

CONFORMED COPY

CREDIT NUMBER 1924 NEP

(Mahakali Irrigation II Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 21, 1988

CREDIT NUMBER 1924 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 21, 1988, 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 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 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 the Part A Project Area, Part B Project Area, Part C Project Area, and Stage I Project Area;

(c) "Part A Project Area" means the cultivable command area of about 6,800 hectares located in Kanchanpur District in the Far Western Development Region of Nepal, bordered by the Royal Suklaphanta Wildlife Reserve to the west, a national forest reserve in the north, the Kapti Nala river in the east and the Mahakali river and the Indian border to the south;

(d) "Part B Project Area" means selected cultivable command areas in the, inter alia, Gorkha, Lamjung, Syangja and Tanahu Districts in the Hill area and Nawalperasi District in the Terai area in the Western Development Region of Nepal;

(e) "Part C Project Area" means the Terai area of the Eastern and Central Development Regions of Nepal and the Hill area of the Gorkha, Kaski, Lamjung and Syangja Districts in the Western Development Region of Nepal;

(f) "Stage I Project Area" means the cultivable command area of about 4,800 hectares located in the Kanchanpur District of the Far Western Development Region of Nepal, bordered by the Mahakali River to the West, the Mahakali Main Canal to the north, the Chaudhar River to the East, and the Royal Suklaphanta Wildlife Reserve to the South;

(g) "Sub-project" means a specific irrigation development project in the Part B Project Area, comprising of either new small or medium surface irrigation schemes, including pipeline conveyance and distribution systems, or rehabilitation works of existing surface irrigation schemes, or new groundwater irrigation schemes, which meet the principles and criteria set forth in paragraphs A (1) and A (2) of Schedule 6 to this Agreement, to be operated and managed exclusively by Farmers Irrigation Associations;

(h) "Sub-loan" means a loan made or proposed to be made by ADBN to a Farmer Irrigation Association to assist in financing the construction of a Sub-project;

(i) "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 of Nepal Act, 2024 (1967) of the Borrower, as amended to the date of this Agreement;

(j) "Subsidiary Loan Agreement" means the agreement to be entered into by the Borrower and ADBN pursuant to the provision of Section 3.03 of this Agreement;

(k) "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 to the date of this Agreement;

(l) "Water User Associations" and "Water User Groups" mean the farmer's organizations established or to be established pursuant to paragraph (p) of Schedule 4 to this Agreement, respectively, for purposes of assisting in the carrying out of the operation and management of public irrigation systems, including the surface irrigation systems under Part A of the Project and Stage I Project Area;

(m) "Farmer Irrigation Association" means the farmer's organizations established or to be established pursuant to paragraph (q) of Schedule 4 to this Agreement for purposes of construction, operation and maintenance of private irrigation systems, including the Sub-projects;

(n) "MIDB" means the Mahakali Irrigation Development Board established in 1981 pursuant to the Mahakali Irrigation Development Board Act, 2013 (1956) of the Borrower, as amended to the date of this Agreement;

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

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

(q) "NPWC" means the Department of National Parks and Wildlife Conservation of the Borrower's Ministry of Forests and Soil Conservation;

(r) "ACC" means the Approval and Coordination Committee to be established pursuant to paragraph (f) of Schedule 4 to this Agreement;

(s) "Regional Appraisal Committee" means the committee to be established pursuant to paragraph (g) of Schedule 4 to this Agreement;

(t) "Task Force" means the group to be established pursuant to paragraph (d) of Schedule 4 to this Agreement; and

(u) "Project Consultant" means the consultant to be employed by MIDB to assist in the engineering, supervision and implementation of Part A of the Project.

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 twenty nine million nine hundred thousand Special Drawing Rights (SDR 29,900,000).

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 account in the 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 March 31, 1995 or such later date as the Association shall establish. The Associa-

tion 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 a 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; (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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988 shall be applied as of July 1, 1988.

(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) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1 commencing November 1, 1998 and ending May 1, 2028. Each installment to and including the installment payable on May 1, 2008 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: (i) Part A of the Project through MIDB; (ii) Parts B (i), B (ii), C and D of the Project through DOI; Part B (iii) of the Project through DOA; and (iii) Part E of the Project through MIDB and DOI, as the case may be, all 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.

Section 3.03. The Borrower shall for purposes of carrying out Part B of the Project, relend to ADBN, out of the proceeds of the Credit, an amount equivalent to eight hundred eighty thousand Special Drawing Rights (SDR 880,000), or such other amounts as the Borrower and the Association may otherwise agree, pursuant to an agreement to be entered into between the Borrower and ADBN, under terms and conditions satisfactory to the Association, including those set forth in paragraph B of Schedule 6 to this Agreement;

Section 3.04. The Borrower shall cause ADBN to on-lend to eligible borrowers the proceeds of the Credit relend to ADBN pursuant to Section 3.03 of this Agreement under terms and conditions satisfactory to the Association, including those set forth in Schedule 6 to this Agreement.

Section 3.05. The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interest of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive either the Subsidiary Loan Agreement, or any provision thereof.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall, and shall cause MIDB and ADBN each 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; and
- (iii) 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, including without limitation on the foregoing, 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, as soon as available, but not later than six months after the end of each such year.

(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, and shall cause MIDB and ABDN each to:

- (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 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 event is specified as additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Task Force has been established pursuant to the provisions of paragraph (d) of Schedule 4 to this Agreement.

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:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Shinji Asanuma
Acting 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
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(1) Civil works:

(a)	under Part A of this Project	13,010,000	90%
(b)	under Part C of the Project	4,770,000	100%
(c)	under Part D of the Project	940,000	100%
(2)	Materials, equipment and vehicles:		100% of foreign expenditures, 100% of local expenditures
(a)	under Part A of the Project	650,000	(ex-factory cost) and 70% of local expenditures for other items procured locally
(b)	under Part C of the Project	180,000	
(c)	under Part D of the Project	180,000	

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Construction of Sub-projects:		
(a) New Surface Irrigation Sub-projects:		
(i) Sub-loans	400,000	100%
(ii) DOI contribution (except expenditures under Category (4))	1,900,000	100%
(b) Other Sub-projects:		
(i) Sub-loans	480,000	100%
(ii) DOI contribution (except expenditures under Category (4))	2,000,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Salaries and allowances for Project staff, and operations and maintenance costs of the facilities under Part A of the Project	730,000	70% of expenditures up to the first SDR 370,000 in disbursements; 60% of expenditures up to the following SDR 110,000 in disbursements;

			40% of expenditures up to the following SDR 70,000 in disbursements; and 20% of expenditures up to the following SDR 180,000 in disbursements
(5)	Salaries and allowances, for incremental staff and other operating costs under Parts B and D of the Project	150,000	100%
(6)	Consultants, training and studies:		
(a)	under Part A of the Project	1,560,000	100%
(b)	under Part B of the Project	180,000	100%
	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(c)	under Part D of the Project	650,000	100%
(7)	Unallocated	2,120,000	
	TOTAL	29,900,000	

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;

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

(e) the term "construction of Sub-projects" means all the goods, works and services required for implementing a Sub-project.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,170,000, may be made in respect of Categories (1) (b), (2) (b) and 6 (b) of the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after February 10, 1988; and

(b) in respect of expenditures for each Sub-project under Category (3) of the table in paragraph 1 of this Schedule until: (i) the Subsidiary Loan Agreement has been signed by the Borrower and ADBN, and the Borrower has furnished to the Association an opinion by counsel acceptable to the Association that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and ADBN, and is legally binding upon the Borrower and ADBN in accordance with its terms; (ii) the ACC has been established pursuant to the provisions of paragraph (f) of Schedule 4 to this Agreement; (iii) the Regional Appraisal Committee has been established pursuant to the provisions of paragraph (g) of Schedule 4 to this Agreement; (iv) the cost-sharing arrangements provided for in Schedule 6 paragraph A.2 of this Agreement have been found satisfactory by the Association; and (v) ACC has approved the Sub-project and furnished to the Association certification that the approved Sub-project meets the principles and criteria set forth in paragraphs A (1) and A (2) of Schedule 6 to this Agreement; provided, further, that in respect of: (1) expenditures for new surface irrigation scheme Sub-projects under Category 3 (a) of the table in paragraph 1 of this Schedule, until the Association has approved two such Sub-projects; (2) expenditures for new groundwater irrigation scheme Sub-projects under Category 3 (b) of the table in paragraph 1 of the Schedule, until the Association has approved two such Sub-projects; and (3) expenditures for rehabilitation works of existing surface irrigation scheme Sub-projects under Category (3) (b) of the table in paragraph 1 of this Schedule, until the Association has approved two such Sub-projects.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve agricultural production and farm incomes in the Project Area through: (i) expansion and management improvement of a public irrigation system, (ii) construction of new, and rehabilitation of existing private farmer-managed irrigation schemes; and (iii) restoration of irrigation schemes and river protection works damaged by the August 1987 floods; (b) improve operations and maintenance, and cost recovery in the irrigation systems in the Project Area through, inter alia, increased farmer participation; 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: Development of the Mahakali Irrigation Project, Stage II Command Area

- (i) Upgrading, extension and required modifications to the Mahakali Main Canal to adequately serve the cultivable command area in Part A Project Area, including necessary desilting facilities, cross sections, structures and access/inspection roads.
- (ii) Construction of about 125 km of unlined branch and secondary canal irrigation network, including the required structures and access/inspection roads.
- (iii) Construction of about 300 km of unlined tertiary canal network down to 4 hectare blocks, each tertiary canal to serve about 30 hectares, including the required structures.
- (iv) Construction of the required drainage network.
- (v) Flood protection works needed to protect the Part A Project Area from recurrent floods, including,

realignment of the Chaudhar River to its pre-1979 original course; protection of the southwestern corner of the command area from Mahakali river flood spillage; and protection of the northeastern corner of the command area from possible future floods caused by the Donda River.

- (vi) Construction, installation, operations and maintenance of about 12 augmentation tubewells to be located on the eastern side of the Shivanagar Branch Canal, each to be powered by a dedicated diesel-electric generating station and designed to eventually be serviced by dedicated power lines connected to the Borrower's national power grid.
- (vii) Strengthening of agricultural extension and training activities, including an existing pilot demonstration farm-cum-training center and training for extension workers and farmers.
- (viii) Strengthening of the agricultural extension support to promote agricultural intensification, irrigated agriculture and efficient water management practices in the Stage I Project Area and in the Part A Project Area.
- (ix) Provision of training for farmers and engineering and agricultural staff, inter alia, in operation, maintenance and management of irrigation schemes.
- (x) Strengthening of existing Water User Associations and Water User Groups in the Stage I Project Area and establishment of additional such organizations in Stage I Project Area and Part A Project Area.
- (xi) Construction of buildings and provision of communication facilities for engineering and agricultural activities, and staff quarters.
- (xii) Provision of required vehicles and equipment.
- (xiii) Environmental protection of the Royal Suklaphanta Wildlife Reserve, including construction of guard posts, provision of vehicles and equipment, and training of NPWC staff.

Part B: Irrigation Line of Credit Pilot Project

- (i) Carrying out of Sub-projects in Part B Project Area.
- (ii) Provision of farmer organization support for the carrying out of Sub-projects, including training for Project staff and farmers.
- (iii) Provision of agricultural extension support for the Sub-projects, including the required staffing, office space, equipment and training.

Part C: Rehabilitation of Irrigation Systems

Rehabilitation, reconstruction, repair and replacement of the irrigation systems in Part C Project Area damaged by the August 1987 floods, including canal repairs and river embankments works.

Part D: Institutional Development Support

- (i) Strengthening of the Department of Irrigation Regional Offices, establishment of the Department of Irrigation District Offices, and provision of an adequate headquarters building for the Department of Irrigation in the Kathmandu valley.

- (ii) Development for DOI of a comprehensive human resources plan, project cycle capability, and farmer organization capability.
- (iii) Development of monitoring and evaluation, and management information systems of the various activities undertaken by the Department of Irrigation.
- (iv) Provision of training and fellowships for engineering and agricultural staff.
- (v) Carrying out of studies and applied research and development, including, preparation-feasibility studies for future irrigation investments including hydrology studies to determine their impact on river flows; detailed inventory of farmer managed irrigation schemes river basins; studies on cost recovery and cost sharing; and studies on improved management and technologies for irrigation facilities.

Part E:

Provision of technical assistance for Project implementation.

* * *

The Project is expected to be completed by September 30, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works 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. All bidders for works under Part A of the Project shall be pre-qualified as described in paragraph 2.10 of the Guidelines.

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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Contracts for civil works for Parts A, B, C and D of the Project estimated to cost the equivalent of \$500,000 each or less, may be awarded on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that civil works for Part B of the Project estimated to cost in the aggregate the equivalent of \$3,900,000 or less, and civil works for Part C of the Project

estimated to cost in the aggregate the equivalent of \$2,900,000, or less, may be either carried out through force account or procured through piece work contracts, all under procedures acceptable to the Association; provided, further, that the cost of each piece work contract shall not exceed the equivalent of \$14,000.

2. Contracts for vehicles and construction equipment for Parts B and C of the Project estimated to cost in the aggregate the equivalent of \$400,000 or less, may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Office, survey and design equipment, and spare parts for Parts A, B and D of the Project may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof); provided, however, that materials, equipment and spare parts estimated to cost in the aggregate, the equivalent of \$40,000 or less, may be procured through local shopping procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for civil works estimated to cost the equivalent of \$100,000 or more, and with respect to each contract for goods estimated to cost the equivalent of \$100,000 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 the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

3. 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, and shall cause MIDB, ADBN and the departments and agencies of the Borrower responsible for carrying out the Project or any Part thereof to, 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) appoint and thereafter maintain a qualified and experienced officer, satisfactory to the Association, as Project Director, such officer to be provided with such powers, functions, responsibilities, funds and staffing as shall be required to enable him to adequately carry out the overall monitoring and coordination of the various activities under the Project;

(b) appoint and thereafter maintain, qualified and experienced officers, satisfactory to the Association, as Project Managers for Parts A, B, C and D of the Project, such officers each to be provided with such powers, functions, responsibilities, funds and staffing as shall be required to enable each of them to adequately and efficiently manage the carrying out of Parts A, B, C and D of the Project, respectively;

(c) in accordance with detailed plans, schedules and timetable satisfactory to the Association, provide DOI with an adequate headquarters building in the Kathmandu valley and NPWC with guard posts at the Royal Suklaphanta Wildlife Reserve Forest;

(d) establish and thereafter maintain the Task Force to be headed by the Secretary of the Borrower's Ministry of Water Resources and to include in its membership a representative each of the Ministry of Finance and the National Planning Commission, for purposes of recommending country wide: (i) measures to strengthen water charge assessment and collection procedures, including collection of arrears; (ii) target water charge levels for irrigation schemes of various types to cover at least full operation and maintenance costs; (iii) a policy for phasing increases in water charges for specific irrigation systems as related to the system commissioning process and to improvements in the quality and reliability of water supply; (iv) arrangements to promote irrigation water wholesaling to farmer water user organizations; (v) procedures for assessing farmers' repayment capacity in relation to irrigation investment costs; and (vi) procedures for regular review and revision of water charges to ensure at least full coverage of operation and maintenance costs, and a reasonable portion of capital investment taking into account farmers' repayment capacity;

(e) by not later than December 31, 1988, cause the Task Force to prepare and furnish to the Association an action plan for carrying out its purposes as well as its preliminary recommendations;

(f) establish and thereafter maintain, the ACC to be chaired by an Additional Secretary of the Borrower's Ministry of Water Resources and include in its membership, a representative each of the National Planning Commission, ADBN, DOI, and DOA, for purposes, inter alia, to review and approve the Sub-projects pursuant to the principles and criteria set forth in paragraphs A (1) and A (2) of Schedule 6 to this Agreement and facilitate coordination amongst the various Borrower's agencies and departments carrying out Part B of the Project. The ACC shall meet at least

once a month, and shall render its decisions regarding the Sub-projects within 90 calendar days after the completion of the appraisal done by the Regional Appraisal Committee;

(g) establish and thereafter maintain the Regional Appraisal Committee to be chaired by the Department of Irrigation Regional Director and to include in its membership representatives of the appropriate Borrower's departments, for purposes of appraising each Sub-project and recommending to ACC the appropriate course of action;

(h) cause DOI and ACC each to take suitable actions to ensure that each Sub-project shall be selected and implemented pursuant to the principles and criteria set forth in paragraphs A (1) and A (2) of Schedule 6 to this Agreement;

(i) take suitable actions to minimize within the Project Area the risk of malaria and other water-related diseases and adverse environmental impact;

(j) by not later than December 31, 1988, prepare and furnish to the Association, for its review and comments, an overall operation and maintenance plan for the irrigation schemes in Part A Project Area and Stage I Project Area, and, thereafter, taking into account the Association's comments, if any, carry out such plan;

(k) on March 31 of each year, commencing on March 31, 1989 and thereafter, furnish to the Association for its review and comments, estimated budgetary allocations for operation and maintenance of the irrigation schemes under Part A Project Area and Stage I Project Area for the Borrower's forthcoming Fiscal Year together with actual budget allocations made for the Borrower's current Fiscal Year, and, thereafter, taking into account the Association's comments, if any, make the required budgetary allocations to adequately cover such operation and maintenance costs in the Borrower's forthcoming Fiscal Year;

(l) without limitations to the provisions of Section 9.06 of the General Conditions, the Borrower shall, and shall cause MIDB, ADBN and the departments and agencies of the Borrower carrying out the Project or a part thereof to, commencing on January 1, 1989 and thereafter on a semi-annual basis, prepare and furnish to the Association progress reports on the carrying out of the Project, such reports (i) to include, where warranted, information regarding progress achieved on water charge collection, and (ii) to be furnished within two months of each reporting period, that is, by March 31 and August 1 of each calendar year;

(m) by not later than June 30, 1989, prepare and furnish to the Association, for its review and comments, a draft action plan and timetable for strengthening DOI to enable it to adequately carry out Part B of the Project, and, thereafter, taking into account the Association's comments, if any, implement such action plan in a manner satisfactory to the Association;

(n) by June 30, 1989, prepare and furnish to the Association, for its review and comments, an action plan and timetable for development of a monitoring and evaluation, and management information system within DOI and, thereafter, taking into account the Association's comments, if any, implement such action plan in a manner satisfactory to the Association;

(o) by June 30, 1989, take suitable actions providing for the establishment of the Water User Associations and Water User Groups as legal bodies with specific rights and obligations, inter alia, for entering into contracts, including financial and loan contracts, assisting within their respective jurisdiction in the distribution of irrigation water, canal system operation and maintenance, resource mobilization and collection and payments of water charges. For such purposes, the Borrower shall, by December 31, 1988, furnish to the Association, for its review and

comments, proposed regulations and plans to establish such associations, and, thereafter, taking into account the Association's comments, if any, by June 30, 1989 issue such regulations and implement such plan;

(p) by June 30, 1989, take suitable actions providing for the establishment of the Farmer Irrigation Association as legal bodies with specific rights and obligations, inter alia, for entering into contracts, including financial and loan contracts, mobilizing resources, and carrying out the construction, operation and maintenance of the Sub-projects. For such purposes, the Borrower shall, by December 31, 1988, furnish to the Association, for its review and comments, proposed regulations and plans to establish such associations, and, thereafter, taking into account the Association's comments, if any, issue such regulations and implement such plan;

(q) by June 30, 1989, take suitable actions to establish Water User Groups in each tertiary cultivable command area already receiving irrigation water, and in all other tertiary cultivable command areas to be brought under irrigation, not later than six months before the tertiary canal is scheduled to deliver irrigation waters for purposes of carrying out the operations and maintenance of the tertiary canals; and

(r) with regard to the irrigation schemes in Part A Project Area and Stage I Project Area: (i) by June 30, 1989, evaluate water charge arrears and take suitable actions for collection or write-off, as the case may be, of such arrears; (ii) achieve collection efficiencies for water charges plus rescheduled water charges arrears in such amounts as shall be necessary to cover by FY 1991/92 and thereafter, full operation and maintenance costs of such irrigation schemes; and (iii) by July 15, 1992 and thereafter, on an annual basis, review, and if required, revise the level of water charges and collection procedures to ensure full coverage of operation and maintenance.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all 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 SDR 1,450,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any 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 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

SCHEDULE 6

Sub-projects

A. Principles and Criteria

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 Districts set forth in Section 1.02 (d) of this Agreement as well as in other administrative 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 responsible for: (1) the construction, and operation and maintenance of the irrigation scheme under the Sub-project; and (2) the required contributions to the capital costs of the Sub-project; and

(f) regarding new surface irrigation Sub-projects, to exclusively use waters from rivers and streams originating entirely in Nepal and which form part only of the Narayani River basin.

2. The cost of each Sub-project shall be met by the Borrower, through DOI, and the respective Farmer Irrigation Association according to cost-sharing arrangements acceptable to the Borrower and the Association, such arrangements to include that the Borrower's contribution shall be free of charge and the Farmer Irrigation Association's contribution shall be either in kind, work or cash, including the Sub-loan, or a combination thereof. For such purposes, the Borrower shall cause DOI to furnish to the Association proposed cost-sharing arrangements on the basis of the results of the study undertaken under Part D (v) of the Project.

B. Lending Terms

1. ADBN Subsidiary Loan Agreement

(a) Repayment period: repayment period not to exceed fifteen years including a grace period of up to 2 years; provided, however, that the repayment period may be extended by agreement between the Borrower and ADBN with the prior consent of the Association.

(b) Interest rate: an interest rate equivalent to the prevailing rediscount facility rate of the Nepal Rastra Bank for the agriculture priority sector, but not to exceed 10% per annum.

(c) Security: ADBN's standard security policy with respect to Farmer Irrigation

Associations.

(d) Foreign exchange risk: to be borne by the Borrower.

2. Eligible Borrowers for Sub-loans

Farmer Irrigation Associations.

3. ADBN's on-lending terms and conditions

(i) Surface Irrigation Sub-projects: interest at the rate of 15% per annum and a repayment period of up to 10 years, including a grace period of up to 2 years.

(ii) Groundwater Sub-projects: interest at the rate of 15% per annum and a repayment period of up to 7 years, including a grace period of up to 1 year.

