

CONFORMED COPY

CREDIT NUMBER 2578 NEP

Development Credit Agreement

(Road Maintenance and Rehabilitation Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 1, 1994

CREDIT NUMBER 2578 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 1, 1994, 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;

(B) the Borrower intends to obtain from the United Nations Development Programme (UNDP) a grant in an amount of one million dollars (\$1,000,000) (the UNDP Grant) to assist in the financing of Part A.6 of the Project on the terms and conditions set forth in an agreement (the UNDP Grant Agreement) to be entered into between the Borrower and UNDP;

(C) the Government of the United Kingdom of Great Britain and Northern Ireland (UK) has agreed to make available to the Borrower up to nine million six hundred thousand pounds sterling (9,600,000) to assist in the financing of Parts A.7, B.5 (a) and B.6 of the Project as set out in an Exchange of Letters, dated December 13, 1993, between the Borrower and the UK (the UK Grant Agreement); and

(D) the Borrower intends to obtain from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount of

up to four million three hundred thousand Swiss francs (Swf 4,300,000) (the Swiss Contribution) to assist in the financing of Parts A.8 and B.5 of the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland; 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 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) "MOWT" means the Ministry of Works and Transport of the Borrower;
- (c) "DOR" means the Department of Roads of the Borrower within MOWT;
- (d) "DOTM" means the Department of Transport Management of the Borrower;
- (e) "MLD" means the Ministry of Local Development of the Borrower;
- (f) "NPC" means the National Planning Commission of the Borrower;
- (g) "DRSDU" means the District Roads Services Development Unit to be established within MLD;
- (h) "RSSDU" means the Road Sector Skills Development Unit to be established within DOR;
- (i) "SMD" means the Borrower's Strengthened Maintenance Division, being the basic administrative unit established for the purposes of road maintenance;
- (j) "Nepal Rastra Bank" means the Borrower's Central Bank established and operating pursuant to the Borrower's Nepal Rastra Bank Act, 2012 (1955), as amended;
- (k) "Fiscal Year" means the Fiscal Year of the Borrower beginning about July 16 and ending about July 15 of the following calendar year;
- (l) "Nepalese Rupees" or "NRs" mean the currency of the Borrower; and
- (m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to letter agreements dated March 5, 1992, October 14, 1992 and January 13, 1994 between the Borrower and the Association.

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.

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

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 January 1 and July 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 January 1 and July 1 commencing July 1, 2004 and ending January 1, 2034. Each installment to and including the installment payable on January 1, 2014 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, through DOR with the assistance of MOWT, except for Parts A.5 and A.6 thereof which shall be carried out by DRSDU with the assistance of MLD and MOWT, and for Part B.6 (d) thereof which shall be carried out by DOTM, with due diligence and efficiency and in conformity with appropriate educational, administrative and financial 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:

- (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.

(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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) The UNDP Grant Agreement and/or the Swiss Contribution Agreement shall have failed to become effective by July 31, 1994, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that any event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. 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:

Telex:

ARTHA
Kathmandu
Nepal

2249-ARTHA NP

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

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/ Pradeep Khatiwada
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood
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 for:		
(a) Part A.2 of the Project	12,800,000	90%
(b) Part A.1 of the Project	8,300,000	90%
(c) Part A.5 of the Project	1,400,000	100%
(2) Vehicles and equipment for:		100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 90% of local expenditures for other items pro- cured locally
(a) Parts A.1 and A.4 of the Project	2,450,000	
(b) Part A.5 of the Project	700,000	
(c) Part B of the Project	60,000	
(3) Consultants' services and training for:		100%
(a) Parts A.2 and A.3 of the Project	1,600,000	
(b) Parts A.1 and A.3 of the Project	750,000	
(c) Part A.5 of the Project	120,000	
(d) Part B.2 of the Project	1,600,000	
(e) Parts B.1, B.3 and B.4 of the Project	3,300,000	
(4) Refunding of Project Prepara- tion Advance	550,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(5) Unallocated	2,970,000	
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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed SDR 870,000 may be made in respect of Category (1) on account of payments made for expenditures before that date but after August 31, 1993.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures under contracts for goods not exceeding \$50,000, contracts for works not exceeding \$250,000 and contracts for consultant services not exceeding \$100,000 equivalent, 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: (a) to support the Borrower's efforts to develop road maintenance capabilities and to increase road maintenance and rehabilitation activities; and (b) to that end (i) ensure adequate funding of priority maintenance activities based on a three-year rolling plan, (ii) strengthen sectoral planning by introducing network based planning and developing a priority investment plan, (iii) improve public sector implementation capacity to expand the coverage and enhance the quality of road maintenance with a program of institutional strengthening and human resource development, (iv) support the development of private sector capabilities in the road sector, and (v) test ways to develop road maintenance capabilities for local access roads under the responsibility of District Development Committees and promote appropriate technology in road construction and rural transport.

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: Maintenance and Rehabilitation Programs

1. Carrying out periodic maintenance of selected roads and bridges of the strategic highway and feeder road network in the Central, Western, Mid-Western and Far-Western regions of the Borrower.
2. Carrying out rehabilitation and overlays of selected sections of strategic highways and feeder roads in the Central, Western, Mid-Western and Far-Western regions of the Borrower.
3. Provision of technical assistance for road maintenance engineering, equipment management and quality control, construction supervision, preparing annual maintenance programs and review of progress.
4. Acquisition and utilization of equipment for carrying out road rehabilitation and maintenance programs.
5. Carrying out of a pilot program for: (a) labor-based rehabilitation and maintenance of selected District roads in the Western Region of the Borrower; (b) promotion of appropriate rural transport technology; and (c) community participation.
6. Provision of technical assistance to DRSDU and the labor-based training school at Butwal to assist in carrying out such pilot program consisting of: (a) training of small enterprises on labor-based methods of road rehabilitation and improved management techniques; (b) promoting appropriate rural transport technology; and (c) encouraging community participation in road maintenance and related activities.
7. Carrying out a cyclic resealing program including (a) a training program for local contractors, and (b) training for DOR staff and local consultants in supervision and quality control.
8. Developing systems for, and carrying out, routine and recurrent road maintenance within SMDs.

Part B: Policy and Institutional Development

1. Provision of technical assistance to improve road sector planning and to develop a priority investment plan for all road sector investments, including an annual review capacity in respect of such investments, at NPC and MOWT.
2. Provision of field implementation advisers to assist DOR in carrying out road maintenance programs through, inter alia, developing systems and procedures for assessing progress, assisting in preparing reports and monitoring and evaluating progress, and providing on-the-job training.
3. Improving the operations of DOR's Training Center in Patan through, inter alia: (a) the provision of technical assistance to design new training courses; (b) the recruitment and training of additional training and support staff; (c) the rehabilitation and expansion of the infrastructure at the Center; and (d) the provision of equipment for operator training.
4. Provision of technical assistance for carrying out studies on local materials for road construction, reviewing and preparing a follow-up report on the completed study related to road contractor industry, preparing a report following the completion of the pilot program referred in Part A (5) hereof, conducting an assessment of road maintenance programs, developing a management plan for the Bardiya National Park to address possible adverse environmental impacts of earlier road construction activities, implementing an environmental action plan for the road sector, and carrying out maintenance of the Karnali bridge.
5. Carrying out of the following activities:
 - (a) establishing and maintaining a Road Sector Skills Development Unit (RSSDU) and a Road Sector Skills Manager position in DOR to coordinate and manage road sector training;
 - (b) providing on-the-job management training for DOR's staff, supported where necessary by overseas study tours, to assess institutional options to manage road networks; and
 - (c) providing on-the-job training to DOR's technical staff and local contractors in information, supervision of works, quality control, contract management and procurement, supported where necessary by overseas training.
6. Carrying out of the following activities:
 - (a) establishing systems for managing and maintaining, and carrying out limited maintenance of, the bridges of the strategic road network of the Borrower;
 - (b) establishing an appropriate capacity for bio-engineering and environmental works;
 - (c) improving plant operations in DOR to increase their commercial orientation with a view to encouraging private sector participation in road maintenance plant ownership; and
 - (d) developing and implementing a national road safety strategy within DOTM.
7. Developing, implementing and maintaining a road management information system.

* * *

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. Civil works for the rehabilitation of the Naubise-Hetauda road under the Project, and except as provided in Part D hereof, goods and other civil works under the Project 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

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. Except as provided in paragraph 2 hereof, civil works estimated to cost less than the equivalent of \$1,000,000 per contract up to an aggregate amount not to exceed the equivalent of \$10,000,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Civil works under Part A.5 of the Project: (a) for model roads, may be carried out through force account as part of the training of contractors under the labor-based program; (b) for trial roads, may be procured under contracts awarded on the basis of limited competitive bidding among contractors who are being trained under such program, in accordance with procedures satisfactory to the Association; and (c) for other road works, may be procured under contracts awarded on the basis of limited competitive bidding among contractors who have completed their training under such program, in accordance with procedures satisfactory to the Association.

3. Tree planting works and services for assembling and promoting rural transport vehicle types under Part A.5 of the Project, up to an aggregate amount not to exceed the equivalent of \$100,000, may be procured by direct contracting with non-governmental organizations in accordance with procedures satisfactory to the Association.

4. Except as provided in paragraph 4 hereof, equipment estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$700,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

5. Equipment estimated to cost less than the equivalent of \$50,000 per

contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers, in accordance with procedures acceptable to the Association.

Part E: 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 goods and works under Part A hereof, each contract for civil works estimated to cost the equivalent of \$250,000 or more and each contract for equipment estimated to cost the equivalent of \$50,000 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 subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made 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

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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

SCHEDULE 4

Implementation Program

1. The Borrower shall: (a) by May 31, 1994, prepare and review with the Association a three-year rolling plan for the road sector; and (b) up-date and review such plan with the Association by March 31 of each subsequent year.

2. The Borrower shall: (a) by December 31, 1996, prepare a priority

investment plan, satisfactory to the Association, for new construction, upgrading and maintenance of roads setting forth the scope of work, sources of financing, and a timetable for implementing such plan; and (b) implement such plan in accordance with such timetable.

3. The Borrower shall ensure that average annual budgetary allocations and expenditures for the road sector during the implementation of the Project do not exceed the equivalent of \$70 million.

4. The Borrower shall, within the framework of the budgetary allocations established pursuant to paragraph 3 of this Schedule: (a) increase funding for carrying out periodic, emergency and routine maintenance of all roads of the Borrower during Fiscal Year 1993-94 to an aggregate amount of NRs 230 million; and (b) for each subsequent Fiscal Year, allocate funding for carrying out such maintenance works as follows: NRs 270 million during Fiscal Year 1994-95, NRs 330 million during Fiscal Year 1995-96, NRs 400 million during Fiscal Year 1996-97, and NRs 470 million during Fiscal Year 1997-98.

5. The Borrower shall, by August 31, 1994, establish a mechanism for funding periodic, emergency and routine maintenance of all roads of the Borrower, including guidelines and procedures for its operation, satisfactory to the Association.

6. The Borrower shall:

(a) by May 31, 1994, establish RSSDU and appoint a Road Sector Skills Manager in DOR, referred to in Part B.5 (a) of Schedule 2 to this Agreement, having adequate qualifications and experience for purposes of managing and coordinating road sector training under the Project;

(b) appoint consultants and advisers required for supervising road rehabilitation and periodic maintenance works under: (i) Part A.3 of the Project, by May 31, 1994; (ii) Part B.1 of the Project, by July 31, 1995; (iii) Part B.2 of the Project, by May 31, 1994, and (iv) Part B.3 of the Project, by July 31, 1994;

(c) prepare terms of reference, satisfactory to the Association, for carrying out the studies referred to in Part B.4 of Schedule 2 to this Agreement as follows: (i) local materials for road construction, by May 31, 1994; (ii) an assessment of road maintenance programs, by May 31, 1994; (iii) management plan for Bardiya National Park, by July 31, 1994; (iv) implementation of the sector environmental action plan, by May 31, 1994; and (v) follow-up to the pilot project, by December 31, 1997;

(d) by July 31, 1994, establish DRSDU in MLD and appoint consultants to assist in carrying out the technical assistance referred to in Part A.6 of Schedule 2 to this Agreement;

(e) by May 31, 1994, establish an environmental unit in DOR and appoint a senior engineer to head such unit having adequate qualifications and experience;

(f) by May 31, 1994, appoint a Project Coordinator in the Foreign Cooperation Section of DOR to be in charge of the road rehabilitation works under the Project, a Project Coordinator in the Maintenance Section of DOR to be in charge of the maintenance works under the Project and a Project Manager in DRSDU to be in charge of the pilot program of labor-based rehabilitation and maintenance of roads under the Project; and

(g) by May 31, 1994, approve the appointment of the specialist consultants for the purposes of Parts B.6 (a), (b), (c) and (d) of the Project.

7. The Borrower shall, by March 31 in each year, beginning, however, with May 31 in 1994, appoint consultants for supervising periodic road maintenance works under Part A.1 of the Project for each following Fiscal Year.

8. The Borrower shall through DOR:

(a) carry out periodic maintenance and rehabilitation activities under Parts A.1 and A.2, respectively, of the Project in respect of those roads

and sections selected with the approval of the Association;

(b) by October 31 of each year submit to the Association for its approval a draft annual program of maintenance and rehabilitation works to be carried out in the following Fiscal Year under Part A of the Project, together with precise identification of the roads and bridges to be included in such program from among the selected roads, final economic evaluations and completed environmental screening;

(c) revise such annual program taking into account the Association's comments and recommendations, and provide an updated program to the Association by March 31 of each year together with final cost estimates, traffic projections and selected engineering solutions; and

(d) carry out such annual work programs in a manner satisfactory to the Association.

9. The Borrower shall, by June 30, 1994, prepare an environmental action plan for the road sector, satisfactory to the Association, for purposes of screening the design and construction of roads in order to ensure environmental safeguards in respect of: (a) landscaping borrow areas, quarries and spoil tips; (b) storage areas and especially those for diesel fuel and bitumen; and (c) office yards to avoid groundwater and stream pollution.

10. The Borrower shall: (a) by December 31, 1997, complete the studies referred to in Part B.4 of Schedule 2 to this Agreement, and based on the results thereof prepare a plan of action, including a timetable, satisfactory to the Association; and (b) implement such plan of action in accordance with such timetable.

11. The Borrower shall by June 30, 1995 and every two years thereafter during the implementation of the Project carry out a technical assessment of road maintenance works carried out under the Project, and implement in a manner satisfactory to the Association the recommendations resulting from such assessment.

12. Without limitation to the generality of Section 9.06 of the General Conditions of the Association, the Borrower shall, not later than 30 days after the end of each quarter during the implementation of the Project, provide to the Association quarterly reports on the progress of carrying out of the Project.

13. The Borrower shall, in consultation with the Association and in accordance with terms of reference and methodology satisfactory to the Association, undertake and complete by October 31, 1995, a mid-term review of the Project, and, shall, promptly thereafter, carry out the agreed recommendations of such review in a manner satisfactory to the Association.

14. The Borrower shall, in association with the Association, UNDP, the UK and Switzerland, take all necessary steps to ensure timely and effective coordination of the activities in respect of, and the assistance to, the Project of the Association, UNDP, the UK and Switzerland.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means any of 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 \$2,500,000 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; 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.

