

No. 10581

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
NEPAL**

Development Credit Agreement—*Telecommunications Project* (with annexed General Conditions Applicable to Development Credit Agreements). Signed at Washington on 10 November 1969

Authentic text : English.

Registered by the International Development Association on 6 July 1970.

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
NÉPAL**

Contrat de crédit de développement — *Projet relatif aux télécommunications* (avec, en annexe, les Conditions générales applicables aux contrats de développement). Signé à Washington 10 novembre 1969

Texte authentique : anglais.

Enregistré par l'Association internationale de développement le 6 juillet 1970.

DEVELOPMENT CREDIT AGREEMENT ¹

AGREEMENT, dated November 10, 1969, between KINGDOM OF NEPAL (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Development Credit Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969,² with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Development Credit Agreements of the Association being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Development Credit Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth, and the following additional terms have the following meanings :

(a) " NTB " means the Nepal Telecommunications Board, established under the Development Board Act, 1956, of the Borrower by *Notification Volume 19*, Special Issue 30 of the Borrower dated October 17, 1969, to succeed to the assets, facilities and operations of the Nepal Department of Telecommunications of the Ministry of Works, Transport and Communications of the Borrower; and

(b) " NRs " means rupees in the currency of the Borrower.

Article II

THE CREDIT

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in this Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to one million seven hundred thousand dollars (\$1,700,000).

¹ Came into force on 26 February 1970, upon notification by the Association to the Government of Nepal.

² See p. 66 of this volume.

Section 2.02. (a) The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such Account the amount of the Credit.

(b) The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Development Credit Agreement and in accordance with the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Association.

Section 2.03. The Borrower shall be entitled to withdraw from the Credit Account such amounts as shall have been paid (or, if the Association shall so agree, shall be required to meet payments to be made) in respect of the reasonable cost of goods or services required for the Project and to be financed under this Development Credit Agreement.

Section 2.04. Except as the Association shall otherwise agree, no withdrawals from the Credit Account shall be made on account of payments in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower.

Section 2.05. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.06. The Borrower shall pay to the Association a service charge at the rate of three-fourth of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.07. Service charges shall be payable semi-annually on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each March 15 and September 15 commencing September 15, 1979 and ending March 15, 2019, each installment to and including the installment payable on March 15, 1989 to be one-half of one per cent ($\frac{1}{2}$ of 1 %) of such principal amount, and each installment thereafter to be one and one-half per cent ($1\frac{1}{2}$ %) of such principal amount.

Article III

USE OF PROCEEDS OF THE CREDIT

Section 3.01. The Borrower shall apply, or cause to be applied, the proceeds of the Credit in accordance with the provisions of this Development

Credit Agreement to expenditures on the Project, described in Schedule 2 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, (i) the goods and services to be financed out of the proceeds of the Credit shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 3 to this Agreement, and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Association, except as otherwise provided in such Schedule 3.

Section 3.03. Until the completion of the Project, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively in carrying out the Project, except as the Association may otherwise agree.

Article IV

PARTICULAR COVENANTS

Section 4.01. The Borrower shall carry out, or cause to be carried out, the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.02. (a) Upon request from time to time by the Association, the Borrower shall promptly furnish or cause to be furnished to the Association the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Association shall request.

(b) The Borrower shall : (i) maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of NTB, (ii) enable the Association's representatives to inspect the Project, the goods financed out of the proceeds of the Credit, NTB's properties and equipment and any relevant records and documents; and (iii) furnish or cause to be furnished to the Association all such informa-

tion as the Association shall reasonably request concerning the expenditure of the proceeds of the Credit, the Project, the goods and services financed out of the proceeds of the Credit, and the administration, operations and financial condition of NTB.

Section 4.03. (a) The Borrower and the Association shall cooperate fully to assure that the purpose of the Credit will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Association shall from time to time, at the request of either party, exchange views through their representatives with regard to matters relating to the purposes of the Credit and the maintenance of the service thereof. The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.04. The Borrower undertakes to insure or cause to be insured the imported goods financed out of the proceeds of the Credit against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

Section 4.05. (a) The Borrower shall cause the organization and functions of NTB to be implemented and the operations and activities of NTB to be carried out (i) in such manner as to satisfy the criteria specified in Schedule 4 to this Agreement and (ii) under rules mutually satisfactory to the Borrower and the Association.

(b) Except as the Association shall otherwise agree, the Borrower shall not amend, suspend or terminate any provision of *Notification Volume 19*, Special Issue 30 of the Borrower dated October 17, 1969 establishing NTB.

(c) Except as the Association shall otherwise agree, the transfer of the assets and the functions required for the efficient operation of NTB, and the valuation of such assets on a basis acceptable to the Association, shall be completed by not later than July 16, 1970.

Section 4.06. (a) Except as the Association shall otherwise agree, the Borrower shall cause NTB to adopt and put into operation, by not later than July 16, 1970, a commercial accounting system acceptable to the Association. Such commercial accounting system shall replace the present system of maintaining accounts, and any statements required by the Borrower in respect of NTB's revenues and expenditures, including development expenditures, will, after the adoption of such system by NTB, be furnished not more frequently than quarterly.

(b) After the adoption of the accounting system referred to in paragraph (a) of this Section, the Borrower shall, commencing with the fiscal year beginning in July 1970, cause the financial statements (balance sheet and related statement of earnings and expenses) of NTB to be audited and certified annually by an independent auditor or auditing firm acceptable to the Association and shall promptly after their preparation, and, except as the Association shall otherwise agree, not later than five months after the close of the fiscal year to which they apply, transmit to the Association certified copies of such statements and a signed copy of the auditor's or auditing firm's report.

Section 4.07. Except as the Association shall otherwise agree, the Borrower shall :

- (a) engage consultants acceptable to the Association on terms and conditions satisfactory to the Association to make recommendations on and assist in the implementation of :
 - (i) the operating organization and the procedures to be adopted by NTB for the efficient conduct of its business in accordance with Section 4.05 (a) of this Agreement; and
 - (ii) the commercial accounting system referred to in Section 4.06(a) of this Agreement;
- (b) cause NTB to employ for periods satisfactory to the Association experts acceptable to the Association for the positions of Financial Comptroller and Business Manager of NTB;
- (c) secure for NTB the services of sufficient qualified accountants for the implementation of the commercial accounting system referred to in Section 4.06(a) of this Agreement;
- (d) make arrangements in consultation with the Association for the training of NTB's accounting staff; and
- (e) formulate and carry out a program satisfactory to the Association for the expansion and improvement of training facilities for telecommunications technicians and new employees.

Section 4.08. The Borrower shall promptly pay, or cause to be paid, at normal rates applicable to all users, to NTB, on a current basis, all charges

incurred after July 15, 1969 (or such other date as may be agreed between the Borrower and the Association) by the Borrower or by any of its departments, agencies or instrumentalities in respect of telecommunications services furnished by NTB.

Section 4.09. Except as the Association shall otherwise agree, the Borrower shall not make, or permit to be made, prior to the completion of the Project, expenditures (other than expenditures for the Project) for the expansion of NTB's telecommunication facilities exceeding in the aggregate the equivalent of \$100,000 in any fiscal year.

Section 4.10. The Borrower shall make available to NTB the proceeds of the Credit under arrangements satisfactory to the Association. Except as the Association shall otherwise agree, such arrangements shall provide *inter alia* that NTB shall transfer periodically to the Borrower amounts representing (i) interest on such proceeds at the rate of $6\frac{1}{2}$ % per annum and (ii) amortization of such proceeds over a term of approximately 12 years, including a grace period of two years, from the date of this Agreement.

Section 4.11. The Borrower shall cause NTB :

- (a) to operate NTB's business and conduct its affairs in accordance with sound business, public utility and financial practices under the supervision of qualified and experienced management and to operate, maintain, renew and repair its plants, equipment and property in accordance with sound engineering and public utility practices;
- (b) to take all action reasonably required to maintain and renew all rights, powers, privileges and franchises necessary or useful in the conduct of NTB's business;
- (c) to take out and maintain with responsible insurers or make other provision satisfactory to the Association for insurance against such risks and in such amount as shall be consistent with sound practice; and
- (d) not to sell, lease, transfer, or otherwise dispose of any of its properties or assets which shall be required for the efficient carrying on of its business, without the consent of the Association.

Section 4.12. (a) Except as the Association shall otherwise agree, the Borrower shall :

- (i) maintain, or cause to be maintained at present levels the existing tariffs for telecommunication services until the end of the fiscal year ending in July 1973;

- (ii) by not later than July 15, 1970, establish and put into effect
 - (A) tariffs for the trunk telephone and telex services to be provided by facilities included in the Project and
 - (B) the amount of the deposit for telephone instruments to be paid by new subscribersat levels not less than those specified in Schedule 5 to this Agreement, and maintain such tariffs at the levels so established until the end of the fiscal year ending July 1973; and
- (iii) establish and maintain tariffs for the fiscal year beginning in July 1973 and thereafter so as to produce an annual rate of return on the average value of NTB's net fixed assets in operation of 8 % or such higher return as may be agreed from time to time between the Borrower and the Association in order to meet NTB's cash requirements for its operations, debt service, appropriate portions of its capital expansion, and distribution from profits, if any, to the extent that the other requirements are met.

(b) For the purposes of paragraph (a) (iii) of this Section :

- (i) The annual rate of return shall be calculated by relating the net operating income of NTB for the fiscal year in question to the average of the net depreciated value of NTB's fixed assets in operation at the beginning and at the end of the year in question.
- (ii) " Net operating income " shall mean the difference between
 - (A) all operating revenues accruing from NTB's telecommunications services; and
 - (B) all operating costs of NTB's telecommunications services, including administrative expenses, adequate maintenance and provision for depreciation on all depreciable assets in operation, computed in accordance with the straight-line method at an average rate of not less than 5 % per annum of the value of such depreciable assets as established under subparagraph (iii) below but excluding interest and other charges on debt.
- (iii) " Net depreciated value of NTB's fixed assets in operation " shall mean the gross value of such assets less accumulated depreciation, adjusted in accordance with methods agreed between the Borrower and the Association to reflect changes in current prices of such assets.

Section 4.13. (a) Except as the Association shall otherwise agree, the Borrower shall not incur, or permit to be incurred, any debt for the benefit of NTB unless NTB's net revenues for the preceding fiscal year or for any later consecutive twelve-month period, whichever is the greater, shall be at least 1.5 times the maximum debt service requirement on all debt in-

curred) for any succeeding fiscal year (including the fiscal year in which such debt is to be incurred).

(b) For the purposes of this Section :

- (i) The term " debt " shall not include debt payable on demand or maturing not more than one year after its date.
- (ii) The term " incur " with reference to any debt includes the assumption and guarantee of debt and any renewal, extension or modification of the terms of such debt. Debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or other instrument providing for such debt or for the refinancing of such debt.
- (iii) The term " net revenues " means gross revenues from all sources, adjusted to take account of NTB's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less all operating, maintenance and overhead expenses, but before provision for depreciation and interest and other charges on debt.
- (iv) The term " debt service requirement " means the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.
- (v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt or, if such other currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Association.

Section 4.14. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories.

Section 4.15. The Development Credit Agreement shall be free any taxes that shall be imposed under the laws of the Borrower or laws in effect

in its territories on or in connection with the execution, delivery or registration thereof.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. If any event specified in Section 7.01 of the General Conditions shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal, together with such charges, shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Article VI

EFFECTIVE DATE; TERMINATION

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Development Credit Agreement within the meaning of Section 10.01 (b) of the General Conditions :

(a) The Borrower shall have made arrangements satisfactory to the Association to implement the provisions of Section 4.08 of this Agreement.

(b) The Borrower shall have employed, on terms and conditions satisfactory to the Association, the consultants, experts and accountants referred to in Section 4.07(a), (b) and (c) of this Agreement.

(c) The Borrower shall have made arrangements satisfactory to the Association to finance the portion of the Project not financed by the Credit.

Section 6.02. The date of March 1, 1970 is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Sections 4.02, 4.05, 4.06, 4.07, 4.08, 4.10, 4.11, 4.12 and 4.13 of this Agreement shall terminate on the earlier of :

- (i) the date on which this Development Credit Agreement shall terminate or
- (ii) the date 12 years after the date of this Development Credit Agreement or the date on which the proceeds of the Credit made available to NTB pursuant to Section 4.10 of this Agreement shall have been amortized by transfers to the Borrower, whichever shall be the later.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be July 31, 1974 or such other date as shall be agreed between the Borrower and the Association.

Section 7.02. The Secretary to the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 7.03. The following addresses are specified for the purposes of Section 9.01 of the General Conditions :

For the Borrower :

Secretary to the Ministry of Finance
Singha Durbar
Kathmandu, Nepal

For the Association :

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

Alternative address for cables :

Indevas
Washington, D.C.

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

Kingdom of Nepal :

By KUL SHEKHAR SHARMA
Authorized Representative

International Development Association :

By J. BURKE KNAPP
Vice President

SCHEDULE I

ALLOCATION OF PROCEEDS OF CREDIT

| <i>Category</i> | <i>Amounts Expressed in Dollar Equivalent</i> |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------------|
| I. Telephone exchanges, local distribution network, subscribers connections and apparatus | 322,000 |
| II. Long-distance microwave, UHF, VHF and HF systems | 907,000 |
| III. Telegraph and telex equipment | 50,000 |
| IV. Vehicles tools and training aids | 133,000 |
| V. Consultants | 100,000 |
| VI. Unallocated | 188,000 |
| TOTAL | <u>1,700,000</u> |

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories I to V shall decrease, the amount of the Credit then allocated to, and no longer required for, such Category will be reallocated by the Association to Category VI.

2. If the estimate of the cost of the items included in any of the Categories I to V shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Credit will be allocated by the Association, at the request of the Borrower, to such Category from Category VI, subject, however, to the requirements for contingencies, as determined by the Association, in respect of the cost of the items in the other Categories.

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project is the Borrower's program for the expansion and modernization of NTB's telecommunication facilities during the period July 1968-July 1973. The Project includes the following principal items:

1. Expansion of local telephone exchanges to increase the net capacity by approximately 3,600 lines of automatic equipment and 1,000 lines of manual equipment, together with the necessary cables and subscriber equipment to add approximately 6,000 installations.

2. Expansion of domestic long distance communication facilities by installation of long distance telephone trunk lines, super high frequency and ultra high frequency radio trunk systems, a very high frequency radio scatter system and extensions of the high frequency telephone/telegraph network, together with ancillary equipment.

3. Expansion and improvement of international communications facilities by establishment of an international trunk exchange at Kathmandu, installation of land line and carrier routes to India, improvement of high frequency radio-telephone system to New Delhi and installation of an international telex switchboard at Kathmandu, together with ancillary equipment.

4. Installation of telex facilities for approximately 50 subscribers in Kathmandu.

5. Construction of buildings required for the technical installations referred to above, and provision of miscellaneous equipment such as vehicles and tools.

6. The setting up of NTB's organization to enable it to conduct its affairs on the basis of sound business, financial and public utility practices and the establishment along commercial lines of an effective accounting system for NTB.

SCHEDULE 3

PROCUREMENT

1. With respect to goods referred to in Section 3.02 of this Agreement and in Categories I, II, III and IV of Schedule 1 to this Agreement, identical or similar items to be procured shall be grouped together wherever practical for the purposes of bidding and procurement, and such grouping of items shall be subject to approval by the Association.

2. With respect to contracts for procurement of goods and services referred to in Section 3.02 of this Agreement estimated to cost in excess of \$50,000 equivalent :

(a) Invitations to bid, specifications, conditions of contract, all other tender documents and the method and places of advertising will be submitted to the Association for its review and approval prior to the issuance of invitations to bid.

(b) After bids have been received and analyzed, the analysis of the bids, and the proposals for awards, together with the reasons for such proposals, will be submitted to the Association for its review and approval prior to the Borrower's making any award of contract or issuing any letter of intent.

(c) If the final contract is to differ substantially from the terms and conditions contained in the respective documents approved by the Association under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Association for its review and approval prior to the execution of such contract.

(d) As soon as a letter of intent has been issued or a contract has been executed, a copy thereof will be sent to the Association.

3. With respect to contracts for procurement of goods and services referred to in Section 3.02 of this Agreement estimated to cost \$50,000 equivalent or less, copies of the invitation to bid, a bid analysis and evaluation, the contract or order and any other documents the Association may request will be sent to the Association promptly after the execution of the respective contract and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract.

SCHEDULE 4

CRITERIA REFERRED TO IN SECTION 4.05 (a) OF THIS AGREEMENT

1. The managing board and the chief executive officer of NTB shall have sufficient financial and operational responsibility to enable them to manage NTB's

activities and operations efficiently and on the basis of sound financial and management principles.

2. NTB shall retain and exercise control over the funds generated by its business and otherwise available to it and shall be permitted to utilize such funds in accordance with annual budget appropriations so as to operate its business efficiently and to carry out its development program. After taking into account the cash requirements for the following year, profits may be paid into the Consolidated Fund.

3. NTB shall have a commercial accounting system as its only required system of accounting.

4. NTB shall be required to adopt measures to improve the labor performance and productivity standards of its employees.

SCHEDULE 5

TARIFFS AND SUBSCRIBER DEPOSIT

The minimum levels for the tariffs and subscriber deposit referred to in Section 4.12 (a) (ii) of this Agreement are as follows :

I. SHF/VHF Trunk Service

| Price class | Radial distance km | Metering pulse period in seconds | Pulses per minute | Revenue per minute in NRs | Revenue for 3 minute manual call in NRs |
|-------------|--------------------|----------------------------------|-------------------|---------------------------|-----------------------------------------|
| I | 0-25 | 30 | 2 | 0.4 | 1.2 |
| II | 25-50 | 15 | 4 | 0.8 | 2.4 |
| III | 50-100 | 7.5 | 8 | 1.6 | 4.8 |
| IV | 100-200 | 5.0 | 12 | 2.4 | 7.2 |
| V | 200-400 | 4.0 | 15 | 3.0 | 9.0 |
| VI | 400-800 | 3.0 | 20 | 4.0 | 12.0 |

II. Telex Service

| | |
|-----------------------------|-------------|
| Rental per annum. | NRs 4,800.— |
| Local call charge | NRs 0.2 |

III. Subscriber Deposit

Deposit of NRs 500 from each new telephone service subscriber, repayable upon the subscriber's terminating the service.

INTERNATIONAL DEVELOPMENT ASSOCIATION GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS
[Not published herein. See United Nations, Treaty Series, vol. 703, p. 244.]