

CONFORMED COPY

CREDIT NUMBER 2047 NEP

(Earthquake Emergency Schools Rehabilitation Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 8, 1989

CREDIT NUMBER 2047 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 8, 1989, between KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "SRU" means the Schools Rehabilitation Unit of the Earthquake Affected Areas to be established pursuant to paragraph 1 of Schedule 3 to this Agreement within the Borrower's Ministry of Housing and Physical Planning;

(c) "Nepal Rastra Bank" means the Borrower's central bank, established and operating under the Borrower's Nepal Rastra Bank Act, 2012 (1955);

(d) "Project Area" means the 31 Administrative Districts affected by the August 21, 1988 earthquake and located in the Borrower's Eastern and Central Development Regions; and

(e) "School Reconstruction Sub-Committee" means the committees established in the Project Area by the Borrower's Earthquake Affected Areas Reconstruction and Rehabilitation Village Panchayat Committee.

## 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 seventeen million six hundred thousand Special Drawing Rights (SDR 17,600,000).

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 account in the Nepal Rastra Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be February 28, 1993 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 a date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; (ii) at the rate set as of the June 30 immediately preceding the accrual date or at

such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 1999 and ending April 15, 2029. Each installment to and including the installment payable on April 15, 2009 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 the SRU with due diligence and efficiency and in conformity with appropriate earthquake engineering, administrative and financial standards and practices, and shall provide, promptly as needed, the funds, staffing, 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, including without limitation on the foregoing unaudited Project accounts and financial statements for each fiscal year, certified as to their accuracy and authenticity by an independent auditor acceptable to the Association, as soon as available, but not later than six months after the end of each such year.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit

contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the SRU has been established, headed by an officer with qualifications and experience acceptable to the Association, and staffed in adequate numbers.

Section 5.02. The date forty five (45) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance  
His Majesty's Government  
Kathmandu  
Nepal

Cable address:

ARTHA  
Kathmandu, Nepal

Telex:

2249-NP

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

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

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

KINGDOM OF NEPAL

By /s/ Mohan Man Sainju

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Amnon Golan  
Acting Regional Vice President  
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		
(a) by Contract	540,000	75%
(b) by Community Agreement	770,000	75% of the Borrower's contribution
(c) by direct contracting of labor and force account	1,160,000	75%
(2) Equipment, vehicles and building materials	12,470,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 75% of local expenditures for other items procured locally
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' services	80,000	100%
(4) Salaries and allowances of incremental Project staff and other Project operating and maintenance costs (excluding rentals)	700,000	75%
(5) Unallocated	1,880,000	

TOTAL

17,600,000

2. For the purposes of this Schedule:

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

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

(c) Community Agreement means the Agreements to be entered into pursuant to paragraph 4 of Schedule 4 to this Agreement.

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.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower in the reconstruction and rehabilitation of the school facilities damaged in the August 21, 1988 earthquake.

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: Reconstruction or rehabilitation of about 2,400 school facilities in the Project Area, damaged in the August 21, 1988 earthquake, including provision of required building materials and equipment.

Part B: Provision of technical assistance for: (i) the establishment of monitoring and evaluation, supervision and accounting systems for the Project; (ii) the establishment of quarterly financial standards and records for the Project; (iii) the establishment of management performance and Project implementation progress reviews; and (iv) the review of the earthquake engineering standards for the school facilities under Part A of the Project.

\* \* \*

The Project is expected to be completed by August 31, 1992.

#### SCHEDULE 3

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits"

published by the Bank in May 1985 (the Guidelines).

2. All bidders for the fabrication and supply of steel structures shall be pre-qualified as described in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 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 paragraph 5 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

Contracts for civil works, building materials, vehicles and equipment estimated to cost the equivalent of \$250,000 each or less, may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that all contracts estimated to cost \$25,000 each or less and in the aggregate not to exceed \$700,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association; provided further, that: (a) an aggregate amount of \$1,500,000 equivalent for civil works may be carried out through force account and direct contracting of labor; and (b) an aggregate amount of \$1,000,000 equivalent for civil works, including transportation of building materials and equipment, may be carried out through direct agreements with the concerned Town and Village Panchayat or School Reconstruction Sub-Committee utilizing the model agreement referred to in paragraph 4 of Schedule 4 to this Agreement.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

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

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

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

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



evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

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

## Section II. Employment of Consultants

In order to carry out Part B of the Project, the Borrower shall, by October 15, 1989, employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 4

#### Implementation Program

1. The Borrower shall, within its Ministry of Housing and Physical Planning, establish and thereafter maintain until the completion of the Project, a unit headed by an officer, with qualifications and experience satisfactory to the Association, and assigned with such functions, responsibilities, staffing, funds and other resources as shall be required to enable it to adequately carry out the various activities under the Project.

2. The Borrower shall, and shall cause the SRU to, carry out the Project in accordance with semi-annual action plans satisfactory to the Association, such plan to include scheduling, organization, and deployment of field personnel, building materials distribution, procurement arrangements and scheduling, community mobilization, and monitoring and evaluation reporting time-periods. For such purposes, on February 1 and August 1 of each year, commencing on February 1, 1990, the Borrower shall, through the SRU, prepare and furnish to the Association, for its approval, a proposed action plan for the following semi-annual period and thereafter carry out the Project in accordance with such semi-annual action plans, as so approved.

3. The Borrower shall carry out the selection, planning, design, construction and maintenance of the works under Part A of the Project in accordance with standards and criteria satisfactory to the Association.

4. Prior to commencement of the works under Part A of the Project, the Borrower shall enter into agreements, satisfactory to the Association, with each concerned Town and Village Panchayat or School Reconstruction Committee in the Project Area for the carrying out of required work for the reconstruction or rehabilitation of school facilities damaged by the August 21, 1988 earthquake. Such agreements shall include: (a) an estimated total cost of the works; (b) the obligation of the Borrower to provide, in cash, up to 25% of such estimated total costs; (c) the roles and responsibilities of the respective Town or Village Panchayat or School Reconstruction Committee, and the SRU; and (d) the obligation of the respective Town or Village Panchayat or School Reconstruction Committee to carry out the works in accordance with standards and criteria satisfactory to the Association. For purposes of this paragraph, by October 15, 1989, the Borrower shall prepare and furnish to the Association, for its approval, a model agreement with a Town and Village Panchayat or School Reconstruction

Committee and thereafter, apply such model agreement, as so approved.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means 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 \$2,600,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

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

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

(i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.

