

CONFORMED COPY

CREDIT NUMBER 3215 NEP

Development Credit Agreement

(Rural Infrastructure Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 8, 1999

CREDIT NUMBER 3215 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 8, 1999, between 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Borrower and the District Development Committees of selected districts of the Borrower with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to such District Development Committees, as set forth in this Agreement; 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 (as amended through December 2,

1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read as follows:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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) "DDC" means the District Development Committee established in each of the following districts of the Borrower, or any successor thereto: Kapilbastu; Rupandehi; Nawalparasi; Syangja; Palpa; Kaski; Dhading; and Sankhuwasabha;

(b) "DOLIDAR" means the Department of Local Infrastructure Development and Agricultural Roads of the MLD (as hereinafter defined);

(c) "DTMP" means the District Transport Master Plan of each DDC for the development and maintenance of road assets of that district;

(d) "DTU" means the District Technical Unit established in each DDC and responsible for, inter alia, the planning, implementation and supervision of activities to be carried out under the Project at the district level;

(e) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(g) "Memorandum of Understanding" means each Memorandum of Understanding to be executed by the Borrower and each DDC and furnished to the Association pursuant to Section 3.01(c) of this Agreement;

(h) "MLD" means the Ministry of Local Development of the Borrower;

(i) "Nepal Rastra Bank" means the central bank of the Borrower, established and operating pursuant to the Nepal Rastra Bank Act, 2012 (1955), as amended from time to time;

(j) "PCU" means the Project Coordination Unit established in the DOLIDAR and responsible for, inter alia, the planning, implementation and supervision of activities to be carried out under the Project at the central level and the overall coordination and monitoring of activities to be carried out under the Project at the central and district levels;

(k) "PIP" means the Project Implementation Plan of the Borrower, dated April 1999 and approved by the Association, as the same may be updated from time to time with the agreement of the Association;

(l) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "Social and Environmental Assessment" means the Stakeholder Analysis, Social and Environmental Assessment - in the context of Rural Infrastructure Project, Ministry of Local Development, Nepal and the World Bank, October 1998, setting forth, inter alia, the assessment of environmental and socio-economic impacts of the road maintenance and rehabilitation works under the Project and recommendations based on such assessment; and (n) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed to be a reference to each DDC.

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 three million seven hundred thousand Special Drawing Rights (SDR 3,700,000).

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

Section 2.03. The Closing Date shall be July 31, 2002 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 on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the 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 percent (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. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2009 and ending April 1, 2039. Each installment to and including the installment payable on April 1, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out, and cause each DDC to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport and environmental practices, and shall provide, and cause each DDC to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall execute with each DDC a Memorandum of Understanding, satisfactory to the Association and substantially in the form set forth

in Schedule 4 to this Agreement, and promptly upon such execution furnish a copy thereof to the Association, before such DDC participates in the carrying out of any activities under the Project.

(d) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause each DDC to perform in accordance with the provisions of the applicable Memorandum of Understanding all the obligations of such DDC therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable such DDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(e) The Borrower shall make available to each DDC, as a grant and in a timely manner, (i) part of the proceeds of the Credit and (ii) additional funds from the Borrower's own resources if and as required for such DDC to carry out its activities under the Project.

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of the activities to be carried out by each DDC shall be carried out by such DDC.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, and shall cause each DDC to, maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound financial management and accounting practices the operations, resources and expenditures related to the Project of the departments or agencies of the Borrower and each DDC responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section including those for 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 six months after the end of each such fiscal year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such fiscal year as so audited, and (B) an opinion on such financial statements, records and accounts and a 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 said records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain or cause to be retained, until at least one year after the Association has received the audit report 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 records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out, and cause each DDC to carry out, a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than November 30, 2000, or such later date as the Association shall agree, to prepare trimesterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the eight-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the eight-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines, and furnish to the Association not later than 45 days after the end of each trimester a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) The Borrower or any DDC shall have failed to perform any of its obligations under its Memorandum of Understanding.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower or any DDC will be able to perform its obligations under its Memorandum of Understanding.

(c) The Borrower or any DDC shall have waived or failed to enforce any of the provisions of any Memorandum of Understanding.

(d) Any Memorandum of Understanding shall have been amended, suspended, abrogated or repealed so as to materially and adversely affect the implementation of the Project.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that any of the events specified in paragraphs (a), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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 of Nepal
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:

248423 (MCI) or
64145 (MCI)

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

KINGDOM OF NEPAL

By /s/ Ram Binod Bhattarai

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Hans M. Rothenbuhler

Country Director, Nepal

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	2,225,000	80%
(2) Goods	150,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expend- itures for other items procured locally
(3) Consultants' services and training	1,030,000	100%
(4) Incremental operating costs	75,000	70%
(5) Unallocated	220,000	
TOTAL	<u>3,700,000</u> =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the 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; and

(c) the term "incremental operating costs" means (i) expenditures incurred by the PCU for the operation and maintenance of facilities, vehicles and equipment used for Project implementation and (ii) salaries and allowances of staff employed by the PCU after December 20, 1998 for the purposes of carrying out the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

(a) expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 75,000, may be made in respect of Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of this Schedule on account of payments made for expenditures before that date but after December 20, 1998;

(b) expenditures incurred by any DDC for any activities under the Project unless and until the Borrower and such DDC have executed a Memorandum of Understanding satisfactory to the Association and furnished a copy thereof to the Association pursuant to Section 3.01(c) of this Agreement; and

(c) expenditures incurred by the DDC of the district of Sankhuwasabha for civil works for rehabilitation of its district roads/trails under Part A of the Project unless and until such DDC has submitted to the Association its DTMP satisfactory to the Association pursuant to paragraph 7 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$20,000 equivalent each; (b) works under contracts costing less than \$50,000 equivalent each; (c) services under contracts costing less than \$20,000 equivalent each for employment of consulting firms and \$5,000 equivalent each for employment of individual consultants; (d) training; and (e) incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in Nepal Rastra Bank, on terms and conditions satisfactory to the Association.

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

(a) until the Association shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records, accounts and financial statements reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

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

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

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

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower

shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the eight-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$1,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in strengthening the institutional capacity of the decentralized governance system in its planning and managing capabilities to improve the quality, efficiency and sustainability of rural roads/trails in selected districts of the Borrower with active participation of Project beneficiaries.

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 objective:

Part A: Infrastructure Works

1. Implementing routine maintenance of about 1,000 km of district roads, periodic maintenance of about 240 km of district roads and rehabilitation and spot improvement of about 100 km of district roads in the districts of Kapilbastu, Rupandehi, Nawalparasi, Syangja, Palpa, Kaski and Dhading.

2. Implementing rehabilitation and spot improvement of about 75 km of existing

trails in the district of Sankhuwasabha.

3. Implementing maintenance and rehabilitation of other small-scale rural infrastructure, including rural marketing structures and rural transport schemes.

Part B: Institutional Capacity Strengthening

1. Strengthening the institutional capacity of the MLD/DOLIDAR and the DDCs in planning and managing rural infrastructure and developing the knowledge base for an expansion of the Project approach through: (i) provision of Project management advisory services to the MLD/DOLIDAR and the DDCs; (ii) provision of training to MLD/DOLIDAR staff, DDC staff, contractors and consultants; (iii) provision of technical assistance in the technical, financial, environmental and socio-economic monitoring and verification of road works; (iv) stakeholder mobilization in the community-based performance monitoring of technical and financial aspects of project implementation in selected districts; and (v) evaluation of the achievement of the Project's objectives and the feasibility of a larger follow-on project.

* * *

The Project is expected to be completed by January 31, 2002.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: National Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

(a) invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;

(b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(c) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

(d) bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(e) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(f) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(g) contracts shall be awarded to the lowest evaluated bidders;

(h) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;

(i) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(j) contracts shall not be awarded on the basis of nationally negotiated rates;

(k) re-bidding shall not be carried out without the prior concurrence of the Association;

(l) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;

(m) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

(n) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:

(i) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and

(ii) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;

(o) extension of bid validity shall not be allowed without the prior concurrence of the Association (i) for the first request for extension if it is longer than eight weeks and (ii) for all subsequent requests for extension irrespective of the period;

(p) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and

(q) there shall not be any restrictions on the means of delivery of the bids.

Part C: Other Procurement Procedures

1. International or National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$2,400,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to (i) each contract for works estimated to cost the equivalent of \$50,000 or more, (ii) the first three contracts for works estimated to cost the equivalent of \$20,000 or more but less than the equivalent of \$50,000, and (iii) each contract for goods estimated to cost the equivalent of \$20,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for works to be procured in accordance with the procedures referred to in paragraph 2 of Part C above, the following procedures shall apply:

(i) prior to the selection of the supplier, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of the contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000

equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single-Source Selection

Services for the preparation and implementation of the civil works program in any district may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$20,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$5,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply. ~SCHEDULE 4 Implementation Program DDC Funding for Civil Works

1. The Borrower shall cause each DDC to contribute, out of such DDC's own resources or any block grants allocated by the Borrower, at least twenty percent (20%) of the total funds required for the civil works to be undertaken in the Project on an annual basis before the Borrower grants authority to such DDC to apply the proceeds of the Credit to the remaining portions of the costs of such civil works.

Project Coordination Unit (PCU)

2. The Borrower shall maintain the PCU with adequate numbers of professional staff with skills, experience and qualifications and on terms of reference satisfactory to the Association, including without limitation the Project Coordinator, one Accounts Officer, two accountants and one computer technician for the operation of the financial management system.

3. The Borrower shall ensure that the Project Coordinator and the Accounts Officer in the PCU will not be transferred to other positions during the period of Project implementation without prior consultation with the Association and except as required under the applicable law of the Borrower.

District Technical Unit (DTU)

4. The Borrower shall cause each DDC to maintain the DTU with adequate numbers of professional staff with skills, experience and qualifications and on terms of reference satisfactory to the Association.

5. The Borrower shall cause each DDC to ensure that its District Engineer will not be transferred to another position during the period of Project implementation without prior consultation with the Association and except as required under the applicable law of the Borrower.

Project Implementation Plan (PIP) and District Transport Master Plans (DTMPs)

6. The Borrower shall, and shall cause each DDC to, carry out the Project in accordance with the PIP and its DTMP satisfactory to the Association.

7. With respect to the DDC of the district of Sankhuwasabha, the Borrower: (i) shall cause such DDC to submit to the Association by October 31, 1999 its DTMP satisfactory to the Association; and (ii) shall not make any part of the proceeds of the Credit available to such DDC for civil works for rehabilitation of its district roads/trails under Part A of the Project unless and until such DDC has submitted such DTMP to the Association.

Memorandum of Understanding

8. Except as the Association shall otherwise agree, the Memorandum of Understanding to be executed by the Borrower and each DDC shall include, inter alia, the following provisions:

(a) Each DDC shall declare its commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and to this end, shall agree to carry out its activities under the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport and environmental practices, and to provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its activities under the Project.

(b) Each DDC shall agree to assume all the obligations applicable or relevant to such DDC under the Development Credit Agreement and to take all actions necessary to undertake its activities under the Project. Each DDC shall further agree to carry out its activities under the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement, the PIP and its DTMP (as such terms are defined in the Development Credit Agreement).

(c) The Borrower shall agree to make available to each DDC, as a grant and in a timely manner, (i) part of the proceeds of the Credit and (ii) additional funds from the Borrower's own resources if and as required for such DDC to carry out its activities under the Project.

(d) Each DDC shall agree that 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 the Development Credit Agreement.

(e) Each DDC shall agree that the Borrower and the Association may from time to time inspect the goods, works and services under the Project including all records and documents relating thereto.

(f) Each DDC shall agree to carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) of the General Conditions (as such term is defined in the Development Credit Agreement) in respect of its Memorandum of Understanding and its activities under the Project.

(g) Each DDC shall agree to comply and assist the Borrower in complying with the financial covenants prescribed by Article IV of the Development Credit Agreement.

(h) Each DDC shall acknowledge that the Borrower may suspend or terminate its right to use the proceeds of the Credit made available under the Development Credit Agreement upon its failure to perform any of its obligations under its Memorandum of Understanding or upon notice by the Association that it intends to exercise its remedies under Article V of the Development Credit Agreement.

(i) Without limitation on any other provisions of the Memorandum of Understanding, each DDC shall acknowledge that if, as a result of a review of the implementation of the Project for any period, the performance of such DDC during such period is deemed by the Association, in consultation with the DOLIDAR (as such term is defined in the Development Credit Agreement) to be less than satisfactory, the Borrower is not permitted to make any part of the proceeds of the Credit available to such DDC for any of its activities carried out under the Project after such review until further notice by the Association.

(j) Each DDC shall agree to promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of its activities under the Project, the accomplishment of the purposes of the Credit, or the performance of its obligations under its Memorandum of Understanding.

(k) Each DDC shall agree that it shall, from time to time, at the request of the Borrower or the Association, (i) exchange views with the Borrower and/or the Association with regard to the progress of its activities under the Project, the performance of its obligations under its Memorandum of Understanding and other matters relating to the purposes of the Credit and (ii) furnish all such information related thereto as may reasonably be required by the Borrower and/or the Association.

(l) Each DDC shall agree that it shall: (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date (as such term is defined in the Development Credit Agreement) or such later date as may be agreed for this purpose among the Association, the Borrower and such DDC, a plan designed to ensure the continued achievement of the Project's objective; and (ii) afford the Association a reasonable opportunity to exchange views with such DDC on said plan.

(m) Each DDC shall agree not to use any part of the proceeds of the Credit to undertake civil works on any roads/trails not included in its DTMP satisfactory to the Association.

Performance of DDC

9. If, as a result of a review of the implementation of the Project for any period, the performance of any DDC during such period is deemed by the Association, in consultation with the DOLIDAR, to be less than satisfactory, the Borrower shall not make any part of the proceeds of the Credit available to such DDC for any of its activities carried out under the Project after such review until further notice by the Association.

Financial Management System

10. The Borrower shall: (i) by November 30, 1999, complete the preparation of an accounts manual, satisfactory to the Association, for the operation of its financial management system; (ii) by December 15, 1999, start the training, with terms of reference satisfactory to the Association, of the adequate number of accounts staff of the PCU and DDCs by using such accounts manual; and (iii) by December 15, 1999, appoint a second accountant in the PCU with experience satisfactory to the Association.

Roads Not Included in DTMP

11. The Borrower shall cause each DDC not to use any part of the proceeds of the Credit to undertake civil works on any roads/trails not included in its DTMP satisfactory to the Association.

Socio-Economic and Project Implementation Issues

12. The Borrower shall cause each DDC to implement the recommendations regarding

socio-economic and other Project implementation issues set forth in the Social and Environmental Assessment in a manner satisfactory to the Association, including without limitation: (i) measures to maximize the benefits of the Project for the poor and women; (ii) the use of labor-based techniques and local contractors and road user groups in the civil works; (iii) the undertaking of the community-based performance monitoring of technical and financial aspects of project implementation in selected districts; and, (iv) the undertaking of a socio-economic survey in selected districts with the beneficiary participation in data collection and impact monitoring.

Environmental Issues

13. The Borrower shall cause each DDC to implement the recommendations regarding environmental issues set forth in the Social and Environmental Assessment in a manner satisfactory to the Association, including without limitation the development of a system to screen the environmental and social impacts of road works and to identify and implement environmental mitigation measures.

Environmental Mitigation Measures in Civil Works Contracts

14. The Borrower shall cause each DDC to ensure that all civil works contracts for the roads covered by the Project will include environmental mitigation measures set forth in the Social and Environmental Assessment.

Resettlement and Rehabilitation

15. The Borrower shall, and shall cause each DDC to, ensure that no involuntary resettlement arises from any land acquisition, use of land or change of land use under the Project, except to the extent that such DDC shall: (i) sufficiently in advance of such land acquisition or land use, prepare a resettlement plan satisfactory to the Association by, inter alia, undertaking meaningful consultation with affected people and incorporating their views in the plan and submit it to the Association; and (ii) thereafter implement such resettlement plan in a manner and with a timetable satisfactory to the Association.

Trimesterly Reports

16. The Borrower shall, within forty-five (45) days after the end of each trimester, provide to the Association a trimesterly report setting forth the progress of the implementation of the Project and proposed action plans for the following trimester, such trimesterly report to include a trimesterly report prepared by each DDC.

Monitoring and Evaluation; Mid-Term Review

17. The Borrower shall:

(a) maintain, and cause each DDC to maintain, policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, and cause each DDC to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by October 31, 2000, a report or reports integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report(s) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Association, by November 30, 2000, or such later date as the Association shall request, the report(s) referred to in subparagraph (b) of this paragraph, cause each DDC to participate in such review as necessary or appropriate, and, thereafter, take, and cause each DDC to take, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report(s) and the Association's views on the matter.

