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**CREDIT NUMBER 4905-NP  
GRANT NUMBER H661-NP**

# **Financing Agreement**

**(Urban Governance and Development Program: Emerging Towns Project)**

**between**

**NEPAL**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 30, 2011**

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**CREDIT NUMBER 4905-NP**  
**GRANT NUMBER H661-NP**

## **FINANCING AGREEMENT**

AGREEMENT dated, June 30, 2011, entered into 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 and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
  - (a) an amount equivalent to seven million two hundred thousand Special Drawing Rights (SDR 7,200,000) (“Grant”); and
  - (b) an amount equivalent to eight million eight hundred thousand Special Drawing Rights (SDR 8,800,000) (“Credit”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 October 15 and April 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 through MPPW (the executing agency) and MLD (co-executing agency) carry out the Project, and specifically, shall: cause MLD and the Participating Municipalities to jointly carry out Part A of the Project; cause the TDF and the Participating Municipalities to jointly carry out Part B of the Project, and cause MPPW, MLD, DUDBC, the TDF and the Participating Municipalities to jointly carry out Part C of the Project, all 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 Condition of Effectiveness consists of the following, namely, that: the Recipient, through MPPW, has adopted the Project Operations Manual acceptable 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 — REMEDIES OF THE ASSOCIATION**

- 5.01. The Additional Events of Suspension consists of the following:

- (a) the TDF Act has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the TDF to perform any of its obligations under the Subsidiary Agreement and the Sub-project Financing Agreements;
- (b) the Co-financing Agreement shall have failed to become effective by December 31, 2011, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement; and
- (c) (i) Subject to subparagraph (ii) of this paragraph the right of the Recipient to withdraw the proceeds of the Co-financing shall have been suspended, canceled or terminated in whole or part, pursuant to the terms of the Co-financing Grant Agreement; or  
  
(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Recipient not to perform any of its obligations under the Co-financing Agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

5.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 5.01(a) of this Agreement occurs.

#### **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/ Krishna Hari Baskota

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative



## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve delivery and sustainable provision of basic services and priority infrastructure in the Participating Municipalities.

The Project consists of the following parts:

#### **Part A: Service Delivery Improvement**

Provision of Municipal Grants to the Participating Municipalities to finance Eligible Activities whose objective is to improve municipal service delivery, including engineering and advisory consulting services, and associated resettlement, rehabilitation and environmental management activities.

#### **Part B: Socio-Economic Infrastructure Development**

Provision of Sub-project Financings to the Participating Municipalities to finance Sub-projects whose objective is to improve socio-economic infrastructure in the Participating Municipalities, including engineering and advisory consulting services, and associated resettlement, rehabilitation, and environmental management activities.

#### **Part C: Institutional Development**

Supporting the institutional strengthening of, and provision of Project management support, to the Participating Municipalities, MPPW, MLD, DUDBC, the TDF, the PCO and various other Project implementing units established for implementing the Project.



**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall, throughout the period of implementation of the Project, maintain the following committee and unit with powers, functions, capacity, staffing, composition, and resources appropriate to fulfill their functions under the Project:
  - (a) the Project Steering Committee chaired by the Secretary of MPPW and co-chaired by Secretary of MLD, including, inter alia, senior officials from relevant ministries, DUDBC, TDF, together with representatives of the Participating Municipalities and experts from the civil society. Said Project Steering Committee shall ensure overall Project coordination, provide policy level guidance, and monitor Project progress on a regular basis; and
  - (b) a Project Coordination Office, headed by a Project Director (a class-I officer), as well as three (3) component managers representing MLD, TDF and DUDBC, respectively, and staffed with an adequate number of key professional staff with skills, qualifications, experience, and terms of reference satisfactory to the Association, including, without limitation, a core team comprising of staff to carry out accounting, finance, procurement and monitoring and evaluation functions.
2. The Recipient shall maintain or cause to be maintained the core team referred to in paragraph 1(b) above. Unless the Association shall otherwise agree, the Recipient shall ensure that, except in case of unsatisfactory performance, or as required by the Recipient's laws, the above-mentioned core staff shall not be transferred to other positions until completion of the Project, and, in the case of the accounts and finance officers, no such transfer shall occur until at least six (6) months after the Closing Date or submission by the Recipient of the final audited Financial Statements, whichever occurs later.
3. The Recipient shall ensure that all staff and employees who have participated in an international training course or a study visit under the Project shall remain in post for a minimum period as specified by Clause 40(c) of the Civil Service Act, 2049 (1993), or any amendment thereto.

**B. Subsidiary Agreement**

1. In order to achieve the objectives of Part B of the Project, the Recipient shall make a portion of the proceeds of the Financing allocated from time to time to Category (2) available to the TDF under a subsidiary agreement between the Recipient and TDF, under terms and conditions satisfactory to the Association, which shall include those set out in Annex to this Schedule 2.
2. The Recipient shall exercise its rights under the Subsidiary 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 Agreement or any of its provisions.

**C. Implementation Documents**

1. The Recipient shall, through MPPW, adopt a Project Operations Manual, in form and substance satisfactory to the Association, setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:
  - (i) the detailed description of Project implementation and institutional arrangements for implementing the Project;
  - (ii) the Project administrative, accounting, auditing, reporting, financial, disbursement and procurement procedures;
  - (iii) the operating procedures governing the Municipal Grants and Sub-project Financings, including guidelines for selection, approval, and implementation of Eligible Activities and Sub-projects, monitoring, evaluation, disbursement procedures, and financial management, reporting, auditing, procurement and governance procedures, and the terms and conditions for the Municipal Grants and Sub-project Financings;
  - (iv) the Environmental Management Framework and the Social Management Framework, each containing provisions to guide the activities under the Project, as well as provisions to address protection of cultural property under a chance find;
  - (v) the overview of planned capacity building and training activities, including workshops and study tours, to be carried out under Part C of the Project; and
  - (vi) the plan for the monitoring and supervision of the Project.

2. The Recipient shall ensure that the Project, including the Eligible Activities and Sub-projects under Parts A and B of the Project, respectively, are carried out in accordance with the POM. In the event that any provision of the POM shall conflict with any provision under this Agreement, the terms of this Agreement shall prevail.
3. The Recipient may amend the POM from time to time only with the Association's prior written consent.

**D. Anti-Corruption, Governance and Accountability**

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

**E. Municipal Grants under Part A of the Project**

1. The Recipient shall provide Municipal Grants to the Participating Municipalities for carrying out Eligible Activities under Part A of the Project in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the POM.
2. Throughout the duration of the Project, the Recipient shall: (i) make adequate budgetary allocation for timely release of Municipal Grants to the Participating Municipalities, (ii) ensure that Municipal Grants are transferred to Participating Municipalities in a timely manner; and (iii) cause the Participating Municipalities to maintain policies and procedures adequate to monitor and evaluate on an ongoing basis, in accordance with the systems and indicators detailed in the POM, the carrying out of the Eligible Activities and the achievement of the objectives thereof.
3. The Recipient shall, through MPPW and MLD, enter into an MOU, satisfactory to the Association, with each Participating Municipality, such MOU to set forth the respective obligations of the parties thereto with respect to the terms and conditions of the implementation of Eligible Activities, and to provide, inter alia, for the following:
  - (a) the Municipal Grant shall be made on a non-reimbursable basis to the Participating Municipality in an amount and under terms and conditions set forth in detail in the POM, including therein details of disbursement schedules and procurement procedures;

- (b) the Municipal Grants shall be made to support Eligible Activities in the Participating Municipalities;
  - (c) the Participating Municipality shall carry out the Eligible Activities with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and social standards and practices, including in accordance with the Procurement Guidelines, Consultant Guidelines, the Environmental Management Framework, the Social Management Framework and the Anti-Corruption Guidelines;
  - (d) the Participating Municipality shall procure the goods, works and services to be financed out of the Municipal Grant in accordance with the provisions of Section III of Schedule 2 to this Agreement;
  - (e) the Participating Municipality shall ensure that funds and resources are provided for the acquisition of land required for carrying out Eligible Activities in the Participating Municipality;
  - (f) the Participating Municipality shall obtain all such information as the Association or the Recipient shall reasonably request; and
  - (g) the Recipient shall suspend or terminate the right of the Participating Municipality to use the proceeds of the Financing upon failure by such Participating Municipality to perform its obligations under the MOU.
4. The Recipient shall ensure that no Participating Municipality shall be eligible to receive a Municipal Grant until and unless:
- (a) it has established a Project Management Team with staff, in adequate numbers, and funds and resources satisfactory to the Association, including at a minimum, a Project coordinator (also referred to as the executive officer), and section chiefs responsible for planning, engineering, finance, social and community development, and administration;
  - (b) it has established a Project Support Team to assist the Project Management Team in discharging day-to-day Project management, including in the areas of safeguards, financial management, accounting, monitoring, evaluation and reporting;

- (c) it has established a Municipal Coordination Committee with composition, terms of reference and powers acceptable to the Association to deliberate on critical city-level issues, review Project progress and provide a platform for diverse stakeholder groups to express views on, inter alia, local development issues;
- (d) it has adopted the Project Operations Manual;
- (e) it has entered into a MOU with the Recipient in accordance with the provisions of paragraph E.3 above; and
- (f) it has submitted its annual work program and budget for the next calendar year to the PCO, by no later than March 15 of each year, starting from July 16, 2011.

**F. Sub-project Financings under Part B of the Project**

1. The TDF shall make Sub-project Financings to the Participating Municipalities for carrying out Sub-Projects under Part B of the Project, selected by the Participating Municipalities in accordance with eligibility criteria and procedures acceptable to the Association and outlined in the POM.
2. The TDF shall make each Sub-project Financing under a Sub-project Financing Agreement with the respective Participating Municipality on terms and conditions satisfactory to the Association, and shall obtain rights adequate to protect its interests and those of the Association, including the right to:
  - (i) suspend or terminate the right of the Participating Municipality to use the proceeds of the Sub-project Financing, or declare to be immediately due and payable all or any part of the amount of the Sub-project Financing then withdrawn, upon the Participating Municipality's failure to perform any of its obligations under the Sub-project Financing Agreement and the provisions of the POM; and
  - (ii) require the Participating Municipality to:
    - (A) carry out the Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Procurement Guidelines, the Consultant Guidelines, the

Environmental Management Framework, the Social Management Framework and the Anti-Corruption Guidelines;

- (B) provide, promptly as needed, the resources required for the purpose;
- (C) procure the goods, works and services to be financed out of the Sub-project Financings in accordance with the provisions of Section III of Schedule 2 of this Agreement;
- (D) establish a Project Management Team with staff, in adequate numbers, and funds and resources satisfactory to the Association, including at a minimum, a Project coordinator (also referred to as the executive officer), and section chiefs responsible for planning, engineering, finance, social mobilization, community development, and administration;
- (E) establish a Project Support Team to assist the Project Management Team in discharging day-to-day Project management, including in the areas of safeguards, financial management, accounting, monitoring, evaluation and reporting;
- (F) ensure that funds and resources are provided for the acquisition of land required for carrying out Sub-projects in the Participating Municipality;
- (G) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators agreed with the Association, the progress of the Sub-project and the achievement of its objectives;
- (H) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;

- (I) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and
  - (J) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
3. The TDF shall exercise its rights under each Sub-project 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 TDF shall not assign, amend, abrogate or waive any Sub-project Financing Agreement or any of its provisions.

**G. The TDF Business Restructuring Action Plan**

The Recipient shall cause the TDF to implement the TDF Business Restructuring Action Plan in a manner satisfactory to the Association.

**H. Safeguards**

1. The Recipient shall ensure, at all times during Project implementation, that:
- (i) the Project, including the implementation of Sub-projects, is carried out in accordance with the provisions of the Environmental Management Framework, the Social Management Framework, and all plans prepared thereunder, and any additional social and environmental safeguard measures described in the POM; and
  - (ii) no action is taken which would prevent or interfere with such implementation.
2. Prior to the commencement of the final bidding process for civil works under the Project, the Recipient shall, and shall cause the Participating Municipalities to:
- (a) carry out the relevant site-specific, environmental impact assessment, and thereafter prepare, in accordance with the Environmental Management Framework and the Social Management Framework, resettlement action plans, environmental management plans, and/or indigenous development plans, as the case may be, in form and substance satisfactory to the Association; and
  - (b) except as otherwise agreed with the Association, submit the said plans to the Association for review and approval (applicable for all Eligible

Activities and Sub-projects in the first year and for Category “A” Eligible Activities and Sub-projects subsequently) and thereafter adopt the plans and ensure that they are disclosed publicly.

3. Without limitation upon its other reporting obligations under Section II.A of this Schedule, the Recipient shall, and shall cause each Participating Municipality to, take all measures necessary on its part to regularly collect, compile and submit to the Association, on a trimester basis and as part of the progress reports due under the Project, reports on the status of compliance with the frameworks and plans referred to under paragraph 2(a) above, such reports to detail:
  - (a) measures taken in furtherance of such frameworks and plans;
  - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such frameworks and plans; and
  - (c) remedial measures taken or required to be taken to address such conditions.

#### **I. Annual Work Plan and Budget**

1. The Recipient shall, through the PCO, submit an annual work plan and budget to the Association for comments by April 30 of each year, starting April 30, 2012 and thereafter implement said annual work plan and budget taking into account of the Association’s comments thereon.

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

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

1. The Recipient shall monitor and evaluate the progress of the Project (including the progress in implementing the GAAP) and prepare Project Reports (including reporting on the implementation of the GAAP) in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association and set forth in the POM. Each Project Report shall cover the period of one (1) fiscal 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 and as part of the Project Report not later than forty five (45) days after the end of each fiscal trimester, interim unaudited financial reports for the Project covering the 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, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. 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 and works shall be procured under contracts awarded on the basis

of National Competitive Bidding in accordance with the Public Procurement Act (and regulations made thereunder), subject to the following additional procedures:

- (i) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (iii) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (iv) 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;
- (v) 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 and contracts shall be awarded to the lowest evaluated bidders;
- (vi) rebidding shall not be carried out without the prior concurrence of the Association;
- (vii) extension of bid validity shall not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than four (4) weeks; and (B) for all subsequent requests for extension irrespective of the period; and
- (viii) there shall not be any restrictions on the means of delivery of the bids.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than 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
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(a) Shopping
(b) Direct Contracting

**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.
  
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 Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Municipal Grants under Part A of the Project	1,800,000	1,440,000	100%
(2) Sub-project Financings under Part B of the Project	6,400,000	4,050,000	100%
(3) Goods and Incremental Operating Costs under Part C of the Project	600,000	0	100%
(4) Consultants Services, Training and Workshops under Part C of the Project	0	1,570,000	100%
(5) Project Preparation Advance	0	140,000	Amount payable pursuant to Section 2.07 of the General Conditions
<b>TOTAL AMOUNT</b>	<b>8,800,000</b>	<b>7,200,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for:

- (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$100,000 equivalent may be made for payments made prior to this date but on or after February 28, 2011, for Eligible Expenditures under Categories (3) and (4); or
- (b) payments under Category (2), until (i) the Subsidiary Agreement, acceptable to the Association, has been entered into between the Recipient and the TDF; and (ii) the Recipient has approved the relevant items of the TDF Business Restructuring Action Plan which require the Recipient's endorsement.

2. The Closing Date is July 31, 2016.

**Annex to Schedule 2**

**Principal Conditions of the  
Subsidiary Agreement**

**Project Management**

1. Throughout the period of implementation of Part B of the Project, the TDF shall maintain, and cause to be maintained, a Project team, with terms of reference, staffing and other resources acceptable to the Association, to be responsible for implementing Part B of the Project.

**Project Implementation**

2. The TDF shall undertake to carry out Part B of the Project within its mandate with due diligence and efficiency and in accordance with appropriate management and financial practices acceptable to the Association, including the Anti-corruption Guidelines applicable to the recipient of the Financing proceeds other than the Recipient, and provide, promptly as needed, the funds required for the purpose.
3. The TDF shall adopt and implement the Project Operations Manual and the GAAP in carrying out Part B of the Project.
4. The TDF shall implement the TDF Business Restructuring Action Plan in a manner satisfactory to the Association, and review with the Association, on a semi-annual basis, the progress made in implementing said action plan in the previous period and take necessary and required measures and actions to achieve the objective of said action plan taking into account the Association's comments thereon.
5. The TDF shall, not later than November 15, 2011, adopt common lending policies acceptable to the Association, including, inter alia, policies on making loans and grants, and policies on setting interests rates for financing infrastructure projects in the territory of the Recipient.
6. The TDF shall undertake to:

- (a) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect its operations and financial conditions, including the operations, resources and expenditures related to Part B of the Project;
- (b) have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and furnish the statements as so audited to the Recipient and the Association not than later than six (6) months after the end of its fiscal year;
- (c) enable the Recipient, the Association to inspect its operation and any relevant records and documents; and
- (d) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

7. The TDF shall undertake to:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed with the Association for the carrying out Part B of the Project and the achievement of the objectives thereof; and
- (b) prepare, under terms of reference satisfactory to the Association, and furnish to the PCO for its review and submission to the Association, trimester reports integrating the results of the monitoring and evaluation activities performed on the progress achieved in the carrying out of Part B of the Project during the period preceding the date of each such report.



**SCHEDULE 3****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each October 15 and April 15:	
commencing October 15, 2021 to and including April 15, 2031	1%
commencing October 15, 2031 to and including April 15, 2051	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.

## **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 and revised in January 2011.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Civil Service Act” means the Recipient’s Civil Service Act of 2049 (1993), or any amendment thereto.
4. “Co-financier” means Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.
5. “Co-financing” means, for purposes of paragraph 11 of the Appendix to the General Conditions, a grant to be provided by the Co-financier to the Recipient for co-financing Part C of Project.
6. “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 and May 2010.
7. “DUDBC” means the Recipient’s Department of Urban Development and Building Construction, or any successor thereto.
8. “Eligible Activities” means activities to be carried out under Part A of the Project using the proceeds of a Municipal Grant and selected in accordance with the criteria set out in the Project Operations Manual (as defined hereunder), such activities to include improving municipal service delivery, social mobilization, pro-poor and community development activities, local capacity building, and other activities that may be included in the POM as eligible for financing out of the proceeds of Municipal Grants (as defined hereunder).
9. “Environmental Management Framework” means the framework, dated February 18, 2011, acceptable to the Association, applicable to Parts A and B of the Project setting out the actions, policy and measures for the management of

environmental aspects of the Project, as the same may be amended from time to time with the prior written agreement of the Association.

10. “Governance and Accountability Action Plan” and the acronym “GAAP” mean the Governance and Accountability Action Plan, dated February 25, 2011 satisfactory to the Association, which sets out the key actions to be undertaken during Project implementation to strengthen governance, transparency, and accountability under the Project, as such plan may be amended from time to time with the prior written agreement of the Association.
11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
12. “MLD” means the Recipient’s Ministry of Local Development, or any successor thereto.
13. “MOU” means the memorandum of understanding referred to in paragraph E.3 of Section I of Schedule 2 to this Agreement.
14. “MPPW” means the Recipient’s Ministry of Physical Planning and Works, or any successor thereto.
15. “Municipal Grant” means a grant made or proposed to be made by the Recipient, out of the proceeds of the Financing, to a Participating Municipality to finance the costs of goods, works and services incurred for purposes of Eligible Activities under Part A of the Project (as hereinafter defined).
16. “Municipal Coordination Committee” means the committee referred to in paragraph D.4(c) of Section I of Schedule 2 to this Agreement.
17. “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office and IT equipment and supplies, vehicle operation and maintenance, insurance costs, office administration costs, utilities, travel, *per diem* and supervision costs and salaries of locally contracted employees.
18. “Participating Municipalities” means municipalities selected, or to be selected, by the Recipient in agreement with the Association to participate in the Project.
19. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006 and May 2010.

20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 27, 2011, 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.
21. “Project Coordination Office” and its acronym “PCO” mean the office referred to in paragraph A.1(b) of Section I of Schedule 2 to this Agreement.
22. “Project Management Team” means the team referred to in paragraphs E.4(a) and F.2(ii)(D) of Section I of Schedule 2 to this Agreement.
23. “Project Steering Committee” means the committee referred to in paragraph A.1 (a) of Section I of Schedule 2 to this Agreement.
24. “Project Support Team” means the team referred to in paragraphs E.4(b) and F.2(ii)(E) of Section I of Schedule 2 to this Agreement.
25. “Project Operations Manual” and “POM” mean the manual referred to in paragraph C.1 of Section I of Schedule 2 to this Agreement, as the same may be amended from time to time with the prior written agreement of the Association.
26. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
27. “Social Management Framework” means the framework, dated February 18, 2011, acceptable to the Association, applicable to Parts A and B of the Project, which includes a resettlement policy framework, an indigenous peoples-vulnerable community development framework, guidance on social accountability and governance mechanism, institutional framework, including identification, assessment and mitigation of potential social impacts arising from the Project, measures for protecting the indigenous and vulnerable population, carrying out consultations, processing and redressing grievances, monitoring Project related impacts, and, where applicable, for site specific resettlement action plans, indigenous people and vulnerable community development plan, or other development plans and entitlement frameworks for people adversely affected as a result of implementation of Parts A and B of the Project, as such framework may be revised from time to time with the prior written consent of the Association.
28. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make a portion of the proceeds of the Financing available to TDF.

29. “Sub-project” means any activity or scheme carried out under Part B of the Project which meets the eligibility criteria for Participating Municipalities to access Sub-project Financings.
30. “Sub-project Financing” means loans, credits, or grants made available from TDF to a Participating Municipality out of the proceeds of the Financing for carrying out eligible Sub-projects under Part B of the Project.
31. “Sub-project Financing Agreement” means an agreement between TDF and a Participating Municipality pursuant to which TDF shall make available a Sub-project Financing to the Participating Municipality.
32. “TDF” means Town Development Fund, established in 1997 under the TDF Act as a corporate body, with mandates to provide financial and technical support to urban sector institutions, or any successor thereto.
33. “TDF Act” means the TDF Act, dated February 1997.
34. “TDF Business Restructuring Action Plan” means the action plan, satisfactory to the Association, prepared by the TDF and to be adopted by the Recipient pursuant to paragraph B.1(b) of Section IV of Schedule 2 to this Agreement, setting out the actions in the short- to medium-term to be taken by TDF to address TDF’s financial sustainability, internal controls and oversight system, as the same may be revised from time to time with the prior written agreement of the Association.
35. “Training and Workshops” means, in respect of Category (4): (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators, including workshops and study tours in foreign countries; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said section.