

CONFORMED COPY

CREDIT NUMBER 2144 NEP

(Bhairawa-Lumbini Groundwater Irrigation III Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 21, 1990

CREDIT NUMBER 2144 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 21, 1990, between KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "Project Area" means the aggregate area of Part A Project Area and Part B Project Area;

(c) "Part A Project Area" means the areas covering Stage I and Stage II as defined under the Bhairawa-Lumbini Groundwater Project financed by the Association under a Development Credit Agreement dated March 6, 1983 and the area called Stage III implementation area covering about 8,600 ha net in three areas, mainly of Rupandehi District, in the Western Region of Nepal;

(d) "Part B Project Area" means selected cultivable command areas in the Western, Mid Western and Far Western Development Regions of Nepal;

(e) "ADBN" means the Agricultural Development Bank of Nepal, a development bank wholly owned by the Borrower, established and operating pursuant to the Agricultural Development Bank Act, 2024 (1967) of the Borrower, as amended to the date of this Agreement;

(f) "Sub-project" means a specific irrigation development project in the Part B Project Area, comprising of either rehabilitation works of existing surface irrigation schemes, or new groundwater irrigation schemes, including pipeline conveyance and distribution systems, which meet the principles and criteria set forth in Schedule 6 to this Agreement;

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

(h) "Water User Organizations" mean the farmer's organizations established or to be established pursuant to paragraph (f) of Schedule 4 to this Agreement, respectively, for purposes of assisting in the carrying out of the construction, operation and management of government irrigation systems, including the groundwater irrigation systems under Part A of the Project;

(i) "Farmer Irrigation Associations" mean the farmer's organizations established or to be established pursuant to paragraph (f) of Schedule 6 to this Agreement for purposes of construction, operation and maintenance of private irrigation systems, including the Sub-projects;

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

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

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

(m) "BLP" means the Bhairawa-Lumbini Groundwater Project;

(n) "GRDB" means the Groundwater Resources Development Board established pursuant to the Borrower's Groundwater Resources Development Board (Establishment) Order 2031 (1974), as amended to date of this Agreement issued under the Borrower's Development Board Act of 2013 (1956), as amended to the date of this Agreement;

(o) "DTW" means deep tubewell; and

(p) "FY" and "fiscal year" mean the fiscal year of the Borrower which extends from July 16 to July 15.

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 thirty six million six hundred thousand Special Drawing Rights (SDR 36,600,000).

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 shall, 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, 1999 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency

specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 2000 and ending April 15, 2030. Each installment to and including the installment payable on April 15, 2010 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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, 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.

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 or shall cause its departments and agencies carrying out the Project or any part thereof to:

- (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 twelve months after the end of each such year, a certified copy of 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, 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 or payment out of the Special 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.

Section 4.02. The Borrower shall cause ADBN, for purposes of Part B of the Project, to provide adequate credit to the Farmer Irrigation Associations.

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) that a Project Consultant for Part A of the Project with qualifications acceptable to the Association has been appointed;
- (b) that a farmer organization unit with objectives, functions and staffing acceptable to the Association has been established under BLP; and
- (c) that a unit for implementation of groundwater development under Part B of the Project with functions and staffing acceptable to the Association has been established.

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.

For the Borrower:

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

Cable address:

Telex:

ARTH
Nepal

2249-NEP Kathmandu

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

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/ Mohan Man Sainju
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu
Regional Vice President
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	8,050,000	90%
(b)(i) under Part B (1) through (4) of the Project	5,580,000	100%
(ii) under Part B (5)	390,000	100%
(c) under Part C of the Project	930,000	100%

(2) Materials, equipment and vehicles:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(a) under Part A of the Project	7,740,000	
(b) under Part B of the Project	1,940,000	
(c) under Part C of the Project	390,000	

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Salaries and allowances for incremental staff, and operations and maintenance cost of the Project facilities and other incremental operating costs under the Project	4,500,000	100% of expenditures for FYs 91, 92, and 93; 90% of expenditures for FYs 94 and 95; 80% of expenditures for FYs 96 and 97; and 60% of expenditures thereafter
(4) Consultants, training and studies:		
(a) under Part A of the Project	4,720,000	100%
(b) under Part B of the Project	390,000	100%
(c) under Part C of the Project	390,000	100%
(5) Unallocated	1,580,000	
TOTAL	36,600,000 =====	

2. For the purposes of this Schedule:

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

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

(c) the term "incremental staff" means the staff retained by the Borrower after the date of this Agreement for purposes of carrying out the Project;

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures under Category 1(b) of the table in paragraph 1 of this Schedule until: (1) the concerned Regional Appraisal Committee has been established; and (2) the Sub-project has met the agreed criteria and has been approved by: (i)

the Approval and Coordination Committee for each Sub-project or cluster of Sub-projects exceeding NRs 1,000,000 in cost; and (ii) the DOI Director General for other Sub-projects.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) raise agricultural production and farm incomes; (b) improve operation and maintenance, and cost recovery of the irrigation systems in the Project Area; and (c) strengthen the Borrower's irrigation subsector.

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: Completion and Operation and Maintenance of Tubewell Systems in the Stage III Implementation Area.
- (1) Construction of about 73 new deep tubewells irrigation systems and drainage facilities in the Stage III Project Area.
 - (2) Completion of the construction of 38 Stage II deep tubewells systems.
 - (3) Construction of about 140 Km of channel lining for Stage I Project Area.
 - (4) Provision of maintenance of Project's facilities including vehicles, equipment, parts and materials.
 - (5) Provision of agricultural support services.
 - (6) Provision of support for organizing farmers.
 - (7) Carrying out of training, technical assistance and studies.
- Part B: Irrigation Line of Credit Area.
- (1) Carrying out of Sub-projects in Part B Project Area.
 - (2) Provision of support for Regional and District Irrigation Offices.
 - (3) Provision of support for organizing farmers for the carrying out of Sub-projects, including training for Project staff and farmers.
 - (4) Provision of agricultural extension support for Sub-projects.
 - (5) Carrying out of environmental protection for Sub-projects.
- Part C: Institutional Development Support
- (1) Strengthening of DOI, including construction and equipping of offices.
 - (2) Development for DOI of a comprehensive human resources plan, project cycle capability, and farmer organizing capability.

- (3) Development of comprehensive management information systems, and monitoring and evaluation of the various activities undertaken by DOI.
- (4) Provision of training and fellowships for DOI staff.
- (5) Carrying out of studies and applied research and development, including preparation of feasibility studies for future irrigation investments including hydrology studies to determine their impact on river flows; detailed inventory of farmer managed irrigation schemes for river basins; studies on cost recovery and cost sharing; and studies on improved management and technologies for irrigation facilities.

* * * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for materials, equipment and vehicles shall be grouped into bid packages estimated to cost the equivalent of \$1,000,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Nepal may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items for civil works estimated to cost the equivalent of \$500,000 or more per contract, up to an aggregate amount equivalent to \$20,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for civil works estimated to cost the equivalent of \$20,000 or more per contract up to an aggregate amount equivalent to \$3,700,000 may be procured by piece work contract awarded on the basis of three quotations or by departmental force account.

3. Items or groups of items for materials, goods, equipment and vehicles estimated to cost the equivalent of \$50,000 or more per contract, up to an aggregate amount equivalent to \$600,000 may be procured under

contracts awarded on the basis of competitive bidding awarded locally in accordance with procedures satisfactory to the Association.

4. Specialized drilling equipment and spare parts estimated to cost the equivalent of \$50,000 or more per contract, up to an aggregate amount equivalent to \$700,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, and 2.56 thereof).

5. Items or groups of items related to the carrying out of institutional development, training, research and development and studies estimated to cost the equivalent of \$10,000 or more per contract, up to an aggregate amount equivalent to \$250,000, may be procured under contracts awarded on the basis of prudent shopping, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for materials, equipment and vehicles estimated to cost the equivalent of \$100,000 or more, and to each contract for civil works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of

Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

The Borrower shall:

(a) by June 30, 1991, furnish to the Association, for its review and comments, draft terms of reference under Part A of the Project for: (i) an operation and maintenance support plan for those DTWs under farmer management; (ii) a study on the environmental impact of the Project and of the two previous irrigation projects in the Project Area financed by the Association under two Development Credit Agreements dated July 9, 1976 and March 6, 1983, respectively; (iii) a socio-economic benchmark survey of the Project Area, which survey shall include a rapid social inventory of the said Area; (iv) a feasibility study and drilling investigations for future groundwater irrigation projects; and (v) a strategy study on future groundwater development in the Terai area which shall assess, inter alia, the privatization plans of the DTW operation and maintenance support services.

(b) by June 30, 1991, furnish to the Association for its review and comments: (i) a draft plan and timetable for development and installation of a comprehensive Management Information System in DOI; (ii) detailed terms of reference and a long-term development plan for and operation within DOI of the Planning, Design and Research Division; and (iii) a draft plan and timetable for the execution of Irrigation Regulation 2045, an irrigation regulation issued by the Borrower on April 3, 1989;

(c) during Project implementation period, establish and thereafter maintain the Irrigation Management Division within DOI with terms of reference satisfactory to the Association;

(d) furnish to the Association for its review and comments, (i) by December 31, 1990, draft terms of reference for an administration study relating to Part C of the Project which shall cover, inter alia, support work requirements and departmental equipment inventory, and shall include recommendations to improve staff motivation; and (ii) by December 31, 1991, the general architectural plans, cost estimates and timetables for the construction of the new DOI headquarter building and a technical evaluation indicating that a satisfactory site for the building has been provided to DOI;

(e) by December 31, 1991, review the Participatory Management Action Plan, prepare pilot projects based thereon, and prepare all such plans and timetables as shall be necessary to establish and implement participatory management under the said pilot projects, then, thereafter, start their implementation;

(f) by December 31, 1990, furnish to the Association, for its review and comments, and thereafter implement, a plan to constitute the Water Users Organizations under Part A of the Project as statutory bodies pursuant to Irrigation Regulation 2045 with specific rights and duties to include, inter alia: (i) the distribution of water among their members; and (ii) operation and maintenance (O&M) of the irrigation facilities and the collection of O&M costs from members;

(g) take all necessary measures to ensure that, by June 30, 1991, all Water Users Organizations under Part A of the Project shall be duly constituted and validly operative in areas where DTWs are already in place, and that, for areas where DTWs are not yet constructed, the said Organizations, to the extent practicable, shall be duly constituted and validly operative prior to the date on which DTW construction shall have commenced, but not later than the date on which the DTW construction works shall have been declared to be fully operational and in conformity with design standards;

(h) by December 31, 1990, establish and thereafter maintain one or more Project Coordination Committee(s) for Part A of the Project which shall all be chaired by the Project Manager and include in their membership, among others, representatives of the concerned Water User Organizations;

(i) without limitation to the provisions of Section 9.06 of the General Conditions, commencing on January 1, 1991, and thereafter on a semi-annual basis, prepare and furnish to the Association progress reports on the carrying out of the Project;

(j) by June 30, 1991, prepare and thereafter implement a plan satisfactory to the Association for the full recovery of DTW operation and maintenance costs under Part A of the Project by increasing water charges to a level estimated at NRS 1,000 per hectare annually in 1989 prices or by turning over operations and maintenance to the duly constituted Water User Organization, Association, or by such other method as shall be acceptable to the Association;

(k) in connection with Part B Project Area, take suitable action to ensure uniformity of approach for all irrigation schemes, of the type contemplated under Part B of the Project.

(l) ensure that each Sub-project shall be selected, prepared, approved and implemented pursuant to the principles and criteria set forth in Schedule 6 to this Agreement; and

(m) ensure that prior to selecting a Sub-project to be financed under Part B of the Project, the concerned Regional, District and Groundwater Field Offices shall meet specific prequalification criteria acceptable to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 \$500,000 to be withdrawn from the Credit Account and deposited in 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 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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment 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; and (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 Sub-projects

1. Sub-projects shall be selected, designed, appraised and approved on the basis of the following principles and criteria:

(a) to be located in the administrative regions set forth in Section 1.02 (d) of this Agreement as well as in other administrative regions or districts which may, from time to time, be selected by agreement between the Borrower and the Association;

(b) to be responsive to a specific request by a Farmer Irrigation Association;

(c) to 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 Sub-project costs;

(d) to include a timetable for their construction period;

(e) to include a written agreement by the Farmer Irrigation Association benefitting from the Sub-project providing, inter alia, that the Farmer Irrigation Association shall be involved in the planning, design and construction and be responsible for: (1) operation and maintenance of the irrigation scheme under the Sub-project; and (2) the required contributions in cash or kind to the capital costs of the Sub-project;

(f) to require that: (i) the Farmer Irrigation Association benefitting from the Sub-project to be duly established and registered pursuant to the provisions of the Registration of Associations Act 2034 of the Borrower, as amended; (ii) the membership of the Farmer Irrigation Association consists of all the farmer beneficiaries of the Sub-project; and (iii) all officers and members of the concerned Farmer Irrigation Association be direct beneficiaries under the Sub-project;

(g) to include an environmental assessment, satisfactory to the Association, which shall comprise, among other things, remedial measures for environmental problems identified therein; and

(h) to require that Sub-projects be funded through and implemented by DOI as central projects.

2. The cost of each Sub-project shall be met by the Borrower, through DOI, and by the respective Farmer Irrigation Association, according to cost-sharing arrangements acceptable to the Association.

