
OFFICIAL
DOCUMENTS

CREDIT NUMBER 1727 NEP

Development Credit Agreement

(Rasuwa-Nuwakot Rural Development Phase II Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

December 4, 1986

CREDIT NUMBER 1727 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated *December 4*, 1986, between the KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the United Nations Development Programme (hereinafter called UNDP) a grant (the UNDP Grant) in an amount of \$1,100,000 to assist in financing the technical assistance and overseas training under Part E (2) and studies under Part F of the Project on the terms and conditions set forth in an agreement (the UNDP Grant Agreement) to be entered into between the Borrower and UNDP; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower 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, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement. The last sentence of Section 3.02 of the General Conditions is hereby deleted.

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) "Project Coordinator's Office" and the acronym "PCO" mean the office established by the Borrower pursuant to the provisions of Section 3.04 of the Prior Development Credit Agreement;

(b) "Prior Development Credit Agreement" means the Development Credit Agreement dated April 30, 1976, between the Kingdom of Nepal and the Association for purposes of Credit No. 617-NEP (Rural Development Project);

(c) "Project Area" means the area included in the districts of Rasuwa and Nuwakot in the Bagmati Zone of the Central Development Region of Nepal, including about 80 Village Panchayats with a total estimated population of about 230,000;

(d) "User Groups" means the groups of villagers/farmers formed for purposes of planning, executing, operating and maintaining the irrigation schemes and other rural infrastructure under Parts A and D of the Project, respectively;

(e) "SFDP" means the on-going small farmers development programme implemented by the ADBN;

(f) "ADBN" means the Agricultural Development Bank of Nepal, established under the Borrower's Agricultural Development Bank Act, 2024 (1967), as amended to the date of this Agreement;

(g) "AIC" means the Agricultural Inputs Corporation, established under the Borrower's Corporation Act, 2021 (1964), as amended to the date of this Agreement;

(h) "International Volunteers" means the professional and para-professional staff employed by the Borrower from recognized international voluntary agencies for assisting in the carrying out of the Project;

(i) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and ADBN pursuant to the provisions of Section 3.03 (a) of this Agreement;

(j) "Financial Agreement" means the agreement entered into between the Borrower and AIC pursuant to the provisions of Section 3.03 (b) of this Agreement;

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "Nepal Rastra Bank" means the central bank of the Borrower, established and operating pursuant to the Borrower's Nepal Rastra Bank, Act, 2012 (1955); and

(m) "Tuki System" means the system for selecting and training farmers in the Project Area to act as model farmers of improved farming practices and agents of AIC for retailing farm inputs on a commission basis.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixteen million six hundred thousand Special Drawing Rights (SDR 16,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special account in the Nepal Rastra Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one per cent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 1996, and ending April 1, 2036. Each installment to and including the installment payable on April 1, 2006 shall be one-half of one per cent ($1/2$ of 1%) of such principal amount, and each installment thereafter shall be one and one-half per cent ($1-1/2\%$) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower 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 through ADBN, AIC and the Borrower's Ministries of Agriculture, Forest and Soil Conservation, Water Resources, and Panchayat and Local Development, with due diligence and efficiency and in conformity with appropriate technical, engineering, agricultural, forestry, managerial, financial and public health 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, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association.

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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall:

(a) relend to ADBN out of the proceeds of the Credit an aggregate amount equivalent to \$1,000,000 under an agreement to be entered into between the Borrower and ADBN under terms and conditions satisfactory to the Association, including those set forth in Schedule 5 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association;

(b) make available to AIC out of the proceeds of the Credit an aggregate amount of \$1,700,000 equivalent, under an agreement to be entered into between the Borrower and AIC under terms and conditions satisfactory to the Association.

Section 3.04. The Borrower shall cause ADBN to relend to the eligible borrowers referred to in Schedule 5 to this Agreement, the proceeds of the Credit relent to ADBN pursuant to Section 3.03 (a) of this Agreement under terms and conditions satisfactory to the Association, including those set forth in Schedule 5 to this Agreement.

Section 3.05. The Borrower shall cause AIC to use the proceeds of the Credit made available to AIC pursuant to Section 3.03 (b) of this Agreement, exclusively for the purposes, inter alia, of importation of fertilizer, pesticides, seeds, other agro-chemicals and agricultural tools and machinery as well as for constructing physical facilities related to the implementation of the Project, under terms and conditions satisfactory to the Association.

Section 3.06. The Borrower shall cause ADBN to maintain, at all times, the amount of credit available in the Project Area for agriculture at such levels as shall be required to adequately meet the credit demand.

Section 3.07. The Borrower shall exercise its rights under the Subsidiary Loan Agreement and the Financial Agreement in such manner as to protect the interest of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive either the Subsidiary Loan Agreement or the Financial Agreement, or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, and cause ADBN and AIC to maintain, separate records and accounts adequate to reflect in accordance with sound accounting practices (i) the operations, resources and expenditures in respect of the Project of ADBN, AIC and the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, and (ii) ADBN's and AIC's operations and financial conditions with respect to their activities under the Project.

(b) The Borrower shall:

- (i) have its accounts referred to in paragraph (a) of this Section, including the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning the said accounts and the audit thereof and said records as the Association shall from time to time reasonably request.

(c) The Borrower shall cause ADBN and AIC each to: (i) have their accounts and financial statements (balance sheets, statement of income and expenses and related statements) for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning the accounts and financial statements of ADBN and AIC and the audit thereof as the Association shall from time to time reasonably request.

(d) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall, and shall cause ADBN and AIC to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the completion of the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Credit withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 4.02. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall, commencing on its Fiscal Year 1986-87 and thereafter, make adequate budgetary provisions for carrying out the Project and release the budgeted funds required for each trimester by not later than the first fortnight of each trimester.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) Either ADBN or AIC shall have failed to perform any of their respective obligations under the Subsidiary Loan Agreement or the Financial Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that either ADBN or AIC will be able to perform their respective obligations under the Subsidiary Loan Agreement or Financial Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the UNDP Agreement shall have been duly signed by the parties thereto;

(b) that an executing agency acceptable to the Borrower, UNDP and the Association shall have been duly appointed as executing agency for the Project components financed out of the proceeds of the UNDP Grant; and

(c) that the PCO has been reorganized pursuant to the provisions of Schedule 4 (a) to this Agreement.

Section 6.02. The date 90 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
His Majesty's Government
Kathmandu
Nepal

Cable address:

ARTHA
Kathmandu, Nepal

Telex:

2249-NEP

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ *Bishwa Pradhan*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ *W. David Hopper*
Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works	7,710,000	90%
(2) Vehicles, equipment, furniture and construction materials	1,390,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 70% of local expenditures for other items procured locally
(3) Salaries and allowances for incremental staff, and Project operating and maintenance costs	1,300,000	FY1986: 80% FY1987: 80% FY1988: 80% FY1989: 70% FY1990: 70% FY1991: 50% FY1992: 40% FY1993: 20%
(4) Fertilizers, agro-chemicals, agricultural equipment, and breeding stocks	1,300,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost and local breeding centers, as the case may be) and 70% of local expenditures for other items procured locally

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Credits under Part C of the Project	870,000	90%
(6) Studies and tech- nical assistance under Part A (6) of the Project	1,090,000	100%
(7) Forestry planta- tion and soil conservation activities, and improved stove programme	1,560,000	90%
(8) Extension activities, adaptive research and in-country training	1,040,000	90%
(9) Unallocated	340,000	
	<hr/>	
TOTAL	16,600,000	
	<hr/> <hr/>	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "incremental staff" means the Borrower's additional staff employed after July 16, 1985 for purposes of the Project; and

(d) the acronym "FY" means the Borrower's Fiscal Year.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) 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 260,000, may be made in respect of vehicles, equipment and furniture under Category (2), salaries and allowances of incremental staff and operating and maintenance costs under Category (3), technical assistance and studies under Category (6), and training under Category (8) on account of payments made for expenditures before that date but after July 16, 1985; and (b) in respect of expenditures under Categories (4) and (5) of the table in paragraph 1 of this Schedule, until the Subsidiary Loan Agreement and Financial Agreement have been signed by the Borrower and ADBN and AIC, respectively, pursuant to the provisions of Section 3.03 (a) and (b), respectively, and the Borrower has furnished to the Association an opinion by counsel acceptable to the Association that the Subsidiary Loan Agreement and Financial Agreement have been duly authorized or ratified by the Borrower and ADBN and AIC, respectively, and are legally binding upon the Borrower and ADBN and AIC, respectively, in accordance with their terms.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase production, employment and rural income in the Project Area.

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

Part A: Agricultural Development

(1) Irrigation

(a) Completion, rehabilitation and upgrading, as the case may be, of about 18 existing irrigation schemes in the Project Area to serve a command area of about 300 ha net.

(b) Construction of about 28 irrigation schemes in the Project Area (about 5 in Rasuwa and about 23 in Nuwakot districts) to serve a command area of about 900 ha net.

(c) Construction of the Boketar-Chawkitar, Simra, Thansingh and Ratomate gravity irrigation systems to serve a command area of about 750 ha net.

(d) Rehabilitation and upgrading of the Labdu-Dhikure and Gadhkar irrigation schemes to serve a command area of about 100 ha net and about 40 ha net, respectively.

(2) Agricultural Extension Services

(a) Strengthening and enhancement of the existing agricultural extension services at the district and panchayat levels in the Project Area through the: (i) construction and equipping of office buildings and staff quarters for about 8 additional agricultural service centers (about 3 in Rasuwa and about 5 in Nuwakot districts); (ii) construction and equipping of the required additional office buildings and staff quarters for the District Agricultural Development Offices located at Trishuli and Dhunche; (iii) provision of staff, agricultural tools, vehicles and motorcycles therefor; (iv) provision of plant protection and seed dressing equipment for each village Panchayat; (v) carrying out of extension activities including farmers visits, demonstrations and exhibitions; and (vi) introduction and promotion of the Tuki System.

(3) Agricultural Training and On-farm Adaptive Research

(a) Strengthening and upgrading of the Regional Training Center Trisuli Bazaar and the satellite training centers at Kakani and Dhunche through the: (i) construction and/or upgrading, as the case may be, of training facilities and staff quarters; (ii) training of farmers and Project staff on agricultural production; and (iii) provision of staff, training equipment and materials, vehicles and furniture therefor.

(b) Establishment of an on-farm adaptive research unit in the Agronomy Division of the Borrower's Department of Agriculture at Kakani, including, provision of staff, construction and equipping of the required office buildings and staff quarters, vehicles and materials therefor.

(c) Improvement of the Kakani, Dhunche and Trishuli agriculture/horticulture farms through the provision of: (i) staff; (ii) physical facilities including land development, protective fencing, irrigation systems and staff quarters; and (iii) vehicles, equipment and furniture therefor.

(d) Implementation of a program to assess the technical and economic viability of commercial production and marketing of temperate and tropical fruits in the Project Area.

(4) Agricultural Inputs Supplies

(a) Importation and distribution through the Borrower's Agricultural Input Corporation of fertilizer, seeds, agro-chemical, and agricultural tools and equipment required in the Project Area.

(b) Construction of two additional godowns (one of about 500 MT at Bidur and one of about 100 MT at Dhunche) and expansion and/or improvement, as the case may be, of the existing office buildings in the district headquarters within the Project Area.

(c) Provision of staff, vehicles and equipment therefor.

(5) Livestock and Animal Health Services

(a) Strengthening of the existing district veterinary hospitals and livestock sub-centers at Trishuli and Dhunche through: (i) provision of staff, livestock, vehicles, surgical

and other required equipment, medicines, drenches and vaccines; (ii) expansion of the physical facilities of the above-mentioned veterinary hospitals; and (iii) construction of about 4 additional livestock centers and about 6 dipping tanks.

(b) Strengthening of the Borrower's training program for livestock owner/farmers in elementary health care, disease identification, first aid and treatment for common and simple ailments through adequate training courses and financial assistance.

(c) Improvement of the pasture development farms at Rasuwa and the Panchsayakhoia sheep farm in Nuwakot district.

(6) Detailed design and feasibility studies for the irrigation schemes and other civil works under the Project, including provision of technical assistance therefor.

Part B: Forestry and Soil Conservation

(1) Establishment of about 3,000 ha of Panchayat Forests, about 250 ha of Leasehold Forests, about 500 ha of private/homestead plantings and about 1,000 ha of public plantings. Rehabilitation and protection of about 3,000 ha of degraded Panchayat Protected Forests. Promotion of usage fuel savings stoves. Carrying out enrichment planting on and protection of 1,200 ha of public forests. Demarcation of about 375 kms of forest area. Maintenance of about 750 ha of existing plantings in the Project Area.

(2) Establishment and implementation of a soil conservation and watershed management program, including: (a) protection of about 500 ha of upper catchments and minor watersheds of the Tadi, Likhu and Samarikhola rivers through, inter alia, conservation of natural vegetation and construction of structures; (b) intensive watershed conservation on about 470 ha of highway degraded minor watershed, drinking water and irrigation sources; (c) rehabilitation of about 500 ha of erosion prone areas; (d) strengthening of conservation education, extension and training; and (e) provision of staff, seedlings, vehicles and equipment, and construction of the required office buildings and staff quarters.

Part C: Agricultural Credit

Provision of credit by ADBN to farmers in the Project Area directly and through cooperative societies and small farmer

development groups for: (a) the establishment and operation of orchard, fruit preservation units, and about ten new Small Farmers Development Sub-projects under the SFDP program; (b) the purchase and utilization of farm inputs, including fertilizers, agricultural chemicals, seeds, agricultural/dairy equipment, and livestock (primarily milch animals and small ruminants); and (c) the support of the Animal Health Workers Development Programme under Part A (5) (b) of the Project.

Part D: Rural Infrastructure Development

(1) Rehabilitation and/or completion, as the case may be, of about 56 drinking water schemes in the Project Area (about 24 in Rasuwa, including one in Dhunche, and about 32 in Nuwakot districts).

(2) Construction of about 45 village water supply systems in the Project Area (about 15 in Rasuwa and about 30 in Nuwakot districts).

(3) Rehabilitation of about 20 existing suspension bridges in the Project Area and construction of about 18 additional suspension bridges (about 9 in Rasuwa and about 9 in Nuwakot districts).

(4) Rehabilitation of the Sera-Chhahare (about 10 km), Chauhada Apraha (about 6 km) and Trishuli-Samari (about 4 km) motorized tracks, and completion/rehabilitation of the Betrawati-Pairebesi and Labdhu-Kharenitar tracks (about 4 km and 8 km, respectively).

(5) Construction of the Dhaibung-Jibjibe track in Rasuwa (about 3 km); the Trishuli-Deorali track in Nuwakot (about 10 km); and the Dhunche Service road in Rasuwa (about 1 km).

Part E: Institutional Development

(1) Strengthening of the Central Regional Offices of the Borrower's Departments of Agriculture, Livestock Development and Animal Health, and Irrigation through the provision of staff, vehicles and equipment.

(2) Strengthening of the PCU, as well as the Local Development Offices and District Technical Offices in the Project Area through the provision of staff, overseas training, equipment and vehicles, construction and equipping of the required office buildings and staff quarters, and technical assistance.

Part F: Studies

The carrying out of studies designed to identify key project/sector related issues, including a review of the Borrower's cost recovery policies relating to water charges in small and medium irrigation schemes and input subsidies as well as to monitor and evaluate the implementation of the Project.

* * * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A. International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).
2. Fertilizers, agrochemicals, vehicles, equipment and furniture shall each be grouped in appropriate bidding packages to facilitate competitive bidding.

Part B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Nepal may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C. Other Procurement Procedures

1. All contracts for civil works shall be let on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that civil works contracts estimated to cost in the aggregate the equivalent of \$2,400,000 may be procured either through force account or through User Groups.
2. Contracts for the purchase of vehicles, equipment and furniture estimated to cost each individual item the equivalent of \$30,000 or less and the total of each contract the equivalent of \$150,000 or less, may be procured on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the Association.
3. All breeding stock shall be procured directly from livestock markets and breeding centers at the prevailing market prices.

4. All plantation works for forestry and soil conservation shall be procured either through force account or piece work contract, the latter in accordance with procedures satisfactory to the Association.

Part D. Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$100,000 or more and with respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants and International

Volunteers whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Consultants to be employed for purposes of carrying out Part A (6) of the Project, shall in addition to the foregoing be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) take all such actions as shall be necessary to reorganize the Project Coordinator's Office in a manner satisfactory to the Association, and, thereafter, maintain the Project Coordinator's Office headed by a suitable and qualified officer, acceptable to the Association, for purposes of assisting ADBN, AIC and the departments and agencies of the Borrower responsible for the carrying out of the Project or a Part thereof, in the planning, monitoring, and evaluation of the various activities under the Project and to act as a liaison among ADBN, AIC and such departments and agencies. The PCO shall, at all times, be assigned with such powers, functions, responsibilities, funds and staffing as shall be required for achieving its purposes;

(b) take all such action as shall be required to ensure an active and effective participation by the PCO in the meetings and deliberations of the District Plan Formulation and District Supervision Committees of the District Panchayats in the Project Area;

(c) by September 30, 1987, prepare and furnish to the Association, for its review and comments, the results and recommendations of the studies relating to cost recovery and input subsidies under Part F of the Project carried out in accordance with terms of reference acceptable to the Association, and by December 31, 1987, on the basis of the results and recommendations of the above-mentioned studies and the Association's comments, if any, thereto prepare and furnish to the Association an action plan, including guidelines, principles, policies and implementation schedules, for:

(A) establishing and, thereafter collecting irrigation water charges at such levels as shall be required to cover full costs of operation and maintenance and, taking into account farmers' payment capacity, a reasonable portion of the investment costs of small and medium irrigation schemes in Nepal;

(B) establishing and, thereafter, collecting water user charges and/or benefit taxes to cover full

costs of operation and maintenance and, taking into account beneficiaries'/users' payment capacity, a reasonable portion of the investment costs of rural infrastructure works under the Project; and

(C) establishing and, thereafter, applying a phased elimination of farm input subsidies, including development of broader channels of input supplies (including private sector) to beneficiaries; and, thereafter, implement such action plan, as so approved.

(d) prior to undertaking the construction of an irrigation scheme under Part A (i) and other rural infrastructure works under Part D of the Project, take all such action as shall be necessary to adequately establish User Groups, including means for ensuring beneficiaries active participation/contribution for the construction, operation and maintenance of such works;

(e) by December 31, 1986, establish and, thereafter, maintain within its Agriculture Department, a Unit dealing with irrigation, agronomy, and water management and utilization aspects for purposes of advising farmers in maximizing benefits from the irrigation schemes under the Project, such Unit to be headed by a qualified and experienced officer and to be assigned, at all times, with such powers, functions, responsibilities, funds and staffing as shall be required to carry out its purposes;

(f) by July 31, 1987, prepare and furnish to the Association, for its approval, draft Forest Management Plans providing guidelines to the District Panchayats in the Project Area for the protection and maintenance of the forest plantations and distributions of the produce;

(g) without limitation, to Section 9.08 of the General Conditions, by December 31 of each year, commencing on December 31, 1986, make available to each District Panchayat in the Project Area with the required unencumbered land for carrying out the forestry plantation under Part B (1) of the Project;

(h) by September 30, 1987, prepare and furnish to the Association for its approval a Watershed Management Plan for the Project Area, and, thereafter, implement such Plan as so approved; and

(i) not later than January 31, 1989, prepare and furnish to the Association, for its approval, terms of reference for carrying out a mid-term review on the execution of the Project, and, thereafter, carry out such mid-term review pursuant to the terms of reference as so approved, furnishing to the Association the results of the mid-term review by not later than December 31, 1989.

2. The Borrower undertakes to take all such actions as shall be necessary to ensure that:

(a) trainees for overseas training programs shall: (i) be individuals with qualifications and experience satisfactory to the Association; (ii) be trained in institutions and programs acceptable to the Association; and (iii) upon their return to Nepal, be provided with adequate jobs to serve for at least five years in rural development projects in Nepal;

(b) all civil works under the Project shall be undertaken by qualified and experienced contractors registered by the Borrower's Ministry of Works and Transport, or by properly constituted User Groups; and

(c) (i) Project staff shall be appointed, deployed and maintained in a manner that shall contribute to achieve the objectives of the Project; (ii) incremental Project staff which is required for carrying out post-investment Project activities shall, commencing on the Borrower's Fiscal Year 1990-91, be included in the Borrower's regular staff budget; and (iii) the Local Development Officers required for carrying out the Project shall be qualified and experienced officers of at least confirmed Class II Gazetted Officers.

SCHEDULE 5

**Lending Terms in respect of
Credits under Part C of the Project**

1. ADBN Subsidiary Loan Agreement

- (a) Repayment period: repayment period not to exceed seven years; provided, however, that the repayment period may be extended by agreement between the Borrower and ADBN with the prior consent of the Association.
- (b) Interest rate: an interest rate equivalent to the prevailing rediscount facility rate of the Nepal Rastra Bank for the agriculture priority sector.
- (c) Security: ADBN's standard security policy with respect to cooperatives or individuals.
- (d) Foreign exchange risk: to be borne by the Borrower.

2. Eligible Borrowers for Credits under Part C of the Project

Cooperatives, Small Farmers Groups, individual farmers and Animal Health Workers on an individual basis.

3. ADBN's on-lending terms and conditions

- (a) To Cooperatives and Small Farmers Group:
 - (i) Short-term credit: interest at the rate of 11% per annum and a repayment period of up to 18 months, without a grace period.
 - (ii) Medium-term credit: interest at the rate of 8% per annum and a repayment period of up to 7 years, including a grace period of up to 2 years.
- (b) To Individual Farmers and Animal Health Workers:

- (i) Short-term credit: interest at the rate of 15% per annum and a repayment period of up to 18 months, without a grace period.
- (ii) Medium-term credit: interest at the rate of 12% per annum, and a repayment period of up to 7 years, including a grace period of up to 2 years.

4. Cooperatives on-lending terms and conditions to individual farmers.

(a) Short-term credit: interest at the rate of 15% per annum and a repayment period of up to 18 months, without a grace period.

(b) Medium-term credit: interest at the rate of 12% per annum and a repayment period of up to 7 years, including a grace period of up to 2 years.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5), (6), (7) and (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$350,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the

Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals should be made directly by the Borrower from the Credit Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. 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 have been or will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2

of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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 or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.

INTERNATIONAL DEVELOPMENT ASSOCIATION

CERTIFICATE

I hereby certify that the foregoing is a true copy
of the original in the archives of the International
Development Association.



FOR SECRETARY