

CONFORMED COPY

GRANT NUMBER H338-NEP

Financing Agreement

(Irrigation and Water Resources Management Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 31, 2008

GRANT NUMBER H338-NEP

FINANCING AGREEMENT

AGREEMENT, dated January 31, 2008, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirty-two million two hundred thousand Special Drawing Rights (SDR 32,200,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out: (i) Parts A and B of the Project through DOI; (ii) Part C of the Project through WECS and DOI with the assistance of DHM; and (iii) Part D of the Project through DOA and DOI; all in accordance with the provisions of Article IV of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient has prepared the Project Implementation Manual for Parts A, B and C of the Project in form and substance satisfactory to the Association.
 - (b) The Recipient has prepared the Project Implementation Manual for Integrated Crop and Water Management (for Part D of the Project) in form and substance satisfactory to the Association.
 - (c) The Recipient has prepared the Project Implementation Plan in form and substance satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Secretary, Ministry of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu
Nepal

Facsimile:

(977-1) 4211-164

5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL

By /s/ Vidyadhar Mallik

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve irrigated agriculture productivity and management of selected irrigation schemes and enhance institutional capacity for integrated water resources management.

The Project consists of the following parts:

Part A: Irrigation Infrastructure Development and Improvement

1. Rehabilitation and improvement of about 168 small- and medium-size surface water farmers-managed irrigation schemes in the mountains, hills and Terai areas, covering about 26,392 ha.
2. Development and improvement of 60 deep tube wells (DTW) groundwater schemes in the Terai area, covering about 2,100 ha.
3. Electrification, through provision of electricity distribution lines from the nearest grid, of about ten groundwater irrigation schemes, covering about 3,000 ha.
4. Carrying out of investigation works comprising identification, feasibility study and detailed engineering design of the schemes included in Parts A.1 and A.2 of the Project.
5. Institutional strengthening and support activities to DOI and WUAs through technical assistance, training, employment of local non-governmental organizations (NGOs) and community-based organizations (CBOs) for capacity building of WUAs, and provision of recurrent cost support.
6. Preparation of a groundwater irrigation development plan.
7. Carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons.

Part B: Irrigation Management Transfer

Activities aimed at completing and consolidating the transfer of responsibilities for management of agency-managed irrigation systems to WUAs in the Terai region, including:

- (a) carrying out of surveys, investigations and studies of the irrigation systems;

- (b) preparation and implementation of an asset management plan that defines the operation and maintenance (O&M) needs of the irrigation systems;
- (c) provision of training and other capacity building activities for WUAs to enable them to take over the responsibilities for the governance, management and maintenance of the irrigation systems, including the collection and administration of water charges for undertaking O&M activities of the irrigation systems and related equipment to be transferred to WUAs pursuant to irrigation management transfer agreements to be executed between DOI and WUAs;
- (d) essential structural improvement works of the irrigation systems and sub-systems to bring them to an operational stage;
- (e) preparation and implementation of a water management plan to run the system efficiently and optimally to distribute available water resource in the system;
- (f) provision of training and other capacity building activities for DOI staff to facilitate the irrigation management transfer and to assume new roles, including water management planning, undertaking O&M activities for the major infrastructure in accordance with the relevant asset management plan, delivery of water to WUAs in bulk in accordance with the relevant irrigation management transfer agreement, and auditing and monitoring of services provided by WUAs;
- (g) execution of irrigation management transfer agreements between DOI and WUAs transferring the management of irrigation systems and related equipment to the WUAs and delineating the new responsibilities of the WUAs and DOI for the O&M activities for those systems;
- (h) provision of WUA Establishment Grants to WUAs to cover the costs of the establishment of their offices during the first year of the irrigation management transfer process; and
- (i) carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons.

Part C: Institutional and Policy Support for Improved Water Management

Activities aimed at improving the administration and management of water resources and irrigation-related services at the national level and in selected river basins, including:

- (a) provision of support to the apex monitoring committee within WECS to harmonize the national and sectoral policies related to the water resources sector;
- (b) establishment of a water resources information center at WECS to develop and maintain national water resources database and disseminate water-related data to interested users;
- (c) preparation of a new integrated water resources policy and all necessary legal instruments relating, *inter alia*, to the extraction and use of groundwater, coordination of water licensing powers among districts with shared water resources, mechanisms for legalization of customary water rights, and regulation and promotion of private sector participation;
- (d) establishment of a telemetric system for real-time measurement of water availability and allocation;
- (e) preparation of river basin water management plans for two (2) basins as a pilot (including the development of the legal and institutional instruments for formalizing access to water and for resolving multiple water use and allocation issues among sectors including hydropower generation possibilities);
- (f) development of criteria and guidelines for technical and socio-economic clearance of major water resources development projects; and
- (g) capacity building activities for DOI aimed at enhancing its capacity for implementing irrigation sector reform, including development of a management information system (MIS) and an integrated monitoring and evaluation system (M&E) with associated equipment and facilities.

Part D: Integrated Crop and Water Management

1. Integrated Crop and Water Management

Activities aimed at improving agricultural production practices, improved water use and management practices through, *inter alia*: (a) field-level demonstrations for crop and on-farm water management; and (b) training, capacity building activities and exposure visits for farmers, and DOA and DOI staff.

2. Improvement of Water Distribution Structures at the Field Level

- (a) Activities aimed at improving delivery and distribution of field-level channels through, *inter alia*: (a) construction/rehabilitation of field channels; (b) construction/rehabilitation of small divisional boxes for water distribution; (c) lining of field channels at critical parts; and (d) construction/rehabilitation of drainage systems and other related activities.
- (b) Carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons.

3. Investment Support for Community and Productive Assets

- (a) Provision of Investment Support Grants to Beneficiaries to enable them to carry out Investment Support Sub-projects aimed at enhancing their production system through demand-driven augmentation of productive capacity and infrastructure, including: (a) adoption or expansion of non-conventional irrigation technologies (such as micro- or drip-irrigation); (b) investments in groundwater irrigation; (c) establishment of community seed-banks, storage and processing facilities; (d) establishment of small market yards or collection or sale centers; and (e) improvement of small farm-to-market access facilities.
- (b) Carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Committees (PSC, PICC, HLPSC)

1. The Recipient shall establish by February 28, 2008, and thereafter maintain, the Project Steering Committee (PSC) with functions and composition satisfactory to the Association, including without limitation, representatives of MOWR, MOAC, MOF, NPC, WECS and the Nepal Federation of Water Users' Association.
2. The Recipient shall establish by February 28, 2008, and thereafter maintain, the Project Implementation and Coordination Committee (PICC) with functions and composition satisfactory to the Association, including without limitation, representatives of DOI and DOA.
3. The Recipient shall establish by June 30, 2008, and thereafter maintain, the High Level Policy Steering Committee (HLPSC) with functions and composition satisfactory to the Association, including without limitation, representatives of NPC, MOF, MOWR and WECS and other senior officials of key stakeholder ministries and agencies.

B. Office of the Project Director (OPD); WECS Project Management Team; DOA Project Management Team

1. The Recipient shall, by February 28, 2008, complete the staffing of, and thereafter maintain, the Office of the Project Director (OPD) with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) Project Director (Class I Engineer); (ii) two (2) Class II DOI engineers; (iii) four (4) Class III DOI engineers (one (1) of whom to coordinate environmental aspects of Project implementation); (iv) one (1) Class III DOI sociologist; (v) one (1) procurement specialist; (vi) one (1) accounts officer; (vii) two (2) accountants; and (viii) one computer expert.
2. The Recipient shall establish by February 28, 2008, and thereafter maintain, the WECS Project Management Team with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) Project Coordinator; (ii) one (1) accounts officer; and (iii) one (1) accountant.
3. The Recipient shall establish by February 28, 2008, and thereafter maintain, the DOA Project Management Team with an adequate number of key professionals

with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) Project Coordinator; (ii) one (1) agro-economist; (iii) one (1) sub-engineer; (iv) two (2) agriculture officers; (v) one (1) procurement specialist; (vi) one (1) accounts officer; (vii) one (1) accountant; and (viii) one (1) computer assistant.

4. The Recipient shall ensure that the key staff in the OPD, the WECS Project Management Team and the DOA Project Management Team listed in Paragraphs 1 through 3 of this Part B are not transferred to other positions during the period of Project implementation (and in the case of the accounts officers, until six (6) months following the Closing Date or until the submission of the final audited Financial Statements to the Association pursuant to Part B of Section II of Schedule 2 to this Agreement, whichever occurs later), except with prior notice to the Association and/or as required by the applicable laws of the Recipient.

C. Project Implementation Plan; Project Implementation Manuals; Guidelines for WUAs

The Recipient shall: (i) implement the Project in accordance with the provisions of the Project Implementation Plan, the Project Implementation Manual for Parts A, B and C of the Project, the Project Implementation Manual for Integrated Crop and Water Management, and the Guidelines for WUAs; and (ii) not take any action which would prevent or interfere with such implementation.

D. Integrated Social and Environmental Assessment Report (ISEA); Social and Environmental Management Framework (SEMF)

1. The Recipient shall ensure that: (i) the screening, assessment, mitigation, monitoring and evaluation measures and all other actions set forth in the ISEA (including the SEMF) relating to the environmental and social impacts of Project implementation are implemented in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein; and (ii) no action is taken which would prevent or interfere with such implementation.
2. For each Sub-project, the Recipient shall ensure that: (i) sufficiently in advance of the commencement of any works, a Social and Environmental Management Plan (SEMP) is prepared in accordance with the ISEA and the SEMF and submitted to the Association for review and approval; and (ii) thereafter such Social and Environmental Management Plan and other applicable provisions of the ISEA (including the SEMF) are implemented in a manner and with a timetable satisfactory to the Association.
3. The Recipient shall ensure that all civil works contracts, bid documents and bills of quantities for the works financed under the Project (including all Sub-projects)

will include the environmental mitigation measures set forth in, or contemplated by, the ISEA (including the SEMF) (including the Social and Environmental Management Plans (SEMPs) prepared for such Sub-projects).

4. Whenever it is determined that any Sub-project under the Project gives rise to land acquisition or change of land use, resettlement of persons, or loss or displacement of assets, infrastructure or economic activities, or other event that would require preparation of a Sub-project Resettlement Action Plan (RAP) under the ISEA (including the SEMF), the Recipient shall ensure that: (i) sufficiently in advance of the commencement of any works that would give rise to such event, such Sub-project Resettlement Action Plan (RAP) is prepared in accordance with the Resettlement and Rehabilitation Framework (RRF) contained in the SEMF and submitted to the Association for review and approval; and (ii) thereafter such Sub-project Resettlement Action Plan (RAP) and other applicable provisions of the ISEA (including the SEMF and the RRF) are implemented in a manner and with a timetable satisfactory to the Association.
5. Whenever it is determined that any Sub-project under the Project gives rise to an adverse impact on indigenous groups, ethnic minorities or other disadvantaged or vulnerable groups that would require preparation of a Sub-project Indigenous People and Disadvantaged Groups Development Strategy/Plan (IPDGDS) under the ISEA (including the SEMF), the Recipient shall ensure that: (i) sufficiently in advance of the commencement of any works that would give rise to such impact, such Sub-project Indigenous People and Disadvantaged Groups Development Strategy/Plan (IPDGDS) is prepared in accordance with the ISEA (including the SEMF) and submitted to the Association for review and approval; and (ii) thereafter such Sub-project Indigenous People and Disadvantaged Groups Development Strategy/Plan (IPDGDS) and other applicable provisions of the ISEA (including the SEMF) are implemented in a manner and with a timetable satisfactory to the Association.

E. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. WUA Establishment Grants

1. The Recipient shall provide each WUA Establishment Grant to a WUA under Part B of the Project: (i) in accordance with the eligibility and selection criteria, and disbursement, financial management, monitoring and other relevant provisions set forth in the Project Implementation Plan, the Project Implementation Manual for Parts A, B and C of the Project, and the Guidelines for WUAs; and (ii) pursuant to an agreement to be entered into between the

Recipient and such WUA (WUA Establishment Grant Agreement) containing the terms and conditions set forth in Schedule 3 to this Agreement.

2. The Recipient shall exercise its rights in relation to each WUA Establishment Grant provided to a WUA under a WUA Establishment Grant Agreement in such manner as to: (i) protect the interests of the Recipient and the Association; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

G. Investment Support Grants

1. The Recipient shall provide each Investment Support Grant to a Beneficiary under Part D of the Project: (i) in accordance with the eligibility and selection criteria, and disbursement, financial management, monitoring and other relevant provisions set forth in the Project Implementation Plan, the Project Implementation Manual for Integrated Crop and Water Management, and the Guidelines for WUAs; and (ii) pursuant to an agreement to be entered into between the Recipient and such Beneficiary (Investment Support Grant Agreement) containing the terms and conditions set forth in Schedule 3 to this Agreement.
2. The Recipient shall exercise its rights in relation to each Investment Support Grant provided to a Beneficiary under an Investment Support Grant Agreement in such manner as to: (i) protect the interests of the Recipient and the Association; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

H. Annual Work Plan and Budget

1. The Recipient shall: (i) at least sixty (60) days prior to the beginning of each Fiscal Year, prepare and furnish to the Association a proposed AWPB for each of DOI, WECS and DOA for such Fiscal Year; and (ii) afford the Association a reasonable opportunity to discuss each such AWPB with the Recipient prior to submitting it to the concerned government agencies for final approval.
2. Without limitation on Paragraph 1 of this Part H, the Recipient shall ensure that the total project costs set forth in each such AWPB include activities to be funded by the Recipient and contributions to be made by WUAs, both in amounts satisfactory to the Association.

I. Annual Review

Without prejudice to the provisions of Section 4.08 of the General Conditions, the Recipient shall:

- (a) on or about September 30 of each year, carry out jointly with the Association an annual review of the implementation of the Project, which shall cover, *inter alia*: (i) progress made in meeting the Project's objective; and (ii) overall Project performance against Project performance monitoring indicators;
- (b) at least four (4) weeks prior to each such annual review, prepare and furnish to the Association a report describing the status of implementation of each part of the Project and a summary report of Project implementation generally; and
- (c) not later than two (2) weeks after each such annual review, prepare and furnish to the Association an action program, satisfactory to the Association, for further implementation of the Project having regard to the findings of the annual review, and thereafter implement such action program in a manner and with a timetable satisfactory to the Association.

J. Technical Audit

The Recipient shall: (i) by June 30, 2008, submit to the Association the terms of reference, satisfactory to the Association, for technical audits of civil works under Parts A and B of the Project; and (ii) thereafter arrange for the National Vigilance Center to carry out such technical audits with a timetable satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of a Fiscal Year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each Fiscal Year trimester, interim un-

audited financial reports for the Project covering the Fiscal Year trimester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements, consisting of (i) Financial Statements for Parts A, B and C of the Project and (ii) Financial Statements for Part D of the Project, audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, goods estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$2,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act, subject to the following:
 - (i) Only the bidding documents approved by the Association shall be used.

(ii) No preference shall be given to any bidder.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Shopping
(b)	Direct Contracting
(c)	Community Participation procedures acceptable to the Association

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection in accordance with the provisions of the Public Procurement Act and using only the request for proposal (RFP) documents approved by the Association.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-Based Selection
(b)	Selection under a Fixed Budget
(c)	Least-Cost Selection
(d)	Selection Based on Consultants' Qualifications
(e)	Single-Source Selection
(f)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Civil works under Parts A and B of the Project (incurred by DOI)	19,500,000	80%
(2) Goods, services, training and WUA Establishment Grants under Parts A, B, C and D of the Project (incurred by DOI and WECS)	7,370,000	100%
(3) Incremental Operating Costs under Parts A, B, C and D of the Project (incurred by DOI and WECS)	1,045,000	80%
(4) Civil works under Part D of the Project (incurred by DOI)	526,000	70%
(5) Investment Support Grants under Part D of the Project (incurred by DOI and DOA)	500,000	70%
(6) Goods, services, training under Part D of the Project (incurred by DOA)	1,735,000	100%
(7) Incremental Operating Costs under Part D of the Project (incurred by DOA)	630,000	80%
(8) Unallocated	894,000	
TOTAL AMOUNT	32,200,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,300,000 equivalent may be made for payments made prior to this date but on or after November 1, 2007, for Eligible Expenditures under Categories (1) through (7);
 - (b) for payments for WUA Establishment Grants, under Category (2), unless the Recipient has developed the operational modality of disbursement of WUA Establishment Grants, including the monitoring and control mechanism, in form and substance acceptable to the Association; and
 - (c) for payments under Category (5), unless the Recipient has developed the operational modality of disbursement of Investment Support Grants, including the monitoring and control mechanism, in form and substance acceptable to the Association.

2. The Closing Date is June 30, 2013.

SCHEDULE 3

Terms and Conditions of WUA Establishment Grant Agreements and Investment Support Grant Agreements

Part A: WUA Establishment Grant Agreements with WUAs

Except as the Association shall otherwise agree, in order to provide a WUA Establishment Grant to a WUA, the Recipient shall enter into a written agreement with such WUA (WUA Establishment Grant Agreement), pursuant to which the Recipient shall obtain rights adequate to protect the interests of the Recipient and the Association, including the right to:

- (i) require that the WUA's activities under the Project be carried out:
 - (aa) with due diligence and efficiency;
 - (bb) in accordance with sound technical, economic, financial, managerial, environmental and social standards; and
 - (cc) in accordance with the provisions of the Project Implementation Plan, the Project Implementation Manual for Parts A, B and C of the Project, the Guidelines for WUAs, the ISEA (including the SEMF), the SEMP, the RAP, the IPDGDS and the Anti-Corruption Guidelines applicable to recipients of grant proceeds other than the Recipient;
- (ii) require that:
 - (aa) adequate records and accounts to reflect the operations, resources and expenditures related to the WUA's activities under the Project be maintained; and
 - (bb) at the Recipient's or the Association's request, such records and accounts be audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and, as so audited, promptly furnished to the Recipient and the Association;
- (iii) require that:
 - (aa) the goods, works and services to be financed out of the proceeds of the WUA Establishment Grant be procured in accordance

with the provisions of Schedule 2 to the Financing Agreement;
and

- (bb) such goods, works and services be used exclusively in the carrying out of the activities under the Project;
- (iv) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the activities for which the WUA Establishment Grant is made, the operations thereof and any relevant records and documents;
- (v) obtain all such information as the Association shall reasonably request, regarding the administration, operation and financial condition of the WUA and its activities for which the WUA Establishment Grant is made; and
- (vi) suspend or terminate the right of the WUA to use the proceeds of the WUA Establishment Grant, or obtain a refund of all or any part of the amount of the WUA Establishment Grant then withdrawn, upon the WUA's failure to perform any of its obligations under the WUA Establishment Grant Agreement.

Part B: Provision of Investment Support Grants to Beneficiaries

Except as the Association shall otherwise agree, in order to provide an Investment Support Grant to a Beneficiary, the Recipient shall enter into a written agreement with such Beneficiary (Investment Support Grant Agreement), pursuant to which the Recipient shall obtain rights adequate to protect the interests of the Recipient and the Association, including the right to:

- (i) require that the Investment Support Sub-project for which the Investment Support Grant is made be carried out:
 - (aa) with due diligence and efficiency;
 - (bb) in accordance with sound technical, economic, financial, managerial, environmental and social standards; and
 - (cc) in accordance with the provisions of the Project Implementation Plan, the Project Implementation Manual for Integrated Crop and Water Management, the Guidelines for WUAs, the ISEA (including the SEMF), the SEMP, the RAP, the IPDGDS and the Anti-Corruption Guidelines applicable to recipients of grant proceeds other than the Recipient;

- (ii) require that:
 - (aa) adequate records and accounts to reflect the operations, resources and expenditures related to the Investment Support Sub-project be maintained; and
 - (bb) at the Recipient's or the Association's request, such records and accounts be audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and, as so audited, promptly furnished to the Recipient and the Association;
- (iii) require that:
 - (aa) the goods, works and services to be financed out of the proceeds of the Investment Support Grant be procured in accordance with the provisions of Schedule 2 to the Financing Agreement; and
 - (bb) such goods, works and services be used exclusively in the carrying out of the Investment Support Sub-Project for which the Investment Support Grant is made;
- (iv) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Investment Support Sub-project for which the Investment Support Grant is made, the operations thereof and any relevant records and documents;
- (v) obtain all such information as the Association shall reasonably request, regarding the administration, operation and financial condition of the Investment Support Sub-project for which the Investment Support Grant is made; and
- (vi) suspend or terminate the right of the Beneficiary to use the proceeds of the Investment Support Grant, or obtain a refund of all or any part of the amount of the Investment Support Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Investment Support Grant Agreement.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants” dated October 15, 2006.
2. “AWPB” means each Annual Work Program and Budget to be prepared for each Fiscal Year by DOI, WECS or DOA, as the case may be, and setting forth, *inter alia*, activities planned under its work program for the Project and estimated costs for such activities.
3. “Beneficiary” means a community or group of farmers eligible to receive an Investment Support Grant under Part D of the Project.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “DHM” means the Department of Hydrology and Meteorology within the Recipient’s Ministry of Environment, Science and Technology, or any successor thereto.
7. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons.
8. “DOA” means the Department of Agriculture within MOAC, or any successor thereto.
9. “DOA Project Management Team” means the Project Management Team of DOA to be maintained pursuant to Part B of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, planning, implementing, coordinating, supervising monitoring and evaluating activities to be carried out under Part D of the Project.

10. “DOI” means the Department of Irrigation within MOWR, or any successor thereto.
11. “Fiscal Year” or “FY” means the twelve (12)-month period corresponding to any of the Recipient’s fiscal years, which period commences and ends in mid-July of each calendar year.
12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005, (as amended through October 15, 2006).
13. “Guidelines for WUAs” means DOI’s Guidelines for Water Users’ Association for Parts A and B of the Project approved by the Association, setting out, *inter alia*, guidelines for preparing and implementing Irrigation Sub-projects under such Parts, as the same may be amended from time to time with the agreement of the Association.
14. “HLPSC” or “High Level Policy Steering Committee” means the High Level Policy Steering Committee to be established and maintained pursuant to Part A of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, guiding and monitoring the implementation of policy and institutional reform activities under Part C of the Project.
15. “Incremental Operating Costs” means: (i) expenditures incurred by DOI, DOA or WECS for the operation and maintenance of facilities, equipment and vehicles used for Project implementation, including, without limitation, office rental, vehicle rental, fuel, routine repair and maintenance of equipment, vehicles and office premises, communication costs, use of internet costs, stationeries and other office supplies, and costs of translation, printing, photocopying and advertising; (ii) transportation costs and subsistence allowances for DOI, DOA or WECS staff in travel status for Project implementation; and (iii) salaries and allowances of incremental staff assigned to DOI, DOA or WECS for Project implementation but excluding salaries of the Recipient’s civil servants.
16. “Investment Support Grant” means a grant to be made by the Recipient to a Beneficiary, out of the proceeds of the Financing, to finance the costs of goods, works and services for an Investment Support Sub-project under Part D of the Project.
17. “Investment Support Grant Agreement” means an agreement to be entered into between the Recipient and a Beneficiary pursuant to Part B of Schedule 3 to this Agreement.
18. “Investment Support Sub-project” means a set of activities to be undertaken by a Beneficiary under Part D of the Project and aimed at enhancing its production

system through demand-driven augmentation of productive capacity and infrastructure.

19. “Irrigation Sub-project” means an irrigation scheme to be rehabilitated or improved under Part A or B of the Project.
20. “ISEA” or “Integrated Social and Environmental Assessment” means the Integrated Social and Environmental Assessment report for the Project dated September 21, 2007, and approved by the Association, setting forth, *inter alia*, identification of social and environmental issues and impacts arising from activities to be carried out under the Project (including all Sub-projects), and includes the SEMF and guidelines for preparation of a SEMP for each Sub-project, as the same may be amended from time to time with the agreement of the Association.
21. “MOAC” means the Recipient’s Ministry of Agriculture and Cooperatives, or any successor thereto.
22. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.
23. “MOWR” means the Recipient’s Ministry of Water Resources, or any successor thereto.
24. “National Vigilance Center” means the Recipient’s National Vigilance Center, an independent agency responsible for, *inter alia*, performing an independent technical audit of the implementation of the Project, including reviews of the processes, technical standards and quality of implementation, compliance with financial, social and environmental guidelines, and performance of the implementing offices and agencies.
25. “Nepalese Rupee” or “NPR” means the lawful currency of the Recipient.
26. “NPC” means the Recipient’s National Planning Commission, or any successor thereto.
27. “OPD” means the Office of the Project Director of DOI to be maintained pursuant to Part B of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, planning, implementing, coordinating, supervising, monitoring and evaluating activities to be carried out under the Project.
28. “PICC” or “Project Implementation and Coordination Committee” means the Project Implementation and Coordination Committee to be established and maintained within DOI pursuant to Part A of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, approving Irrigation Sub-projects under Parts A and B of the Project.

29. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.
30. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 8, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
31. “Project Implementation Manual for Integrated Crop and Water Management” means the Project Implementation Manual for Integrated Crop and Water Management for Part D of the Project to be prepared by DOA and referred to in Section 4.01 of this Agreement, setting out, *inter alia*, details of principles, procedures, criteria, guidelines and timetables required for the implementation of Part D of the Project, including the administrative, operational, procurement, financial management, monitoring and evaluation, and project and financial reporting arrangements, as well as principles, criteria and procedures for selecting and implementing Investment Support Sub-projects and details of administering Investment Support Grants, as the same may be amended from time to time with the agreement of the Association.
32. “Project Implementation Manual for Parts A, B and C of the Project” means the Project Implementation Manual for Parts A, B and C of the Project to be prepared by the Recipient and referred to in Section 4.01 of this Agreement, setting out, *inter alia*, details of principles, procedures, criteria, guidelines and timetables required for the implementation of Parts A, B and C of the Project, including the administrative, operational, procurement, financial management, monitoring and evaluation, and project and financial reporting arrangements, as well as principles, criteria and procedures for selecting and implementing Irrigation Sub-projects and details of administering WUA Establishment Grants, as the same may be amended from time to time with the agreement of the Association.
33. “Project Implementation Plan” means the Project Implementation Plan for the Project to be prepared by the Recipient and referred to in Section 4.01 of this Agreement, setting out, *inter alia*, details of principles, procedures, criteria, guidelines and timetables required for the implementation of the Project, including the administrative, operational, procurement, financial management, monitoring and evaluation, and project and financial reporting arrangements, as the same may be amended from time to time with the agreement of the Association.
34. “PSC” or “Project Steering Committee” means that Project Steering Committee to be maintained pursuant to Part A of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, providing overall policy guidance for the Project,

facilitating coordination among governmental agencies, institutions and other stakeholders and carrying out an annual review of the implementation of the Project.

35. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
36. “SEMF” or “Social and Environmental Management Framework” means the Social and Environmental Management Framework for the Project included in the ISEA, setting out, *inter alia*, policies and procedures for the assessment and management of social and environmental impacts of activities to be carried out under the Project (including all Sub-projects) and includes frameworks and guidelines for an Initial Environmental Examination (IEE), an Initial Social Examination (ISE), an Environmental Impact Assessment (EIA), a Social Impact Assessment (SIA), a Resettlement and Rehabilitation Framework (RRF), a Resettlement Action Plan (RAP) and an Indigenous People and Disadvantaged Groups Development Strategy/Plan (IPDGDS) set forth therein, as the same may be amended from time to time with the agreement of the Association.
37. “SEMP” or “Social and Environmental Management Plan” means a Social and Environmental Management Plan to be prepared for each Sub-project included in the Project in accordance with the applicable provisions of the ISEA and the SEMF, setting forth, *inter alia*, site-specific measures to mitigate adverse social and environmental impacts of activities to be carried out under the Sub-project.
38. “Sub-project” means an Investment Support Sub-project or an Irrigation Sub-project.
39. “WECS” means the Recipient’s Water and Energy Commission Secretariat, or any successor thereto.
40. “WECS Project Management Team” means the Project Management Team of WECS to be maintained pursuant to Part B of Section I of Schedule 2 to this Agreement and responsible for, *inter alia*, planning, implementing, coordinating, supervising monitoring and evaluating activities to be carried out under Part C of the Project.
41. “WUA” or “Water Users’ Association” means an organization established and registered pursuant to the Recipient’s Associations Registration Act, 2034 (1977) and/or the Water Resources Act, 2049 (1992), and/or the Irrigation Regulations 2056 (1999), and selected to support the planning and implementation of a Sub-project.
42. “WUA Establishment Grant” means a grant to be made by the Recipient to a WUA, out of the proceeds of the Financing, to finance expenses incurred in

connection with the establishment of its office during the first year of the irrigation management transfer process.

43. “WUA Establishment Grant Agreement” means an agreement to be entered into between the Recipient and a WUA pursuant to Part A of Schedule 3 to this Agreement.