

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H171-NEP

Development Grant Agreement

(Rural Access Improvement and Decentralization Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 1, 2005

Public Disclosure Authorized

GRANT NUMBER H171-NEP

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated August 1, 2005, between the KINGDOM OF NEPAL (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, 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; and

(B) the Project will be carried out by the Recipient and the District Development Committees of selected districts of the Recipient, with the Recipient's assistance, and, as part of such assistance, the Recipient will make part of the proceeds of the Grant provided for in Article II of this Agreement (the Grant) 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 Grant to the Recipient 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 May 1, 2004), with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals 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, the decentralized administrative local body established at the district level of each of the districts of the Recipient under the Local Self Governance Act, 2055 (1999) of the Recipient and selected to participate in the carrying out of activities under the Project in accordance with the District Participation Framework (as hereinafter defined), or any successor thereto;

(b) “District Development Fund” or “DDF” means the fund created in each DDC for channeling funds from the central budget and other sources;

(c) “District Participation Framework” or “DPF” means the District Participation Framework prepared by DOLIDAR (as hereinafter defined) and approved by the Association, setting forth, *inter alia*, (i) district selection criteria; (ii) district entry conditions and participation criteria; and (iii) district performance and output criteria for continued support;

(d) “DOLIDAR” means the Department of Local Infrastructure Development and Agriculture Roads of MOLD (as hereinafter defined), or any successor thereto;

(e) “DOR” means the Department of Roads of the Ministry of Physical Planning and Works of the Recipient, or any successor thereto;

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

(g) “DTO” means the District Technical Office of each DDC responsible for, *inter alia*, the planning, implementation and supervision of activities to be carried out under the Project at the district level, or any successor thereto;

(h) “Environmental and Social Management Framework” or “ESMF” means the Environmental and Social Management Framework for the Project dated December 2004 and approved by the Association, setting forth, *inter alia*, the assessment and management of environmental and social impacts of the rural transport infrastructure improvement activities under the Project and recommendations based on such assessment, and includes frameworks and guidelines for an Initial Environmental Examination (IEE), an Environmental Impact Assessment (EIA) and an Environmental Management Plan (EMP), Environmental Codes of Conduct (ECC), a Resettlement Policy Framework (RPF) and a Vulnerable Communities Development Framework (VCDF) set forth therein;

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “Fiscal Year” or “FY” means the twelve (12) month period corresponding to each of the Recipient’s fiscal years, which period commences and ends in mid-July of each calendar year;

(k) “Memorandum of Understanding” means each Memorandum of Understanding to be executed by the Recipient and each DDC and furnished to the Association pursuant to Section 3.01(c) of this Agreement;

(l) “MOLD” means the Ministry of Local Development of the Recipient, or any successor thereto;

(m) “Nepal Rastra Bank” means the central bank of the Recipient established and operating pursuant to the provisions of the Recipient’s Nepal Rastra Bank Act, 2058 (2001);

(n) “Procurement Plan” means the Recipient’s procurement plan, dated December 2004 covering the initial twelve (12) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding twelve (12) month periods (or longer) of Project implementation;

(o) “PCT” means the Project Coordination Team in DOLIDAR 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;

(p) “Project Monitoring Committee” or “PMC” means the Project Monitoring Committee established in MOLD as an apex body to oversee and monitor overall Project implementation, and facilitate inter-ministerial coordination;

(q) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 18, 2003 and on behalf of the Recipient on February 3, 2004;

(r) “Roads Board” means the Roads Board established under the Roads Board Act, 2002, of the Recipient, to manage the generation and allocation of the Recipient’s road fund resources; and

(s) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-one million two hundred thousand Special Drawing Rights (SDR 21,200,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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, works and services required for carrying out the Project and to be financed out of the proceeds of the Grant.

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the amount of the Grant 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant 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 2.05 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 Recipient; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on January 1 and July 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out through DOLIDAR, and cause each DDC to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport, environmental and social 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out through DOLIDAR, 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 Recipient shall execute with each DDC a Memorandum of Understanding, satisfactory to the Association and including the provisions set forth in Schedule 5 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. If any provision of any such Memorandum of Understanding is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.

(d) Without any limitation or restriction upon any of its other obligations under this Agreement, the Recipient 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 Recipient shall make available to each DDC under its Memorandum of Understanding, as a grant and in a timely manner, (i) part of the proceeds of the Grant; and (ii) additional funds from the Recipient's own resources if and as required for such DDC to carry out its activities under the Project.

Section 3.02. (a) 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 Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall, and shall cause each DDC to, update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than nine (9) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) 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 Recipient 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 Recipient on said plan.

Section 3.04. The Recipient 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 pursuant to its Memorandum of Understanding.

ARTICLE IV

Financial Covenants

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

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such Fiscal

Year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, or cause to be retained, until at least one (1) year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraphs 18 and 19 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said Report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said Report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said Report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after the end of the first Fiscal Year trimester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first Fiscal Year trimester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after each subsequent Fiscal Year trimester, and shall cover such Fiscal Year trimester.

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 Recipient 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 Recipient or any DDC will be able to perform its obligations under its Memorandum of Understanding.

(c) The Recipient or any DDC shall have amended, suspended, abrogated, repealed, waived or failed to enforce any of the provisions of its Memorandum of Understanding so as to materially and adversely affect the carrying out of the activities under the Project within the district of such DDC.

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 Recipient; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance
His Majesty's Government of Nepal
Singha Durbar
Kathmandu
Nepal

Facsimile:

(977-1) 4259-891

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)

Facsimile:

(202) 477-6391

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, Kingdom of Nepal, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ Bhanu Prasad Acharya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tashi Tenzing

Acting Country Director
Nepal

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	15,590,000	100%
(2) Goods	670,000	100%
(3) Consultants' services and Training	3,450,000	100%
(4) Incremental Operating Costs	400,000	100%
(5) Refunding of Project Preparation Advance	270,000	Amount due pursuant to Section 2.02(c) of this Agreement
(6) Unallocated	820,000	
TOTAL	<u><u>21,200,000</u></u>	

2. For the purposes of this Schedule, the term "Incremental Operating Costs" means: (i) expenditures incurred by the PCT or any DTO for the operation and maintenance of facilities, vehicles and equipment used for Project implementation (including without limitation vehicle rental, office rental, fuel costs and stationeries); and (ii) salaries and allowances of incremental staff assigned to the PCT or any DTO for Project implementation but excluding salaries of the Recipient's civil servants.

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

- (a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made for expenditures incurred by any DDC for any activities under the Project unless and until the Recipient 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.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$30,000 equivalent per contract; (b) works costing less than \$100,000 equivalent per contract; (c) services of individual consultants costing less than \$25,000 equivalent per contract; (d) services of consulting firms costing less than \$50,000 equivalent per contract; (e) training; and (f) Incremental Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the residents of participating districts of the Recipient to utilize improved rural transport infrastructure and services, and benefit from enhanced access to social services and economic opportunities.

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

Part A: Rural Transport Infrastructure Improvement in Participating Districts

1. Rehabilitation and upgrading of about 800 km of existing dry-season rural roads to all-season standard.
2. Upgrading of about 200 km of existing rural trails and tracks to dry-season road standard in remote hill districts.
3. Carrying out road maintenance works on about 3,500 km of rural roads, covering routine and recurrent maintenance.
4. Construction of about 350 short-span trail bridges.
5. Development of small community infrastructure, including construction of markets and community trails and roads, and implementation of a pilot rural transport scheme.
6. Carrying out a program of resettlement and rehabilitation of people affected by the Project.

Part B: Capacity Building and Advisory Services

1. Implementation of training-related activities, including preparation of training course materials, training of trainers, overseas training, and provision of extensive training and certification on major aspects of rural infrastructure development and management.
2. Provision of technical assistance and advisory services: (i) to the DDCs to support the implementation of their programs, sub-projects and associated local initiatives, including financial management and accounting, project development and implementation, design and supervision of works, environmental management, social mobilization and community participation and monitoring; and (ii) to DOLIDAR for the implementation of its institutional strengthening action plan, capacity-building priorities

and longer-term functional and organizational change goals set by the Recipient for the rural infrastructure sector, and for Project coordination and implementation activities.

3. (i) Preparation of a GIS-based transport master plan for the Recipient, development of a spatial profile of population/settlements that are or are not connected to an all-season road and undertaking of a hazard assessment and a needs assessment to determine the investment requirements for connecting settlements; (ii) preparation and updating of DTMPs; and (iii) identification and preparation of a follow-up operation in the rural transport infrastructure sector.

4. Undertaking of a study to assess the mobility and transport needs and travel patterns of the rural population, to examine the industrial organization of rural transport service providers, and to formulate a rural transport policy and a pilot rural transportation scheme for the Recipient.

5. Undertaking of periodic studies to assess the magnitude and distribution of the direct and indirect socioeconomic impacts of rural access transport interventions and to determine the extent to which interventions under the Project cause changes in the well being of target population.

6. Provision of Project implementation support, including logistics (including vehicles) and operation costs, to the DOLIDAR and the DDCs.

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The Project is expected to be completed by June 30, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

1. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

2. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions.

(b) In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Procurement Guidelines:

- (i) invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper, at least thirty (30) days prior to the deadline for the submission of bids;
- (ii) bid documents shall be prepared in accordance with the sample for the Project approved by the Association;
- (iii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iv) 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;
- (v) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (vi) no firm, regardless of its class of registration, shall be denied the participation in bidding for reasons unrelated to its capability and resources to successfully perform the contract, nor shall it be disqualified for such reasons;
- (vii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (viii) 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;
- (ix) contracts shall be awarded to the lowest evaluated bidders;
- (x) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;
- (xi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (xii) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xiii) re-bidding shall not be carried out without the prior concurrence of the Association;

- (xiv) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xv) 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;
- (xvi) 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: (A) 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 (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xvii) 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 eight (8) weeks; and (B) for all subsequent requests for extension irrespective of the period;
- (xviii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and
- (xix) there shall not be any restrictions on the means of delivery of the bids.

2. Shopping

Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting

Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method (including without limitation Direct Contracting to local communities).

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

1. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget, Least-cost Selection, or Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may, with the Association's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.5, 3.6, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Selection of Particular Types of Consultants (UN Agencies and NGOs)

Services for tasks related to social mobilization, community participation, situation analysis and communication strategy, training and accessibility planning may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.15 and 3.16 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 and 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

A. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

- (a) the first three (3) contracts in each district for works procured on the basis of National Competitive Bidding, regardless of value;

- (b) each contract for works estimated to cost the equivalent of \$100,000 or more;
 - (c) the first three (3) contracts in each district for works procured on the basis of Direct Contracting, regardless of value;
 - (d) each contract for goods procured on the basis of International Competitive Bidding;
 - (e) each contract for goods procured on the basis of National Competitive Bidding;
 - (f) the first three (3) contracts procured on the basis of Shopping, regardless of value;
 - (g) each contract for consultants' services provided by a firm and estimated to cost the equivalent of \$50,000 or more; and
 - (h) each contract for consultants' services provided by an individual and estimated to cost the equivalent of \$25,000 or more.
- B. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

Project Monitoring Committee (PMC)

1. The Recipient shall maintain the PMC, consisting of senior officials of key stakeholder ministries and agencies, to, *inter alia*, carry out an annual review of implementation progress by DOLIDAR and the DDCs.

Project Coordination Team (PCT)

2. The Recipient shall maintain the PCT with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a Project Coordinator; (ii) an Engineer designated for procurement activities; (iii) two Engineers designated for coordination, monitoring, evaluation and reporting activities; (iv) a Planner/Engineer designated for planning and studies activities; (v) an Accounts Officer; (vi) two accountants; (vii) an Environmental Planner; (viii) a Sociologist; and (ix) support staff as needed.

District Technical Office (DTO)

3. The Recipient shall cause each DDC to maintain the DTO with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including, as needed: (i) a District Engineer; (ii) Accounts Staff; (iii) an Engineer/Overseer; (iv) a Planning and Designing Engineer Consultant; (v) a Social Development Consultant; (vi) an Environmental Consultant; and (vii) support staff.

District Participation Framework

4. The Recipient shall ensure that: (i) the districts to be participating in the carrying out of activities under the Project shall be selected in accordance with the criteria set forth in the District Participation Framework; and (ii) only the districts that continue to meet the criteria set forth in the District Participation Framework shall continue to participate in the carrying out of the activities under the Project.

DDC's Annual Investment and Maintenance Program and Budget; District Transport Master Plan (DTMP)

5. The Recipient shall cause each DDC to establish, by April 30 of each year during the period of Project implementation, an annual investment and maintenance program and budget consolidating all available funds (including without limitation such DDC's own resources, block grants allocated by the Recipient and the Roads Board).

6. The Recipient shall cause each DDC to: (i) carry out its activities under the Project in accordance with its DTMP, three-year rolling plan and annual investment and maintenance program and budget; and (ii) not use any part of the proceeds of the Grant to undertake civil works on any roads, trails or tracks not included in its DTMP, three-year rolling plan and annual investment and maintenance program and budget.

Environmental and Social Management Framework (ESMF)

7. The Recipient shall, and shall cause each DDC to: (i) implement the screening, assessment, mitigation, monitoring and evaluation measures and all other actions set forth in the Environmental and Social Management Framework relating to the environmental and social impacts of Project implementation in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein; and (ii) not take any action which would prevent or interfere with such implementation.

Environmental Mitigation Measures in Civil Works Contracts

8. The Recipient shall cause each DDC to ensure that all civil works contracts, bid documents and bills of quantities for the roads, trails and tracks covered by the Project will include the environmental mitigation measures set forth in, or contemplated by, the Environmental and Social Management Framework (including any Environmental Management Plan (EMP) prepared in accordance with such Framework).

Resettlement and Rehabilitation

9. The Recipient 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 subproject resettlement action plan in accordance with the Resettlement Policy Framework (RPF) contained in the Environmental and Social Management Framework and submit it to the Association for review and approval; and (ii) thereafter implement such subproject resettlement action plan and other applicable provisions of the Environmental and Social Management Framework (including the RPF) in a manner and with a timetable satisfactory to the Association.

Vulnerable Communities

10. The Recipient shall, and shall cause each DDC to, ensure that no adverse impact arises from rural transport infrastructure improvement activities under the Project, except to the extent that such DDC shall: (i) sufficiently in advance of the commencement of any works that would give rise to such impact, prepare a subproject vulnerable communities development plan in accordance with the Vulnerable Communities Development Framework (VCDF) contained in the Environmental and Social Management Framework and submit it to the Association for review and approval; and (ii) thereafter implement such subproject vulnerable communities development plan and

other applicable provisions of the Environmental and Social Management Framework (including the VCDF) in a manner and with a timetable satisfactory to the Association.

Annual Review

11. By May 31 of each year during the period of Project implementation, the Recipient shall conduct with the Association an annual review of the progress of Project implementation by the DDC in each district.

Performance of DDC

12. If, as a result of a review of Project implementation for any period, including any annual review referred to in paragraph 11 above, the performance of any DDC during such period is deemed by the Association, in consultation with the DOLIDAR, to be less than satisfactory, the Recipient shall not make any part of the proceeds of the Grant available to such DDC for any of its activities carried out under the Project after such review until further notice by the Association.

Unforeseen Circumstances

13. The roads, trails and tracks to be covered by the Project shall be selected annually based on each DDC's DTMP, three-year rolling plan and annual investment and maintenance program and budget. If, however, it is determined by the Association at any time, as part of any annual review referred to in paragraph 11 above or otherwise, that, due to any new developments or previously unforeseen circumstances, continuation of civil works and other related activities on any road, trail or track in the district of any DDC is not feasible or practicable under the Project, the Recipient: (i) shall (a) cause such DDC to promptly reallocate the funds for such civil works and related activities to other roads, trails and tracks included in the Project and located in the same district or (b) alternatively, promptly reallocate such funds to other roads, trails and tracks included in the Project and located in another district, in either case in consultation with the Association; and (ii) shall cause such DDC to promptly take all necessary action in order to give effect to such reallocation of funds.

Transfer of Responsibilities for District Roads

14. By August 31, 2007, the Recipient shall complete the transfer of management responsibilities for all district roads from the DOR to the respective DDCs.

Consolidation of Budget

15. By August 31, 2007, the Recipient shall: (i) consolidate government financing schemes for rural roads financed by its own resources into one budget head; and (ii) cause each DDC to create a consolidated "road sector budget" heading in its District Development Fund.

Rural Transport Services Study; Pilot Rural Transportation Scheme; Rural Transport Policy

16. The Recipient shall: (i) by August 31, 2007, complete the rural transport services study referred to in Part B. 4 of Schedule 2 to this Agreement and furnish a report of such study to the Association; and (ii) thereafter implement in a manner satisfactory to the Association the recommendations resulting from such study, including, as applicable, the implementation of a pilot rural transportation scheme, and adopt a rural transport policy aimed at improving the provision of rural transport services in the decentralized system and incorporating the recommendations of such study.

Socioeconomic Impact Monitoring Studies

17. The Recipient shall: (i) by December 31, 2007 and December 31, 2010, complete the periodic socioeconomic impact monitoring studies referred to in Part B.5 of Schedule 2 to this Agreement and furnish a report of each such study to the Association; and (ii) thereafter implement in a manner satisfactory to the Association the recommendations resulting from such study.

Trimesterly Implementation Progress Reports

18. The Recipient shall, within forty-five (45) days after the end of each Fiscal Year trimester, provide to the Association a trimesterly implementation progress report setting forth: (i) a Financial Monitoring Report; (ii) the progress of Project implementation and achievement of the indicators referred to in paragraph 19 below; and (iii) proposed action plans for Project implementation for the following Fiscal Year trimester; each such trimesterly report to include a trimesterly report prepared by each DDC.

Monitoring and Evaluation; Mid-Term Review

19. The Recipient 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 objectives thereof;

(b) prepare, and cause each DDC to prepare, under terms of reference satisfactory to the Association, and furnish to the Association by December 1, 2007, 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 objectives thereof during the period following such date; and

(c) review with the Association, by January 31, 2008, 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 objectives thereof, based on the conclusions and recommendations of the said report(s) and the Association's views on the matter.

SCHEDULE 5

Memorandum of Understanding

Except as the Association shall otherwise agree, the Memorandum of Understanding to be executed by the Recipient and each DDC pursuant to Section 3.01(c) of this Agreement shall include, *inter alia*, the following provisions:

(a) Each DDC shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Grant 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, environmental and social 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 Grant Agreement and to take all actions necessary to undertake its activities under the Project. Each DDC shall further agree to: (i) carry out its activities under the Project in accordance with the implementation program set forth in Schedule 4 to the Development Grant Agreement (including without limitation the provisions relating to the Environmental and Social Management Framework) and its DTMP (as such terms are defined in the Development Grant Agreement), three-year rolling plan and annual investment and maintenance program and budget; (ii) not use any part of the proceeds of the Grant to undertake civil works on any roads, trails or tracks not included in its DTMP, three-year rolling plan and annual investment and maintenance program and budget; and (iii) not commence rehabilitation and upgrading works for more than three roads, trails or tracks in any given Fiscal Year.

(c) The Recipient shall agree to make available to each DDC, as a grant and in a timely manner: (i) part of the proceeds of the Grant; and (ii) additional funds from the Recipient'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 Grant shall be governed by the provisions of Schedule 3 to the Development Grant Agreement, as said provisions may be further elaborated in the Procurement Plan (as such term is defined in the Development Grant Agreement).

(e) Each DDC shall agree that the Recipient 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 Grant Agreement) in respect of its Memorandum of Understanding and its activities under the Project.

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

(h) Each DDC shall acknowledge that the Recipient may suspend or terminate such DDC's right to use the proceeds of the Grant made available under the Development Grant 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 Grant Agreement.

(i) Each DDC shall acknowledge that if, as a result of a review of Project implementation for any period, including any annual review by the Association and the Recipient, the performance of such DDC during such period is deemed by the Association, in consultation with DOLIDAR (as such term is defined in the Development Grant Agreement) to be less than satisfactory, the Recipient is not permitted to make any part of the proceeds of the Grant 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 that the roads, trails and tracks to be covered by the Project shall be selected annually based on each DDC's DTMP, three-year rolling plan and annual investment and maintenance program and budget. Each DDC shall further: (i) acknowledge that if, however, it is determined by the Association at any time, as part of any annual review referred to in paragraph (i) above or otherwise, that, due to any new developments or previously unforeseen circumstances, continuation of civil works and other related activities on any road, trail or track in the district of such DDC is not feasible or practicable under the Project, the Recipient is required to (a) cause such DDC to promptly reallocate the funds for such civil works and related activities to other roads, trails and tracks included in the Project and located in the same district or (b) alternatively, promptly reallocate such funds to other roads, trails and tracks included in the Project and located in another district, in either case in consultation with the Association; and (ii) agree to promptly take all necessary action in order to give effect to such reallocation of funds.

(k) Each DDC shall agree to promptly inform the Recipient 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 Grant, or the performance of its obligations under its Memorandum of Understanding.

(l) Each DDC shall agree that it shall, from time to time, at the request of the Recipient or the Association: (i) exchange views with the Recipient 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 Grant; and (ii) furnish all such information related thereto as may reasonably be required by the Recipient and/or the Association.

(m) 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 after the Closing Date (as such term is defined in the Development Grant Agreement) or such later date as may be agreed for this purpose among the Association, the Recipient and such DDC, a plan designated to ensure the continued achievement of the Project's objectives; and (ii) afford the Association a reasonable opportunity to exchange views with such DDC on said plan.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$2,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been opened, 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 Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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. All such deposits shall be withdrawn by the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient 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 the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

(c) The Recipient 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

- (a) Section 4.02(a) is modified to read as follows:

“Section 4.02. Currencies in which Payments are to be Made

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

- (b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

- (c) Section 4.03 is modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

- (d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is modified to read as follows:

“Section 5.08. Treatment of taxes

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item

in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:
 - (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
 - (b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with “the words “corrupt, fraudulent, collusive or coercive”.
9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”
10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date twenty (20) years after the date of the Development Grant Agreement.”

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