

**CONFROMED COPY**

---

---

**GRANT NUMBER H337-NEP**

# **Financing Agreement**

**(Poverty Alleviation Fund Project II)**

**between**

**NEPAL**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 31, 2008**

---

---

**GRANT NUMBER H337-NEP**

**FINANCING AGREEMENT**

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

**ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II – FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to sixty-five million two hundred forty thousand Special Drawing Rights (SDR 65,240,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are March 15 and September 15 in each year.
- 2.05. The Payment Currency is Dollars.

**ARTICLE III – PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

- 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 and Schedules 1 through 3 to the Project Agreement.

#### **ARTICLE IV – REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following: that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

#### **ARTICLE V – EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following: that the Subsidiary Financing Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: namely that the Subsidiary Financing Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. 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 VI – REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Secretary, Ministry of Finance.

6.02. The Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4211-164

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI)

(1-202) 477-6391

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

NEPAL

By /s/ Vidyadhar Mallik

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve living conditions, livelihoods and empowerment of the rural poor, with particular attention to groups that have traditionally been excluded by reasons of gender, ethnicity, caste and location.

The Project consists of the following parts:

#### **Part A: Small-Scale Village and Community Infrastructure Projects (SSIP)**

Provision of Block Grants to Beneficiaries to carry out, with POs' assistance, SSIPs for, *inter alia*: (i) engineered trails; (ii) culverts; (iii) footbridges; (iv) small water supply and sanitation schemes; (v) community meeting halls; (vi) schools; (vii) clinics/health facilities; (viii) micro-hydro; and (ix) small access roads.

#### **Part B: Income Generating Sub-Projects (IGSP)**

Provision of Block Grants to Beneficiaries to carry out, with POs' assistance, IGSPs for, *inter alia*: (i) micro-irrigation; (ii) micro-enterprises/service sector activities; (iii) artisanal/crafts; (iv) cropping; (v) land productivity investments; (vi) trading; and (vii) animal husbandry.

#### **Part C: Innovation and Special Programs**

Provision of Block Grants to Beneficiaries to carry out, with POs' assistance:

- (i) Sub-Projects requiring innovative approaches for targeting traditionally excluded groups and improving their livelihoods; and
- (ii) Special Sub-Projects proposed by Beneficiaries to improve their livelihoods.

#### **Part D: Capacity Building and Implementation Support**

##### **1. Mobilization of Community Groups**

- (i) Carrying out social mobilization activities through POs, to create an enabling environment among Beneficiary groups for the development of proposals for Sub-Projects and development of their skills in Sub-Project management; and

- (ii) Provision of consultants' services to build the capacity of the POs to understand and implement PAF's operating principles and procedures, interact effectively with Beneficiaries, and assist them in monitoring implementation of Sub-Projects.

2. Capacity Building for Local Bodies

Provision of consultants' services to build the capacity of selected VDCs and DDCs to enable them to assist Beneficiaries in implementing Sub-Projects.

3. Capacity Building of Beneficiaries

Provision of consultants' services to build the Beneficiaries' capacity in the areas of, *inter alia*: (i) training of village health workers; (ii) veterinary skills; (iii) crafts skills; (iv) introduction of improved varieties of agricultural produce; (v) marketing; (vi) transport logistics; (vii) financing; (viii) quality control; (ix) entrepreneurship; (x) bookkeeping; and (xi) functional literacy.

4. Support to Micro-finance Intermediaries

Provision of consultants' services, on a demand basis, to build the capacity of micro-finance intermediaries to provide services to traditionally excluded groups.

5. Information, Monitoring and Evaluation

Provision of consultants' services: (i) to disseminate information about the Project and strengthen PAF's Management Information System (MIS); and (ii) to monitor, supervise and evaluate the implementation of the Project.

Part E: Administration of PAF

Strengthening the operational capacity of PAF to carry out of the Project through the provision of equipment, vehicles, studies, training and technical assistance to improve financial, procurement and environmental management and other administrative and operational functions, including the preparation and implementation of PAF's human resource development plan.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Subsidiary Financing Agreement; Implementation Arrangements**

##### **A. Subsidiary Financing Agreement**

1. To facilitate the carrying out of the Project by the Project Implementing Entity, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary financing agreement between the Recipient and the Project Implementing Entity, with terms and conditions approved by the Association (“Subsidiary Financing Agreement”).
2. The Recipient shall exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Financing Agreement or any of its provisions.

##### **B. Anti-Corruption**

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

##### **C. Board of Directors of the Project Implementing Entity**

The Recipient shall: (i) ensure that a Board of Directors of the Project Implementing Entity is maintained, which shall have general oversight over the Project and meet on a quarterly basis to discuss matters related to the implementation of the Project; (ii) ensure that any vacancy occurring on the Board of Directors is promptly filled; and (iii) ensure that the Board of Directors promptly takes all decisions necessary for the effective implementation of the Project and otherwise promptly performs its duties and functions so as not to prevent or interfere with the efficient implementation of the Project.

#### **Section II. Project Monitoring, Reporting and Evaluation**

##### **A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and cause Project Reports to be prepared in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Schedule 3 to the Project Agreement. Each Project Report shall cover the period



of a Fiscal Year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause to be prepared and furnished 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 ensure that the Project Implementing Entity's financial statements are audited in accordance with the provisions of Section II of Schedule 1 to the Project Agreement. Each audit of the financial statements shall cover the period of one Fiscal Year of the Project Implementing Entity. 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 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 \$200,000 equivalent per contract and works may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act, subject to the following:
  - (i) Only the bidding documents approved by the Association shall be used.
  - (ii) No preference shall be given to any bidder.
3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

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

**C. Particular Methods of Procurement of Consultants' Services**

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

<b>Procurement Method</b>	
(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:

<b>Category</b>	<b>Amount of the Financing Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Block Grants and consultants' services provided by POs	50,240,000	100% of amounts disbursed
(2) Goods, consultants' services (other than those provided by POs) and training for PAF	9,780,000	100%
(3) Incremental Operating Costs for PAF	2,610,000	80%
(4) Unallocated	2,610,000	
<b>TOTAL AMOUNT</b>	<b>65,240,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 5,220,000 equivalent may be made for payments made prior to this date but on or after July 17, 2007, for Eligible Expenditures under Category (1).
2. The Closing Date is September 30, 2012.

## APPENDIX

### Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants” dated October 15, 2006.
2. “Beneficiary” means a Community Based Organization (CBO), village organization, self-help women group, credit group or any other group eligible pursuant to Part B.1 of Schedule 2 to the Project Agreement and other eligibility criteria as set forth in the Operational Manual.
3. “Block Grant” means a grant made or proposed to be made by PAF, out of the proceeds of the Financing, to a Beneficiary to finance the costs of goods, works and services for a Sub-Project under Part A, B or C of the Project.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “DDC” means a District Development Committee established in each district of the Recipient’s territory pursuant to the Local Self Governance Act, 2055 (1999).
7. “EMF” means PAF’s Environmental Management Framework for the Project dated September 11, 2007, and approved by the Association, setting forth, *inter alia*: (i) principles and procedures for screening Sub-Projects for environmental and social impacts; (ii) principles and procedures for environmental management of Sub-Projects in national parks and other protected areas; and (iii) PAF’s Environmental and Social Risk Screening and Management Guidelines for various types of Sub-Projects; as the same may be amended from time to time with the agreement of the Association.
8. “Financial Management Manual” means PAF’s Financial Management Manual dated August 14, 2007, and approved by the Association, setting forth, *inter alia*, principles and procedures for the planning, budgeting, internal control, internal audits, accounting, reporting and external audits relating to the implementation of the Project, as the same may be amended from time to time with the agreement of the Association.

9. “Fiscal Year” or “FY” means the twelve (12)-month period corresponding to any of the Recipient’s and PAF’s fiscal years, which period commences and ends in mid-July of each calendar year.
10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005 (as amended through October 15, 2006).
11. “IGSP” means an Income Generating Sub-Project financed or proposed to be financed under Part B of the Project.
12. “Incremental Operating Costs” means, salaries, allowances, and fringe benefits of staff appointed to posts in PAF and engaged on a full-time basis for the purposes of the Project, including conveyance, travel and boarding/lodging allowances when on tour, and operating and maintenance costs of vehicles, fuels, equipment and offices acquired under and used in the carrying out of the Project, including the costs of advertising, media projections, newspaper subscriptions, periodicals, insurance, printing, stationery, rent and utilities.
13. “Nepalese Rupee” or the sign “NPR” means the lawful currency of the Recipient.
14. “Operational Manual” means PAF’s Operational Manual dated June 20, 2007, and approved by the Association, setting forth, *inter alia*, eligibility and selection criteria and appraisal, approval and monitoring rules and procedures for POs, Beneficiaries and Sub-Projects, as well as the VCDP and a negative list of Sub-Projects, as the same may be amended from time to time with the agreement of the Association.
15. “PAF” means the Poverty Alleviation Fund, an autonomous institution established pursuant to the Recipient’s Poverty Alleviation Fund Act, 2063 (2006).
16. “PO” or “Partner Organization” means a Non-governmental Organization (NGO), a Community Based Organization (CBO), VDC, DDC or private sector institution or entity, involved in poverty alleviation work, which meets the eligibility criteria for POs set forth in the Operational Manual.
17. “PO Agreement” means an agreement to be entered into between PAF and a PO pursuant to Part A of Schedule 2 to the Project Agreement.
18. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.

19. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 26, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
20. “Project Implementing Entity” means PAF.
21. “Project Implementing Entity’s Legislation” means the Recipient’s Poverty Alleviation Fund Act, 2063 (2006).
22. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
23. “SSIP” means a Small-Scale Village and Community Infrastructure Project financed or proposed to be financed under Part A of the Project.
24. “Sub-Project” means an SSIP, IGSP, or a development project or scheme financed or proposed to be financed under Part C of the Project, which meets the eligibility criteria to receive financing in the form of a Block Grant.
25. “Sub-Project Grant Agreement” means an agreement to be entered into between PAF and a Beneficiary pursuant to Part B of Schedule 2 to the Project Agreement.
26. “Subsidiary Financing Agreement” means the agreement referred to in Part A of Section I of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
27. “VCDP” means PAF’s Vulnerable Community Development Plan included in the Operational Manual and approved by the Association, setting forth, *inter alia*, a program of actions, policies and strategies designed to maximize the benefits accruing to vulnerable people, as the same may be amended from time to time with the agreement of the Association.
28. “VDC” means a Village Development Committee established within the Recipient’s territory pursuant to the Local Self Governance Act, 2055 (1999).