

CONFORMED COPY

CREDIT NUMBER 4515-NP

Financing Agreement

(Additional Financing For Irrigation and Water Resources Management Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 2, 2008

CREDIT NUMBER 4515-NP

FINANCING AGREEMENT

AGREEMENT, dated November 2 , 2008, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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, in the Appendix to this Agreement, or in the Original Financing Agreement (as defined 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 credit in an amount equivalent to nine million one hundred thousand Special Drawing Rights (SDR 9,100,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. 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 the Project through DOA and DOI 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 SSNP Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement and the FPCR TF Grant Agreement) have been fulfilled.
 - (b) The FPCR TF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement and the SSNP Financing Agreement) have been fulfilled.
 - (c) The Project Implementation Manual for Integrated Crop and Water Management has been updated to include details of the implementation arrangements for the Project 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/ Rameshore Prasad Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan 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 1: Small-scale and Non-conventional Irrigation Technologies

- (a) Provision of Investment Support Grants to Beneficiaries to enable them to carry out demand-driven Investment Support Sub-projects aimed at enhancing their production system through augmentation of productive capacity and infrastructure.
- (b) Carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons under this Part 1 of the Project.

Part 2: Local Production of Improved Seeds and Soil Management

- (a) Activities to be implemented by DOA staff, aimed at enhancing farmers' production system through demand-driven augmentation of productive capacity and infrastructure, including: (i) procurement and distribution of high-yielding varieties of foundation seeds from research stations and relevant market outlets; and (ii) provision of basic training to local farmers in using these foundation seeds to produce improved seed varieties.
- (b) 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: (i) support to relevant community groups for production, marketing and further propagation of the foundation seeds; and (ii) complementary activities to improve soil management practices.
- (c) Carrying out a program of compensation, resettlement and rehabilitation of Displaced Persons under this Part 2 of the Project.

Part 3: Project Implementation Support

Activities aimed at improving Project coordination, implementation, monitoring and evaluation, including: (i) beneficiary assessments to evaluate the impacts of

the activities under the Project; and (ii) capacity building activities, training and technical assistance for staff engaged in the implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Steering Committee (PSC)

The provisions of Paragraph 1 of Part A of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

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

The provisions of Paragraphs 1, 3 and 4 of Part B of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

C. Project Implementation Manuals

The provisions of Part C of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

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

The provisions of Paragraphs 1 through 5 of Part D of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

E. Anti-Corruption

The provisions of Part E of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

F. Investment Support Grants (ISG)

The provisions of Paragraphs 1 and 2 of Part G of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

G. Annual Work Plan and Budget (AWPB)

The provisions of Paragraphs 1 through 2 of Part H of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

H. Annual Review

The provisions of Part I of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

I. Community Seed Production Program under Part 2 of the Project

The Recipient shall: (i) by November 30, 2008, develop a standard procedure of community seed production program satisfactory to the Association for implementing Part 2 of the Project; and (ii) thereafter implement Part 2 of the Project in accordance with such procedure.

J. Computerized Financial Management System

The Recipient shall develop, by November 30, 2008, a computerized financial management system for tracking expenditures and producing financial statements for the Project and the Original Project.

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 one (1) 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 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 (and regulations made thereunder), 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 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:

<u>Category</u>	<u>Amount of the Financing Allocated (Expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (Inclusive of Taxes)</u>
(1) Investment Support Grants under Parts 1 and 2 of the Project	7,900,000	100%
(2) Goods, services and training	880,000	100%
(3) Incremental Operating Costs	320,000	80%
TOTAL AMOUNT	9,100,000	

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 64,000 equivalent may be made for payments made prior to this date but on or after October 1, 2008, for Eligible Expenditures; and
 - (b) for payments under Category (1) , unless the Recipient has developed the operational modality of disbursement of Investment Support Grants, including the monitoring and control mechanism, in form and substance satisfactory to the Association.
2. The Closing Date is June 30, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing January 15, 2019 to and including July 15, 2028	1%
commencing January 15, 2029 to and including July 15, 2048	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

SCHEDULE 4

Terms and Conditions of Investment Support Grant Agreements

The provisions of Part B of Schedule 3 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “FPCR TF Grant Agreement” means the grant agreement dated the same date as this Agreement, between the Recipient and the Association acting as administrator of the Food Price Crisis Response Trust Fund, providing a grant in support of a Social Safety Nets Project, as such grant agreement may be amended from time to time (FPCR TF Grant No. TF093058). “FPCR TF Grant Agreement” includes all appendices, schedules and agreements supplemental to the FPCR TF Grant Agreement.
3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
4. “Original Financing Agreement” means the financing agreement for the Irrigation and Water Resources Management Project between the Recipient and the Association, dated January 31, 2008, as amended to the date of this Agreement (Grant No. H338-NEP).
5. “Original Project” means the Project described in the Original Financing Agreement.
6. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 12, 2008, 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.
7. “SSNP Financing Agreement” means the financing agreement dated the same date as this Agreement, between the Recipient and the Association, providing a credit and a grant in support of a Social Safety Nets Project, as such financing agreement may be amended from time to time (Credit No. 4510-NP; Grant No. H424-NP). “SSNP Financing Agreement” includes all appendices, schedules and agreements supplemental to the SSNP Financing Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (1) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

(1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”