

CONFORMED COPY

CREDIT NUMBER 2912 NEP

Project Agreement

(Rural Water Supply and Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

RURAL WATER SUPPLY AND SANITATION FUND
DEVELOPMENT BOARD

Dated January 23, 1997

CREDIT NUMBER 2912 NEP

PROJECT AGREEMENT

AGREEMENT, dated January 23, 1997, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and RURAL WATER SUPPLY AND SANITATION FUND DEVELOPMENT BOARD (the Board).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Kingdom of Nepal (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Board agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a grant agreement to be entered into between the Borrower and the Board, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to the Board on the terms and conditions set forth in said Grant Agreement; and

WHEREAS the Board, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Board declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, or cause to be provided, 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 Association and the Board shall otherwise agree, the Board shall carry out the Project in accordance with the Formation Order, the Rules, the Implementation Manuals and the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 1 to this Agreement.

Section 2.03. (a) The Board shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation upon the provisions of paragraph (a) of this Section, the Board shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the Board, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with the Board on said plan.

Section 2.04. The Board shall duly perform all its obligations under the Grant Agreement. Except as the Association shall otherwise agree, the Board shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Grant Agreement or any provision thereof.

Section 2.05. (a) The Board shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Grant Agreement and other matters relating to the purposes of the Credit.

(b) The Board shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the Board of its obligations under this Agreement and under the Grant Agreement.

ARTICLE III

Management and Operations of the Board

Section 3.01. The Board shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. The Board shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering and financial practices.

Section 3.03. The Board shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Board shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Board shall:

- (i) have its records, accounts and financial statements (balance sheets, statements 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 copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, provided, however, that the unaudited accounts shall be furnished to the Association three months after the end of each fiscal year; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of the Board thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Board of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	197688 (TRT), 248423 (RCA), 64145 (WUI) or 82987 (FTCC)

For the Board:

Rural Water Supply and Sanitation Fund
Development Board
Kathmandu, Nepal

Telefax:
977-1-226437

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Board may be taken or executed by the Executive Director or such other person or persons as the Board shall designate in writing, and the Board shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Harold Messenger

Acting Regional Vice President
South Asia

RURAL WATER SUPPLY AND SANITATION FUND
DEVELOPMENT BOARD

By /s/ Bhekh Bahadur Thapa

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with 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 1996 (the Guidelines) and the following provisions of this Schedule, as applicable.

Part B: Procurement Procedures

1. National Shopping/Direct Contracting

Equipment and materials for the Board estimated to cost the equivalent of less than \$50,000 per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Contracts for goods, works and related services for Schemes may be procured, whenever possible, by inviting bids from at least two Support Organizations in accordance with paragraphs 3.3 and 3.4 of the Guidelines, or in communities where only one Support Organization is available, on a sole source basis, in accordance with the provisions of paragraph 3.8 of the Guidelines, both under procedures acceptable to the Association.

Part C: 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

With respect to (i) each contract for goods, works and related services for the Schemes, and each contract for equipment and materials for the Board estimated to cost the equivalent of \$50,000 or more; and (ii) all contracts for the First batch Schemes, the procedures set forth in paragraphs 2 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

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the

Association. Such consultants shall 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

1. The Board shall: (a) two months prior to the beginning of the Fiscal Year, furnish to the Association its annual work program; and (b) one month after the end of each quarter and two months after the end of the Fiscal Year, furnish to the Association the quarterly and annual progress reports, respectively, of the activities carried out under the Project.

2. The Board shall enter into arrangements with each Support Organization and User Groups, as the case may be, under such terms and conditions as shall be approved by the Association, which shall include, inter alia, that (i) each Support Organization shall maintain separate accounts in respect of each Scheme being carried out by such Support Organization under the Project in accordance with the accounting manual prepared by the Board as part of its Implementation Manual, (ii) each Support Organization shall furnish to the Board prior to each payment an updated Scheme accounts, and (iii) the Board shall not make any payment to such Support Organization until the accounts referred to in (ii) above have been found satisfactory by the Board.

3. The Board shall engage independent auditors acceptable to the Association to audit the accounts referred to in paragraph 2 above and shall not proceed with signing the contract for the Implementation Phase of the Scheme until the audit report for the accounts concerning the first two payments made to such Support Organization for the Development Phase of such Scheme are received and found satisfactory to the Board.

4. The Board shall: (a) ensure that eligibility criteria for the selection of Support Organizations and Schemes are satisfactory to the Association; (b) select Support Organizations and Schemes in accordance with such eligibility criteria; and (c) review, at the end of the Implementation Phase of each Batch of Scheme, the adequacy of such eligibility criteria and shall, if necessary, revise such criteria in a manner satisfactory to the Association to accomplish the purposes of the Project.

5. The Board shall:

- (a) carry out the studies referred to in Parts (c) (ii) and (c)

(iii) of the Project under terms of reference satisfactory to the Association;

(b) complete such studies by March 31, 1999 and June 30, 1998 respectively;

(c) within six months of the completion of each such study, discuss the results thereof with the Association and prepare an action plan satisfactory to the Association to implement the recommendation of each of such study; and

(d) implement each of such action plan.

6. The Board shall, not later than January 1, 1997, appoint a technical advisor for a period of two years, having qualifications and experience satisfactory to the Association.

7. The Board shall:

(a) maintain policies and procedures adequate to enable it 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 objectives thereof;

(b) prepare under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 1999, reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 1999 or such later date as the Association shall request, the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

