Project Agreement

(Financial Sector Restructuring Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NEPAL RASTRA BANK

Dated June 10, 2004
PROJECT AGREEMENT

AGREEMENT, dated June 10, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and NEPAL RASTRA BANK acting by its Governor (NRB).

WHEREAS (A) by the Development Financing Agreement of even date herewith between THE KINGDOM OF NEPAL (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifty two million five hundred thousand Special Drawing Rights (SDR52,500,000), on the terms and conditions set forth in the Development Financing Agreement, but only on condition that NRB agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by NRB Subsidiary Financing Agreement to be entered into between the Borrower and NRB, the proceeds of the Financing provided for under the Development Financing Agreement shall be made available to NRB on the terms and conditions set forth in said NRB Subsidiary Financing Agreement; and

WHEREAS NRB, in consideration of the Association’s entering into the Development Financing Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Financing Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.
ARTICLE II

Execution of the Project;
Management and Operations of NRB

Section 2.01. NRB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Financing Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, banking, economic and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with the Nepal Rastra Bank Act.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and NRB shall otherwise agree, NRB shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) NRB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, NRB shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between NRB and the Association, a plan designed to ensure sustainability of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with NRB on said plan.

Section 2.04. NRB shall duly perform all its obligations under NRB Subsidiary Financing Agreement. Except as the Association shall otherwise agree, NRB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving NRB Subsidiary Financing Agreement or any provision thereof.
Section 2.05. (a) NRB shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and NRB Subsidiary Financing Agreement, and other matters relating to the purposes of the Financing.

(b) NRB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Financing, or the performance by NRB of its obligations under this Agreement and under NRB Subsidiary Financing Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) NRB shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) NRB shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.
Section 3.02. (a) Without limitation upon NRB’s reporting obligations set out in paragraph 2 of Schedule 2 to this Agreement, NRB shall prepare and furnish to the Association a Financial Monitoring Report (FMR), in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five days after the end of the first Fiscal Year trimester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first Fiscal Year trimester; thereafter, each FMR shall be furnished to the Association not later than forty five days after each subsequent Fiscal Year trimester, and shall cover the period not covered by the previous FMR until the end of such Fiscal Year trimester.
ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Financing Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of NRB thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Financing Agreement shall terminate in accordance with its terms; or

(ii) the date twenty years after the date of this Agreement.

(b) If the Development Financing Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify NRB of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party’s address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. est. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of NRB may be taken or executed by the Governor, Nepal Rastra Bank, or such other person or persons as NRB shall designate in writing, and NRB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Kathmandu, Nepal, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Country Director
Nepal

NEPAL RASTRA BANK

By /s/ Gopal Prasad Kaphle

Authorized Representative
SCHEDULE 1

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

   (a) Grouping of contracts

   To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost $50,000 equivalent or more each.

   (b) Preference for domestically manufactured goods and domestic contractors

   The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

   (a) Goods estimated to cost more than the equivalent of $30,000 but less than $200,000 per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.
(b) In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

(i) invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;

(ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(iii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

(iv) bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(v) foreign bidders shall not be precluded from bidding and no reference of any kind shall be given to national bidders;

(vi) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(vii) contracts shall be awarded to the lowest evaluated bidders;

(viii) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;

(ix) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(x) contracts shall not be awarded on the basis of nationally negotiated rates;

(xi) re-bidding shall not be carried out without the prior concurrence of the Association;

(xii) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
(xiii) a bidder’s bid security shall apply only to a specific bid, and a contractor’s performance security shall apply only to the specific contract under which it was furnished;

(xiv) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:

1) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and

2) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.

(xv) extension of bid validity shall not be allowed without the prior concurrence of the Association (i) for the first request for extension if it is longer than eight weeks, and (ii) for all subsequent requests for extension irrespective of the period;

(xvi) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and

(xvii) there shall not be any restrictions on the means of delivery of the bids.

2. National Shopping

Goods estimated to cost less than $30,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.
2. **Prior Review**

   With respect to each contract for: (i) goods estimated to cost more than $200,000 equivalent per contract; and (ii) the first contract for goods to be procured using national competitive bidding, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. **Post Review**

   With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

**Section II. Employment of Consultants**

**Part A: General**

Consultants’ services shall be procured in accordance with the provisions of Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section II.

**Part B: Quality- and Cost-based Selection**

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for Second Phase of Nepal Rastra Bank Reengineering under Part C.2, C.3 and C.4 of the Project, estimated to cost less than $100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.
Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants’ Qualifications

Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for Management Team Support under Part D of the Project, may, with the Association’s prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of $25,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval.
The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. **Post Review**

   With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.
SCHEDULE 2

Implementation Program

1. the Nepal Rastra Bank shall:

   (a) further re-lend portion of the Financing to the Beneficiary Banks under RBB, NBL Subsidiary Financing Agreement, under terms and conditions which shall be satisfactory to the Association;

   (b) RBB, NBL Subsidiary Financing Agreement shall, *inter alia*, include:
       (i) the same financial terms and conditions, and denominated in the same currencies of the Development Financing Agreement; and (ii) repayable to NRB in same currencies.

   (c) exercise its rights under RBB, NBL Subsidiary Financing Agreement, in such a manner as to cause the Beneficiary Banks to implement their VRS Schemes including procedures, guidelines, timetables and criteria acceptable to the Association, except as the Association shall otherwise agree, the Beneficiary Banks shall not amend, or waive any provision of the such Schemes, if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project;

   (d) not later than March 31 of each year of Project implementation, continue to prepare annual action and procurement plans for implementation of the activities under the Project including costing and budget projections, and taking into account the Association’s recommendations, finalize, not later than July 15 of each year, such plans;

   (e) maintain, on terms and conditions satisfactory to the Association, throughout the Project implementation period, the CST with adequate logistic and administrative support; and

   (f) throughout the period of implementation of the Project, maintain a computerized Financial Management System and adequate levels of staff including financial management staff needed for the Project and agreed with the Association from time to time.

2. the Nepal Rastra Bank shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about November 1, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this
Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by January 15, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.