branch in the collection of repayment to the revolving fund for connection and latrine construction for borrowers.
- Making awareness campaign on the protection against all kind of contamination to the environment of the villages.

d) Loan Procedures

Eligible household who desires to borrow the funds need to fill in the request form to be guaranteed by the chief of village concerned. Then a loan contract between household and Nam Papa Xieng Ngeun Branch will be signed. Loan ceiling is 800,000 Kips per household depending on the desire of the household. The repayment period will be 18 months and without consideration of management cost. Loan will be a combination of cash and materials. The reason why loan should be partially materials are:

- To guarantee that the loan will be used for construction of latrine, and
- To reduce the cost of materials when bigger quantities are procured.

The time lag between the repayment of the previous batch's borrowers and the loaning out to the next batch's borrowers should not be exceeding 30 days.

e) Community Preparation and Mobilization

This is efficient way to guarantee the transparency of the process. It is required that a village meeting will be called to introduced about the importance of sanitation and hygiene and the access to revolving funds to all the villagers. They would then make their own decision whether they want to borrow the money from the revolving fund to improve their family's sanitation condition. It is also required that each borrowing family will receive hygiene education to ensure the proper use of hygienic latrines and behavior changes. Training of hygienic latrine siting and construction will be provided to ensure the construction quality.

f) Pre-requisite condition for the loan

To be eligible for receiving loan from the revolving fund for latrine construction, villagers in the project area should meet the following criteria:

- He/she live permanently in the village of the Project area;
- He/she has low income (is considered poor), but can repay the loan to the revolving fund as agreed;
- He/she has not hygienic latrine yet;
- He/she agrees to construct latrine according to the Project design;
- He/she agrees to sign the contract with Nam Papa Xieng Ngeun Branch and is pleased to pay the cost of latrine construction as specified in the Agreement.

3. Request for Loan for Latrine Construction and Agreement between the Revolving Fund and Borrowers

Draft Request for loan and Draft Agreement between the Revolving Fund and Borrowers is given in Annex 1 and Annex 3 respectively.

**LAO PEOPLE'S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY**

Mr. _____
Chief of Nam Papa Xieng Ngeun Branch
State-owned Water Supply Enterprise Luang Prabang Province

REQUEST FOR A LOAN FOR LATRINE CONSTRUCTION

Dear Mr. _____,

Based on the discussion and consensus building made during the workshop held on _____,
I, Mr./Mrs _____ residing in the following address: Household No _____, Unit _____, Village of
_____, Xieng Ngeun district, understand that my family is eligible for receiving a loan from the
revolving for construction of sanitary latrine. Therefore, I am requesting hereby for your consideration an amount
of _____ (_____) Kips for the construction
of sanitary latrine. Detail of the amount is attached herewith as ANNEX 2.

I promise that if I receive the loan I will complete the construction of latrine within 30 days and fulfill all the
terms and conditions specified in a separate Agreement to be made with you.

I highly appreciate your kind consideration and approval.

Village of _____,

Requestor,

Village of _____,

Seen and approved by:
Head of Village

**TENTATIVE BREAKDOWN OF THE REQUESTED AMOUNT FOR
CONSTRUCTION OF LATRINE**

Item	Description of Materials	Unit	Quantity	Unit Cost	Amount
1	Concrete ring 100/50 cm	Pcs			
2	concrete cover 100/50 cm	Pcs			
3	WC	Pcs			
4	Cement	Bags			
5	Bricks	Pcs			
6	Vent pipe ø 25	m			
7	PVC pipe ø 100	m			
8	Galvanized zinc sheet 8 feet	Pcs			
9	Miscellaneous	Lumpsum			
	Total				

LAO PEOPLE’S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

State-Owned Water Supply Enterprise Luang Prabang Province
 Nam Papa Xieng Ngeun Branch

No _____/NP.XNg

LOAN AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 200__ by and between the Nam Papa Xieng Ngeun Branch of the State-Owned Water Supply Enterprise of Luang Prabang Province (hereinafter referred to as “LENDER”) and Mr./Mrs. _____, head of household No _____, Unit _____, Village of _____, District of Xieng Ngeun, (hereinafter referred to as “the BORROWER”). BORROWER and LENDER shall collectively be known herein as “the Parties”. In determining the right and duties of the Parties under this Loan Agreement, the entire document must be read as a whole.

WHEREAS, UN-HABITAT extends its grant to the State-Owned Water Supply Enterprise of Luang Prabang Province on the basis of “the Agreement of Cooperation” signed on the _____ day of _____, 200__ concerning the Community-based Water Supply and Sanitation Pilot Project in Xieng Ngeun town, Luang Prabang Province (hereinafter referred to as “the Project”);

WHEREAS, the LENDER, as a competent organization appointed for the implementation of the revolving fund for latrine, is desirous of providing loan to poor households for the construction of latrine; and

WHEREAS, the Borrower is willing to receive such loan from the revolving fund in the amount specified in its request and under the terms and conditions as set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter contained, the Parties agree as follows:

Article 1: Promissory Note

FOR VALUE RECEIVED, BORROWER promises to pay to the order of LENDER, the sum of _____ Kips without interest (hereinafter, “the Loan Amount”). BORROWER promises also to use the loan exclusively for the construction of latrine. This is a term promissory note that shall expire 18 months from the date of execution of this agreement by the Parties (hereinafter, “the Maturity Date”). The entire outstanding Loan Amount shall be fully paid by BORROWER to LENDER, or any subsequent assignee of this note, pursuant of the terms and conditions set forth below; however, in all cases, the entire outstanding Loan Amount shall be fully paid by the Maturity Date.

Article 2: Loan Repayment Terms

BORROWER shall make quarterly payment of _____Kips to LENDER beginning 30 days after the execution of this Agreement and continuing, every quarter thereafter on the quarterly anniversary date of the first payment, until the Maturity Date. As defined above, the Maturity Date is 18 months from the execution of this Agreement by the Parties. At the Maturity Date, BORROWER shall pay to LENDER the entire unpaid balance upon the Loan Amount principal. A total of 6 quarterly payments are to be made by BORROWER to LENDER under this Loan Agreement.

Article 3: Cure of Default

Upon default, LENDER shall give BORROWER written notice of default. Borrower shall have 30 days after receipt of written notice of default from LENDER to cure said default. In case of default due solely due to BORROWER's failure to make timely payment as called for in this Loan Agreement, BORROWER may cure the default by making full payment of any principal whose payment to LENDER is overdue under the Loan Agreement and, also, the late-payment penalty described below.

Article 4: Penalty for late Payment

There shall also be imposed upon BORROWER a 5% penalty for any late payment computed upon the amount of any principal whose payment to LENDER is overdue under this Loan Agreement and for which LENDER has delivered a notice of default to BORROWER.

Article 5: Acceleration

If the BORROWER fails to cure any default on or before the expiration of the thirty (30) day cure period that start on the date BORROWER receives written notice from LENDER that an event of default has occurred under this Loan Agreement, the entire unpaid principal and penalties under this Loan Agreement shall accelerate and become due and payable immediately.

In case BORROWER finds difficulty in curing of default because of difficult financial situations, BORROWER must work for LENDER upon request at a rate of 20,000 (twenty thousands) Kips a day.

Article 6: Integration

This Agreement, including the attachments mentioned in the body as incorporated by reference sets forth the entire agreement between the Parties with regard to the subject matter hereof. All prior agreements, representations and warranties, express or implied, oral or written, with respect to the subject matter hereof, are hereby superseded by this Agreement. This is an integrated Agreement.

Article 7: Severability

In the event any provision of this Agreement is deemed to be void, invalid, or unenforceable, that provision shall be severed from the remainder of this Agreement so as not to cause the invalidity or unenforceability of the remainder of this Agreement. All remaining provisions of this Agreement shall then continue in full force and effect. If any provision shall be deemed invalid due to its scope or breadth, such provision shall be deemed valid to the extent of the scope and breadth permitted by law.

Article 8: Modification

Except as otherwise provided in this document, this Agreement may be modified, superseded, or voided only upon the written and signed agreement of the Parties. Further the physical destruction or loss of this document shall not be construed as a modification or termination of the agreement contained herein.

Article 9: Date of Execution of this Agreement

The date of execution of this Agreement is the date BORROWER receives materials for construction of latrine from LENDER.

IN WITNESS WHEREOF and acknowledging acceptance and agreement of the foregoing, BORROWER and LENDER affix their signatures hereto.

Date _____

Date _____

BORROWER

LENDER

PRINCIPLES, CONDITIONS AND AGREEMENT
BETWEEN THE REVOLVING FUND
FOR
WATER CONNECTION AND BORROWERS

1. Introduction

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- Demonstration of pro-poor connection charges and tariffs.
- Improved community awareness of environmental sanitation.
- Enhanced capacity of the WSE and local artisans.

Therefore, in order to achieve these objectives, among various activities revolving fund for water connection is designed and will be tested.

2. Design of Revolving Fund for Latrine

a) Principles

Framework and design of revolving fund for water connection is developed to include both management of revolving fund and pre-requisite condition like having sanitary facilities ready for use once having water connected. An orientation meeting on revolving funds will be held with participation of district and villages administration authorities and project officers as well as villagers. The purpose of the workshop was to orient the participants on the concept of revolving fund and to discuss on management and procedures, and on pre-requisite condition for the loans.

Participatory approach will be used in the process to let the villagers decide by themselves what would suit best to their actual conditions. Discussion will be made on how much for the loan for water connection? How much for interest rate? How long for the loan term? What should be loan condition? etc.

WSE will be responsible for the overall management of the revolving fund and Nam Papa Xieng Ngeun Branch will be responsible for its implementation.

b) Fund Transfer

Fund from UN-HABITAT is transferred to WSE, which will transfer the fund to Nam Papa Xieng Ngeun Branch. Xieng Ngeun will open a new bank Account. Agreement on the use of the revolving fund will be signed between the General Manager of WSE and the Chief of Nam Papa Xieng Ngeun Branch. If the fund is found misused, the WSE will withdraw fund from the Xieng Ngeun Branch immediately.

c) Institutional set-up

A WATSAN Team at district level and a WATSAN Team at village level for each village were established on 23 June 2006.

The WATSAN Team at district level has the following duties:

- Coordinating all technical issues concerning water supply and sanitation in the Xieng Ngeun Town.
- Promoting citizens of Xieng Ngeun Town to use water supply and to have hygienic latrine.
- Providing advice to the project on management and use of revolving fund for water connection and revolving fund for latrine construction for poor households.

The WATSAN Teams at village level have the following duties:

- Organizing and promoting villagers to construct and use of hygienic latrine.
- Organizing and persuading villagers to have water connection.
- Mobilizing villagers to participate in hygienic activities, development of hygienic education and implementing of basic activities of the village and advising villagers to pay for water and repay the loan back to the revolving fund as scheduled.
- Collaborating with WSE proposing or defining criteria for villagers to receive loan from the revolving fund for water connection and latrine construction.
- Establishing in each village water users' group for the useful use of water resources at the sufficient and effective level; reducing and stop wasting water.
- Responsible for hygienic activities and education for sustainability.
- Providing recommendations on cleanness, maintenance of taps and latrines in the houses.
- Assisting Nam Papa Xieng Ngeun Branch in the collection of repayment to the revolving fund for connection and latrine construction for borrowers.
- Making awareness campaign on the protection against all kind of contamination to the environment of the villages.

d) Loan Procedures:

- Eligible household who desires to borrow the fund needs to fill in the request form to be guaranteed by the chief of village concerned. Then a loan Agreement between household and Nam Papa Xieng Ngeun Branch will be signed. Loan ceiling is _____Kips per household depending on the location of the meter with respect to the main. The repayment period will be 12 months without interest and without consideration of management cost.

The time lag between the repayment of the previous batch's borrowers and the loaning out to the next batch's borrowers should not be exceeding 30 days.

e) Community Preparation and Mobilization:

This is efficient way to guarantee the transparency of the process. It is required that a village meeting should be called to introduce the importance of having clean water in connection with sanitation and hygiene and the access to revolving funds to villagers. Villagers would then make their own decision whether they want to borrow the money from the revolving fund to have water connection.

f) Pre-requisite condition for the loan

To be eligible for receiving loan from the revolving fund for water connection, villagers in the project area should meet the following criteria:

- Borrower lives permanently in the village of the Project area;

- Borrower has low income (is considered poor), but can repay the loan to the revolving fund as agreed;
- Borrower has hygienic latrine;
- Borrower agrees to sign the Loan Agreement with WSE.

3. Request for Loan for Latrine Construction and Agreement between the Revolving Fund and Borrowers

Draft Request for loan and Draft Agreement between the Revolving Fund and Borrowers are given in Annex 1 and Annex 3 respectively.

**LAO PEOPLE’S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY**

Mr. _____
Chief of Nam Papa Xieng Ngeun Branch
State-owned Water Supply Enterprise Luang Prabang Province

REQUEST FOR A LOAN TO PAY WATER CONNECTION FEE

Dear Mr. _____,

Based on the discussion and consensus building made during the workshop held on _____, I, Mr./Mrs _____ residing in the following address: Household No _____, Unit _____, Village of _____, Xieng Ngeun district, understand that my family is considered eligible for receiving a loan from the revolving for water connection. Therefore, I am requesting hereby for your consideration an amount of _____ (_____) Kips for water connection fee. Detail of the amount is attached herewith as ANNEX 2.

I promise that if I receive the loan I will fulfill all the terms and conditions specified in a separate Agreement to be made with you.

I highly appreciate your kind consideration and approval.

Village of _____,

Requestor,

Village of _____,

Seen and guaranteed by:
Head of Village

TENTATIVE BREAKDOWN OF HOUSEHOLD WATER CONNECTION FEE

Item No	Description	Unit	Quantities	Unit Cost (Kips)	Amount (Kips)
1	Ring for fixing the pipe from diameter 40 to diameter 13	unit	1		
2	Male brass thread adaptor diameter 13	unit	3		
3	Female 90 elbow PVC diameter 13 (brass)	unit	3		
4	Female 90 rubber elbow PVC	unit	1		
5	Female 90 steel elbow diameter 13	unit	2		
6	Valve diameter 13	unit	2		
7	Tap (brass) diameter 13	unit	1		
2	90 elbow PVC diameter 13	unit	1		
9	Water meter (13 mm diameter)	unit	1		
10	Teflon	unit	6		
11	Glue	g	60		
12	Protection box	unit	1		
13	Pipe (PVC), diameter 13	meter	10		
14	Steel pipe diameter 13	meter	0.8		
15	PVC adaptor	unit	2		
16	Labor				
17	Total				
18	TOTAL with additional cost of 5% for transport fees and household surveys				
19	TOTAL with installation tax 10%				

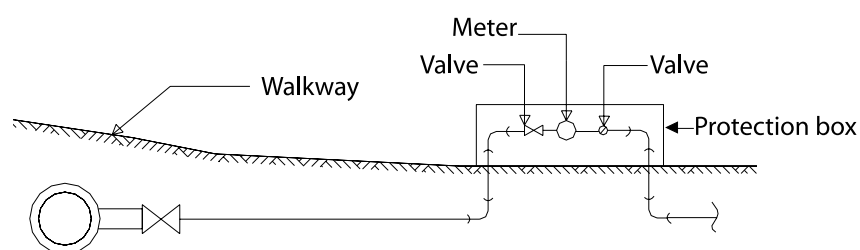


Figure1. Principle of Household Connection

LAO PEOPLE'S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

State-Owned Water Supply Enterprise Luang Prabang Province
 Nam Papa Xieng Ngeun Branch

No _____/NP.XNg

LOAN AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 200__ by and between Nam Papa Xieng Ngeun Branch of the State-Owned Water Supply Enterprise of Luang Prabang Province (hereinafter referred to as "LENDER") and Mr./Mrs. _____, head of household No _____, Unit _____, Village of _____, District of Xieng Ngeun, (hereinafter referred to as "the BORROWER"). BORROWER and LENDER shall collectively be known herein as "the Parties". In determining the right and duties of the Parties under this Loan Agreement, the entire document must be read as a whole.

WHEREAS, UN-HABITAT extends its grant to the State-Owned Water Supply Enterprise of Luang Prabang Province (WSE) on the basis of "the Agreement of Cooperation" signed on the _____ day of _____, 200__ concerning the Community-based Water Supply and Sanitation Pilot Project in Xieng Ngeun town, Luang Prabang Province (hereinafter referred to as "the Project");

WHEREAS, the LENDER, as a competent organization appointed for the implementation of the revolving fund for water connection, is desirous of providing loan to poor households for paying the fee of water connection; and

WHEREAS, the Borrower is willing to receive such loan from the revolving fund in the amount specified in its request and under the terms and conditions as set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter contained, the Parties agree as follows:

Article 1: Promissory Note

FOR VALUE RECEIVED, BORROWER promises to pay to the order of LENDER, the sum of _____ Kips without interest (hereinafter, "the Loan Amount"). BORROWER promises also to use the loan exclusively for paying the fee of water connection. This is a term promissory note that shall expire 12 months from the Date of Execution of this agreement by the Parties (hereinafter, "the Maturity Date"). The entire outstanding Loan Amount shall be fully paid by BORROWER to LENDER, or any subsequent assignee of this note, pursuant of the terms and conditions set forth below; however, in all cases, the entire outstanding Loan Amount shall be fully paid by the Maturity Date.

Article 2: Loan Repayment Terms

BORROWER shall make quarterly payment of _____ Kips to LENDER beginning 15 days after the execution of this Agreement and continuing, every quarter thereafter on the quarterly anniversary date of the first payment, until the Maturity Date. As defined above, the Maturity Date is 12 months from the execution of this Agreement by the Parties. At the Maturity Date, BORROWER shall pay to LENDER the entire unpaid balance upon the Loan Amount principal. A total of 4 quarterly payments are to be made by BORROWER to LENDER under this Loan Agreement.

Article 3: Cure of Default

Upon default, LENDER shall give BORROWER written notice of default. Borrower shall have 30 days after receipt of written notice of default from LENDER to cure said default. In case of default due solely due to BORROWER's failure to make timely payment as called for in this Loan Agreement, BORROWER may cure the default by making full payment of any principal whose payment to LENDER is overdue under the Loan Agreement and, also, the late-payment penalty described below.

Article 4: Penalty for late Payment

There shall also be imposed upon BORROWER a 5% penalty for any late payment computed upon the amount of any principal whose payment to LENDER is overdue under this Loan Agreement and for which LENDER has delivered a notice of default to BORROWER.

Article 5: Acceleration

If the BORROWER fails to cure any default on or before the expiration of the thirty (30) day cure period that start on the date BORROWER receives written notice from LENDER that an event of default has occurred under this Loan Agreement, the entire unpaid principal and penalties under this Loan Agreement shall accelerate and become due and payable immediately.

In case BORROWER finds difficulty in curing of default because of difficult financial situations, BORROWER must work for LENDER upon request at a rate of 20,000 (twenty thousands) Kips a day.

Article 6: Integration

This Agreement, including the attachments mentioned in the body as incorporated by reference sets forth the entire agreement between the Parties with regard to the subject matter hereof. All prior agreements, representations and warranties, express or implied, oral or written, with respect to the subject matter hereof, are hereby superseded by this Agreement. This is an integrated Agreement.

Article 7: Severability

In the event any provision of this Agreement is deemed to be void, invalid, or unenforceable, that provision shall be severed from the remainder of this Agreement so as not to cause the invalidity or unenforceability of the remainder of this Agreement. All remaining provisions of this Agreement shall then continue in full force and effect. If any provision shall be deemed invalid due to its scope or breadth, such provision shall be deemed valid to the extent of the scope and breadth permitted by law.

Article 8: Modification

Except as otherwise provided in this document, this Agreement may be modified, superseded, or voided only upon the written and signed agreement of the Parties. Further the physical destruction or loss of this document shall not be construed as a modification or termination of the agreement contained herein.

Article 9: Date of Execution of this Agreement

The date of execution of this Agreement is the date BORROWER has water connected to his house or the Maturity date for repayment to the revolving fund for latrine, if any.

IN WITNESS WHEREOF and acknowledging acceptance and agreement of the foregoing, BORROWER and LENDER affix their signatures hereto.

Date _____

Date _____

BORROWER

LENDER

Contact:

Mr. Andre Dzikus

Programme Manager
Water for Cities Programmes
Water, Sanitation and Infrastructure Branch
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