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**CREDIT NUMBER 4981-NP**  
**GRANT NUMBER H716-NP**

# **Financing Agreement**

**(Modernization of Rani Jamara Kulariya Irrigation Scheme – Phase 1 – Project)**

**between**

**NEPAL**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated October 18, 2011**

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**CREDIT NUMBER 4981-NP**  
**GRANT NUMBER H716-NP**

## **FINANCING AGREEMENT**

AGREEMENT dated October 18, 2011, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
  - (a) an amount equivalent to twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000) (“Grant”); and
  - (b) an amount equivalent to fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollars.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out: (i) Parts A and B of the Project through DOI; (ii) Part C of the Project through DOA; and (iii) Part D of the Project through DOI and DOA, all in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

### **ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Secretary, Ministry of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4211-164

5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL

By /s/ Krishna Hari Baskota

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ellen Goldstein

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve irrigation water delivery to, and management in, the Command Area.

The Project consists of the following parts:

#### Part A: Scheme Modernization

Modernization of the Rani Jamara Kulariya Irrigation Scheme through, *inter alia*, the construction of a feeder canal, intakes, control structures, diversion structures, and canal and river bank flood protection works, and rehabilitation of scheme roads within the Command Area.

#### Part B: Strengthening Water Users Associations

1. Capacity building of WUAs in the Command Area through provision of technical assistance, training, study tours, and equipment to assume responsibility for the management, operation, and maintenance of the irrigation systems to be modernized under Part A of the Project.
2. Construction of WUA offices in a central location of each WUA Command Area and provision of office equipment therefor.

#### Part C: Agricultural Production Support

Support to the development of programs for improved production technologies and practices and improved water management practices, and the development of efficient and effective delivery mechanisms for key agricultural and horticultural support and extension services.

#### Part D: Project Management

Provision of technical assistance, training, goods, and equipment, and construction of an office building to strengthen the PIO and DADO in order to: (i) fulfill their management and implementation responsibilities under the Project, including, *inter alia*, monitoring physical and financial progress, preparing annual work plans and regular progress reports, and ensuring technically sound designs of engineering works and construction supervision; and (ii) prepare next phase of the Project.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient shall, by no later than November 15, 2011, establish, and thereafter maintain, the Project Steering Committee to be chaired by the Secretary of the Recipient's Ministry of Irrigation, and to consist of senior representatives from the Recipient's Ministry of Finance, Ministry of Agriculture and Cooperatives, Ministry of Forests and Soil Conservation, Ministry of Environment, National Planning Commission, DOI and DOA to provide overall policy guidance.
2. The Recipient shall vest responsibility for execution of Parts A and B of the Project in DOI, Part C of the Project in DOA, and Part D of the Project in DOI and DOA. To that end, the Recipient shall, throughout the period of implementation of the Project, maintain:
  - (i) PIO within DOI, headed by a Project manager and assisted by a liaison officer and staff in, *inter alia*, technical, procurement, financial management units, and a social, environment, and institutional unit for purposes of: (a) day-to-day implementation of the Project, including management of the annual work plans and budget; (b) maintaining financial accounts; (c) construction supervision and quality-control activities; (d) preparing trimester Project implementation progress reports; (e) monitoring and evaluation; and (f) effecting and monitoring compliance with the Environmental Management Plan and the Social Impact Management Framework.
  - (ii) a Project team in DADO for purposes of: (a) coordinating the implementation of the Project with PIO and providing PIO with the necessary information for the preparation of consolidated annual work plans and Project implementation progress reports; (b) procurement support; and (c) availing officers to Agriculture Services Centers and technical staff to Agriculture Contact Points that shall assist DADO with the implementation of the Project.
3. The Recipient shall maintain or cause to be maintained the teams referred to in paragraph 2 above. Unless the Association shall otherwise agree, the Recipient shall ensure that, except in case of unsatisfactory performance, or as required by the Recipient's laws, the above-mentioned core staff shall not be transferred to other positions until completion of the Project, and, in the case of the accounts and finance officers, no such transfer shall occur until at least six (6) months after

the Closing Date or submission by the Recipient of the final audited Financial Statements, whichever occurs later.

4. Unless the Association shall otherwise agree, the Recipient shall ensure that all staff and employees who have participated in an international training course or a study visit under the Project shall remain in post for a minimum period as specified by Clause 40(c) of the Civil Service Act, 2049 (1993), or any amendment thereto.

**B. Project Implementation Manual**

1. The Recipient shall take all measures necessary to ensure that DOI shall adopt and maintain a Project Implementation Manual, in form and substance satisfactory to the Association, consisting of various schedules setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:
  - (i) a detailed description of the implementation activities under Parts A, B, C and D of the Project, their sequencing and the respective timetables;
  - (ii) a description of the roles and responsibilities of agencies involved in implementation and their management structure;
  - (iii) the administrative, accounting, auditing, reporting, financial management, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto, including Standard Bidding Documents for the procurement methods set forth in the Procurement Plan and the final form of the interim unaudited financial reports and Financial Statements for the Project;
  - (iv) the process, procedures and responsibility for implementing, supervising, reporting and monitoring the Environmental Management Plan and the Social Impact Management Framework;
  - (v) a plan for the monitoring and supervision of the Project and all environmental, economic and social aspects in relation thereto;
  - (vi) the performance indicators for the Project; and
  - (vii) detailed cost estimates.

**C. Anti-Corruption, Governance and Accountability**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and those of the GAAP.

**D. Safeguards**

1. The Recipient shall carry out the Project in accordance with the Environmental Management Plan and the Social Impact Management Framework (collectively hereafter, the “Safeguards Instruments”).
2. Without limitation to the provisions of Section II.A of this Schedule 2, the Recipient shall take all measures necessary on its part to regularly collect, compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with the Environmental Management Plan and the Social Impact Management Framework, including details on:
  - (a) measures taken by the Recipient in furtherance of the Safeguards Instruments;
  - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Safeguards Instruments; and
  - (c) remedial measures taken, or required to be taken, to address such conditions.
3. In the event of a conflict between the provisions of either the Environmental Management Plan and/or the Social Impact Management Framework, and those of this Agreement, the provision of this Agreement shall prevail.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Implementation Progress Reports**

The Recipient shall monitor and evaluate the progress of the Project (including the progress in implementing the GAAP) and prepare Project Reports (including reporting on the implementation of the GAAP) in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of a Fiscal Year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project implementation



report not later than forty-five (45) days after the end of each Fiscal Year trimester, interim unaudited financial reports for the Project covering the Fiscal Year trimesters, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

### **Section III. Procurement**

#### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, goods estimated to cost less than US\$500,000 equivalent per contract and works estimated to cost less than US\$3,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), subject to the following:
  - (i) bid documents shall be made available, by electronic means, mail or in person, to all who are willing to pay the required fee;

- (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (iii) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (iv) 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;
- (v) 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 and contracts shall be awarded to the lowest evaluated bidders;
- (vi) rebidding shall not be carried out without the prior concurrence of the Association;
- (vii) extension of bid validity shall not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than four (4) weeks; and (B) for all subsequent requests for extension irrespective of the period; and
- (viii) there shall not be any restrictions on the means of delivery of the bids.

3. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) Community Participation procedures acceptable to the Association
(b) Shopping
(c) Direct Contracting
(d) Force Account
(e) Limited International Bidding

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) Quality-Based Selection
(b) Selection Based on Consultants' Qualification
(c) Selection of Individual Consultants
(d) Single Source Selection
(e) Selection under a Fixed Budget
(f) Least Cost Selection

- D. Review by the Association of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Civil works under Parts A, B, C, and D of the Project	14,900,000	5,400,000	87%
(2) Goods, services, training, and Incremental Operating Costs under Parts A, B and D of the Project		5,500,000	100%
(3) Goods, services, training, and Incremental Operating Costs under Parts C and D of the Project		1,400,000	100%
<b>TOTAL AMOUNT</b>	<b>14,900,000</b>	<b>12,300,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made under Category (1) until DOI has adopted the Project Implementation Manual in form and substance satisfactory to the Association.
2. The Closing Date is September 30, 2016.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each June 15 and December 15:	
commencing December 15, 2021 to and including June 15, 2031	1%
commencing December 15, 2031 to and including June 15, 2051	2%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. “Agriculture Services Center” means a DADO-managed center through which DADO shall carry out Part C of the Project, and “Agriculture Services Centers” means, collectively, all such Agriculture Services Centers.
2. “Agricultural Contact Point” means a DADO-managed contact point through which DADO shall carry out Part C of the Project, and “Agricultural Contact Points” means, collectively, all such Agricultural Contact Points.
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Command Area” means agricultural lands to be irrigated using infrastructure to be modernized under Part A of the Project.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
7. “DADO” means the District Agriculture Development Office in Kailali within DOA and any successor thereto.
8. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.
9. “DOA” means the Department of Agriculture within the Recipient’s Ministry of Agriculture and Cooperatives and any successor thereto.
10. “DOP” means the Department of Irrigation within the Recipient’s Ministry of Irrigation and any successor thereto.

11. “Environmental Management Plan” means the plan developed by the Recipient for the Project, satisfactory to the Association, and publicly disclosed on March 31, 2011, which sets out, *inter alia*: (i) the specific actions, measures and policies designed to maximize the benefits of the Project, as well as eliminate, offset or mitigate any adverse environmental impacts, or reduce such impacts to acceptable levels, during its design, construction and operation phases; (ii) approximate location, timeframe and mitigation costs; (iii) reference to the relevant laws, regulations, and contract documents; and (iv) responsibility for implementation and supervision as said plan may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan.
12. “Governance and Accountability Action Plan” and the acronym “GAAP” mean the Governance and Accountability Action Plan, dated April 28, 2011, satisfactory to the Association, which sets out the key actions to be undertaken during the Project implementation to strengthen governance, transparency, and accountability under the Project, as such plan may be amended from time to time with the prior written agreement of the Association.
13. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
14. “Incremental Operating Costs” means, in respect of Categories (2) and (3), incremental expenses incurred by DOI and DOA on account of the Project implementation support and management and reasonably related thereto, including communications, utilities, stationary, domestic travel costs and per diem, maintenance of vehicles and equipment funded by the proceeds of the Financing, but excluding salaries, fees and honoraria of the Recipients’ civil servants.
15. “PIO” means the Project Implementation Office to be maintained pursuant to Section I.A.2 of Schedule 2 to this Agreement and any successor thereto, responsible for, *inter alia*, implementation of Parts A, B, C and D of the Project.
16. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 28, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Project Implementation Manual” means the manual to be adopted and maintained by the Recipient pursuant to Section I.B of Schedule 2 to this

Agreement, setting forth procedures for implementation of the Project, as such manual may be amended from time to time with the prior written agreement of the Association, and such term includes all schedules and annexes to such manual.

19. "Project Steering Committee" means the committee referred to in paragraph A.1, Section I, Schedule 2 to this Agreement.
20. "Public Procurement Act" means the Recipient's Public Procurement Act, 2063 (2007).
21. "Social Impact Management Framework" means the Recipient's document consisting of a land acquisition and resettlement framework, a vulnerable community development framework, a gender equality and social inclusion strategy and an information, communication, and participation strategy, prepared by the Recipient for the Project, satisfactory to the Association, and publicly disclosed on March 31, 2011, which sets out in particular: (i) mitigation, enhancement, monitoring and institutional measures, including capacity building through training, to carry out the acquisition of land and related assets under the Project and address issues related to indigenous people, gender and social inclusion and information, communication, consultation and participation; (ii) compensation, resettlement and rehabilitation of Displaced Persons; and (iii) the preparation of social impact management plans during the implementation of the Project, as said framework may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.
22. "Training" means, in respect of Categories (2) and (3), reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators, course fees, workshops and travel study tours, training facility rentals, and training material preparation, acquisition, reproduction and distribution expenses.
23. "WUA" means Water Users' Association, an organization established and registered pursuant to the Recipient's Water Resources Act, 2049 (1992), and or the Irrigation regulations 2056 (1999), and "WUAs" means collectively all such Water Users' Associations.