

CONFORMED COPY

CREDIT NUMBER 3009 NEP

Development Credit Agreement

(Nepal Irrigation Sector Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 18, 1997

CREDIT NUMBER 3009 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 18, 1997, between KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association). WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

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

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "DHM" means the Department of Hydrology and Meteorology of the Borrower's Ministry of Science and Technology;

(b) "DOA" means the Department of Agriculture of the Borrower's Ministry of Agriculture;

(c) "DOI" means the Department of Irrigation of the Borrower's Ministry of Water Resources;

(d) "Irrigation Scheme" means a specific irrigation development project in the Project Area comprising either rehabilitation works of an existing surface and ground water irrigation scheme, or construction works for a new groundwater irrigation scheme, including construction of pipeline conveyance and distribution systems which meet the principles and criteria set forth in the "Procedural Guidelines for Surface Water and Ground Water Irrigation Systems" dated June 24, 1997 of the Borrower's Ministry of Water Resources; and "Irrigation Schemes" means two or more of such schemes;

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

(f) "NRs" means Nepalese Rupees, the currency of the Borrower;

(g) "Part A Project Area" means selected cultivable command areas in the Western, Mid-Western (except Dailekh, Surkhet, Banke, and Kalikot districts) and Far Western Development Region;

(h) "Part B Project Area" means selected cultivable command areas served by the Sunsari Morang Irrigation System in the Morang District of the Eastern Development Region;

(i) "Project Area" means both the Part A Project Area and the Part B Project Area together;

(j) "Resettlement Framework" means the Borrower's policies and procedures concerning land acquisition and resettlement set forth in the Report on the Resettlement Action Plan of Sunsari Morang Irrigation Project: Stage III dated September 1997;

(k) "Sunsari Morang Irrigation System" means the cultivable area of about 58,000 ha. of the Chatra main canal irrigation scheme located in the Borrower's administrative districts of Sunsari and Morang;

(l) "SMIP" means the Borrower's Sunsari Morang Irrigation Project III carried out in part under Part B of this Project;

(m) "SMIDB" means the Sunsari Morang Irrigation Development Board established by the Borrower's Sunsari Morang Irrigation Development Board Order, as amended, issued pursuant to Section 3 of the Borrower's Development Board Act, 2013 (1956), as amended;

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

(o) "Subproject" means an Irrigation Scheme to be carried out under Part A of the Project, and located in the Part A Project Area, which meets the principles and criteria set forth in Schedule 6 to this Agreement; and

(p) "WUA" and "Water Users' Association" means the beneficiary organizations established, or to be established, pursuant to paragraph 1, subparagraph (f) of Schedule 6 to this Agreement respectively for the purposes of assisting in carrying out construction, operation and management of public and private irrigation systems including ground water irrigation systems in the Project Area.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifty-eight million seven hundred thousand Special Drawing Rights (SDR 58,700,000).

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

(b) The Borrower 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year. Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing May 1, 2008 and ending November 1, 2037. Each installment to and including the installment payable on November 1, 2017 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry

out the Project with due diligence and efficiency and in conformity with appropriate engineering, agricultural, environmental, financial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(iii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, unaudited Project accounts and financial statements for each fiscal year certified as to their accuracy and authenticity by an independent auditor acceptable to the Association; and

(iv) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last

withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions.

(a) the Borrower shall have appointed a project consultant for Part A of the Project in accordance with the provisions of Section II of Schedule 3 to this Agreement for the purposes of assisting the Borrower in design and construction supervision of Subprojects in the Part A Project Area;

(b) the Borrower shall have appointed a project consultant for Part B of the Project in accordance with the provisions of Section II of Schedule 3 to this Agreement for the purposes of assisting the Borrower in design and construction supervision of SMIP; and

(c) that a farmer organization division with objectives, functions and staffing acceptable to the Association has been established under SMIP.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
His Majesty's Government of Nepal
Kathmandu, Nepal

Cable address:

ARTHA
Kathmandu, Nepal

Telex:

2249-NEP

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

KINGDOM OF NEPAL

By /s/ Lava K. Devacota

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert Drysdale

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works		
(a) under Part A of the Project	18,240,000	75%
(b) under Part B of the Project	17,800,000	75%
(c) under Part C of the Project	1,210,000	75%
(2) Goods		100% of foreign expenditures, 100% of (a) under Part A of the Project
1,241,000	local expenditures (ex- factory cost) and 70%	
of local expenditures items procured	(b) under Part B of the Project	564,000 for other locally
(c) under Part C of the Project	1,955,000	
(3) Consultants' training		

and studies		
(a)	under Part A of the Project	1,877,000 100%
(b)	under Part B of the Project	2,463,000 100%
(c)	under Part C of the Project	7,390,000 100%
(4)	Operating Costs	80% of expenditures through July 15, 1999
(a)	under Part A of the Project	916,000 55% of expenditures through July 15, 2001; and 25% of expenditures thereafter
(b)	under Part B of the Project	182,000
(c)	under Part C of the Project	442,000
(5)	Unallocated	4,420,000
	TOTAL	58,700,000 =====

2. For the purposes of this Schedule the following terms have the following meanings:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) "Operating Costs" means expenditures incurred for operation and maintenance of facilities, vehicles and equipment used for Project implementation; utilities, office supplies and other recurring office expenses of the Project executing agencies; and salaries and allowances for Project staff; for the purposes of this sub-paragraph, "Project staff" means the staff retained by the Borrower after the date of this Agreement for the purposes of carrying out the Project.

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

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,500,000, may be made in respect of Categories 1(a), 2(a) and 4 set forth in the table in paragraph 1 of this Schedule for irrigation development pilot projects agreed with the Association and which have been approved and are on-going under the Bhairawa-Lumbini Groundwater Irrigation III Project (Credit No. 2144-NEP), on account of payments made for expenditures before that date but after July 16, 1997; and

(b) under Categories (1) (a) and (2) (a) unless the Subproject for which such expenditures are incurred has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement and has been approved by the Approval and Coordination Committee and the DOI Director General.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods under contracts costing no more than \$100,000 equivalent each, (b) works under contracts costing no more than \$200,000 equivalent each, (c) services under contracts costing no more than \$50,000 equivalent for employment of consulting firms and \$10,000 equivalent for

employment of individual consultants respectively, (d) Operating Costs, and (e) training, and studies under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

1. Assist the Borrower in planning and utilizing its water resources in a harmonized, effective and sustainable manner.
2. Increase productivity and sustainability of irrigation systems on about 59,600 ha. of land in the selected districts of Western, Mid-Western, Far-Western and Eastern Regions based on the successful on-going experience.

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

Part A: Rehabilitation, Improvement and Development of Small- and Medium-Scale Public and Farmer-Managed Irrigation Schemes in the Part A Project Area

- (1) Carrying out rehabilitation, improvement and development of small- and medium-scale farmer-managed Irrigation Schemes on 39,500 ha..
- (2) Rehabilitation and transfer of management to users of small- and medium-scale public irrigation systems on about 5,000 ha..
- (3) Development and strengthening of infrastructure, including construction and repair of farm roads and erosion protection for irrigated land and environmental protection works.
- (4) Strengthening the capabilities of the regional mechanical workshops through the provision of equipment including spare parts.
- (5) Construction of District Irrigation Offices.
- (6) Carrying out pilot Irrigation Schemes for integration of irrigation water works with small scale hydropower and rural water supply, and carrying out pilot water management in selected Irrigation Schemes.
- (7) Provision of support for Regional and District Irrigation Offices.

Part B: Rehabilitation and Improvement of Sunsari Morang Irrigation System

- (1) Rehabilitation and improvement of the main canal of the Sunsari Morang Irrigation System.
- (2) Rehabilitation and modernization of secondary canals and related structures, drains and inspection road networks in the Part B Project Area.
- (3) Development of distribution networks by construction of subsecondary and tertiary canal systems on about 15,100 ha. in the Part B Project Area.
- (4) Construction of about 5.5 km Kosi Flood Embankment on the east bank of the Kosi River.
- (5) Training and provision of consultants' services for technical and institutional capacity building in project implementation for DOI staff and beneficiary WUAs.
- (6) Carrying out of minor works necessary for proper operation and maintenance of the developed Sunsari Morang Irrigation System.
- (7) Strengthening of DOI staff and beneficiary farmer associations and local non-governmental organizations in management transfer (tertiary canals to users) process through training.

Part C: Institutional and Water Policy Development Support.

- (1) Developing a national Water Resources Strategy, through provision of technical assistance.
- (2) Strengthening, and provision of support for, office logistics, planning tools and transport facilities for the Borrower's national water planning unit.
- (3) Carrying out of a review of and, if necessary, revising subsector policies and regulations in the water resources sector to ensure their compatibility and consistency with the developed water resources strategy through provision of support including studies and training.
- (4) Institutional strengthening of DOI through provision of technical assistance to assist in carrying out detailed design, construction supervision and operation and management transfer for the Irrigation Schemes in the Project Area.
- (5) Improving hydro-meteorological data collection, collation, and management systems in the Borrower's Western, Mid-Western and Far-Western Regions through technical assistance and training.
- (6) Strengthening of DOA and DOI offices in the Project Area through the provision of technical assistance for identification, design, construction, operation and monitoring of Irrigation Schemes.
- (7) Strengthening of DOI's management information system and regional monitoring and evaluation systems through the provision of training and technical assistance.
- (8) Strengthening of WUAs, non-governmental organizations, and community based organizations through practical training and the provision of technical assistance.
- (9) Institutional strengthening of DOI, DHM, and DOA through the provision of technical assistance, including training, study tours and fellowships to staff.
- (10) Carrying out of studies and applied research and development including preparation of feasibility studies of future Irrigation Schemes under the Project; basin hydrology studies; studies on subsidy policy in irrigation development; studies on operation and maintenance and cost recovery in public irrigation systems; groundwater monitoring works and studies, and other irrigation system improvement management studies.
- (11) Carrying out of environmental protection studies for Irrigation Schemes.
- (12) Carrying out on-farm water management works in the Project Area.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good 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 and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. Limited International Bidding

Specialized equipment and spare parts estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, and goods, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract up to an aggregate amount not to exceed \$1,500,000 equivalent for goods and \$30,000,000 equivalent for works may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

Small equipment and livestock estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods and works under contracts estimated to cost less than \$10,000 equivalent per contract for goods and contracts estimated to cost less than \$20,000 equivalent per contract for works, up to an aggregate amount not to exceed \$300,000 equivalent in the case of goods and \$1,000,000 equivalent in the case of works, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$200,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Community Participation

Goods and works required for Part A of the Project shall be procured in accordance with procedures acceptable to the Association.

7. Procurement of Small Works

Works estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three

(3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract: (i) for goods and works estimated to cost the equivalent of \$200,000 or more and to be awarded in accordance with the procedures specified in Part B of this Schedule; (ii) each contract for works estimated to cost the equivalent of \$200,000 or more and to be awarded in accordance with the procedures specified in paragraph 2 of Part C of this Schedule; and (iii) each contract for goods estimated to cost the equivalent of \$100,000 or more and to be awarded in accordance with the procedures specified in paragraph 2 of Part C of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$10,000 or more, and works estimated to cost the equivalent of \$20,000 or more the following procedures shall apply:

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

(ii) prior to the execution of any contract procured under limited international bidding, direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for consultants under Part C of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for short term consultancy under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Individual Consultants

Services for specialized studies and training under Part C of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$20,000 or more, but less than the equivalent of \$50,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$10,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. Mid-Term Review

The Borrower 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 December 31, 1999, a report 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;

(c) review with the Association, by March 31, 2000, or such later date as the Association shall request, the report 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.

2. Project Coordination and Project Staff

The Borrower shall:

(a) maintain, throughout Project implementation, the Project Central Coordination Committee (PCCC) in the Borrower's Ministry of Water Resources, the Project Implementation Committee in DOI, four regional Project Implementation Units and District Appraisal Committees, all with adequate number of professional staff with experience and qualifications and on terms of reference acceptable to the Association;

(b) appoint by no later than December 31, 1997, through its Project Central Coordination Committee and SMIDB, all Project staff required to carry out the Project, all with skills, experience and qualifications and on terms of reference acceptable to the Association, and in accordance with organization and staffing schedules agreed between the Borrower and the Association; and

(c) maintain at all times throughout Project implementation (i) a Project Coordinating Officer; (ii) Regional Directors for Part A of the Project; (iii) a Project Manager for Part B of the Project; and (iv) senior technical and accounts staff (gazetted Class II and above), all in adequate and sufficient number for Project implementation and all with skills, experience and qualifications and on terms of reference acceptable to the Association.

3. Subsidy Study and Operations and Maintenance Study

(a) The Borrower, through the Project Central Coordination Committee and SMIDB shall:

(i) carry out a comprehensive study on national irrigation subsidy policy (the Subsidy Study) in accordance with a time-bound action plan satisfactory to the Association;

(ii) provide by no later than September 30, 1999, to the Association for its review and comments the Subsidy Study and a draft revised subsidy policy for national irrigation development in public and private irrigation systems (the Irrigation Policy) based on the Subsidy Study;

(iii) revise the Irrigation Policy to take into account the Association's comments (if any); and

(iv) implement by no later than April 30, 2000 new subsidy rates in accordance with the revised Irrigation Policy and in a manner satisfactory to the Association.

(b) The Borrower, through the Project Central Coordination Committee and SMIDB shall:

(i) carry out a comprehensive national study on the cost of operation and maintenance of its public irrigation systems including the Sunsari Morang Irrigation System (the O&M Study), in accordance with a time-bound action plan satisfactory to the Association;

(ii) provide, by no later than September 30, 1999, to the Association for its review and comments the O&M Study;

(iii) revise, by no later than April 30, 2000, its water charges rates in public irrigation systems taking into account the results of the O&M Study and the Association's comments thereon (if any); and

(iv) review the water charges rates every two years thereafter.

4. Water Charges Collection

The Borrower, through SMIDB, shall:

(a) submit, by no later than July 31, 1998, a plan for water charges collection (the Water Charges Collection Plan) in the developed area of the Sunsari Morang Irrigation System determined in accordance with criteria satisfactory to the Association, and calculated at a rate which, in the opinion of the Association, is sufficient to cover the cost of operation and maintenance of the Sunsari Morang Irrigation System;

(b) take into account the Association's comments and recommendations on the Water Charges Collection Plan; and thereafter

(c) implement by no later than April 30, 1999 collection on the basis of the Water Charges Collection Plan and exercise adequate and appropriate remedies against defaulting WUAs.

5. Water Users' Coordination Committee Representative

The Borrower shall appoint a member of the Water Users' Coordination Committee for the Morang district as a member to SMIDB throughout the duration of the Project.

6. Water Management

The Borrower, by no later than March 31, 1998 and in each year thereafter, shall implement a water operation and maintenance plan acceptable to the Association with budget and staffing arrangements all satisfactory to the Association, to improve water management in the Part B Project Area.

7. Resettlement

(a) The Borrower shall carry out the resettlement and rehabilitation of the people affected by the pilot project area of SMIP in accordance with its resettlement action plan agreed with the Association.

(b) In respect of the remaining SMIP area, and by no later than March 31 in each year of Project implementation, commencing March 31, 1998, the Borrower shall prepare in accordance with the Resettlement Framework a resettlement action plan (the Resettlement Action Plan) relating to resettlement (if any) required by civil works to be carried out under the Project in accordance with its annual work plan for the following year of Project implementation prepared in accordance with paragraph 8 of this Schedule.

(c) By no later than June 30 in each year of Project implementation, commencing June 30, 1998, the Borrower shall submit to the Association for its review and comment the Resettlement Action Plan for the following year; and

(d) By no later than August 31 in each year of Project implementation, commencing August 31, 1998, the Borrower shall promptly carry out, or cause to be carried out, the acquisition of land for the Project and the resettlement of the people affected by the Project in accordance with the Resettlement Action Plan taking into account the Association's comments (if any) thereon, in a manner satisfactory to the Association.

8. Annual Work Plan

The Borrower shall prepare and furnish to the Association not later than February 28 in each year an annual work plan including updated Project cost tables, training and contracting plans and other matters as agreed with the Association and shall thereafter implement each work plan taking into account the Association's comments.

9. Subproject Approval

By no later than December 31, in the first year of Project implementation and by July 15 in each year thereafter, the Borrower shall submit to the Association a list of Subprojects to be carried out in the following year which shall have met the terms and conditions set forth or referred to in Schedule 6 to this Agreement and shall have been approved by the Regional Appraisal and Approval Committee and/or the DOI Director General, as the case may be.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(c) the term "Authorized Allocation" means an amount equivalent to US\$3,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$1,500,000 the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000.

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 duly 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 Borrower 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 Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to 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 Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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 Borrower directly from the Credit 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 Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice 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 Borrower 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 the 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 Borrower 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 Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the

Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Principles and Criteria for Selection and Implementation of Subprojects under Part A

1. Subprojects shall be selected, designed, appraised and approved on the basis of the following principles and criteria that they shall:

- (a) be located in the administrative regions within the Part A Project Area;
- (b) be responsive to a specific request by a Water Users' Association;
- (c) be economically viable on the basis of a suitable feasibility study and provide for a rate of return of not less than 10% of the Subproject costs;
- (d) include a timetable for their construction period;
- (e) have a written agreement by the Water Users' Association benefiting from the Subproject providing, inter alia, that the Water Users' Association shall be involved in the planning, design and construction and be responsible for: (1) operation and maintenance of the Irrigation Scheme under the Subproject; and (2) the required contributions in cash or kind to the capital costs of the Subproject;
- (f) require that: (i) the Water Users' Association benefiting from the Subproject be duly established and registered pursuant to the provisions of the Associations Registration Act 2034 and/or Water Resources Act 2049 of the Borrower, as amended; (ii) the membership of the Water Users' Association consists of all the farmer beneficiaries of the Subproject; and (iii) all officers and members of the concerned Water Users' Association be direct beneficiaries under the Subproject;
- (g) include an environmental assessment, satisfactory to the Association, which shall comprise, among other things, remedial measures for environmental problems identified therein;
- (h) include a social assessment study, satisfactory to the Association; and
- (i) ensure that construction works for Subprojects shall not commence until at least fifteen percent (15%) of WUA's agreed contribution has been made.

2. The cost of each Subproject shall be met by the Borrower, through DOI and by the respective Water Users' Association, according to cost-sharing arrangements specified under the Borrower's Irrigation Policy and acceptable to the Association.

