

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H672-NP

Financing Agreement

(Additional Financing for the Poverty Alleviation Fund II Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 13, 2011

FINANCING AGREEMENT

AGREEMENT dated July 13, 2011, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”):

WHEREAS:

(A) the Association has agreed to a request made by the Recipient to provide additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement); and

(B) the Association, acting as administrator of the Food Price Crisis Response Trust Fund has further agreed to extend to the Recipient a grant in an amount equivalent to ten million United States Dollars (\$10,000,000) (the Grant) to assist in financing the Project on the terms and conditions set forth in an agreement of even date herewith entered between the Recipient and the Association acting as administrator of the Food Price Crisis Response Trust Fund (the Co-financing Agreement);

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Financing to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto 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, the Original Financing Agreement 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 forty one million four hundred thousand Special Drawing Rights (SDR 41,400,000) (“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 April 15 and October 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.
- 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 the Project Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, 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 Conditions of Effectiveness consists of the following, namely, that (a) the Subsidiary Financing Agreement has been updated, satisfactory to the Association, to reflect the implementation arrangements under this Financing; and (b) the Co-financing Agreement between the World Bank and the Recipient has been executed and delivered and all condition precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. 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 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/ Lal Shanker Ghimire,

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andras Horvai

Authorized Representative

SCHEDULE 1

Project Description

The Project maintains as its objective 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 Original Project, amended and updated as follows for purposes of this Financing:

Part A: Small-Scale Community Infrastructure Projects (SSCIP)

Provision of Block Grants to Beneficiaries to carry out, with POs' assistance, SSCIPs 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; (vii) animal husbandry, and (viii) other food security and nutrition enhancing activities.

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;
- (ii) Provision of consultants' services and training 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; and
- (iii) Provision of consultants' services and training to build the capacity of micro-finance intermediaries to provide services to traditionally excluded groups.

2. Capacity Building for Local Bodies

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

3. Capacity Building of Beneficiaries

Provision of consultants' services and access to vocational training 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 agricultural technologies; (v) marketing; (vi) transport logistics; (vii) financing; (viii) quality control; (ix) entrepreneurship; (x) bookkeeping; (xi) functional literacy, and (xii) training on nutrition and health.

4. **Information, Monitoring and Evaluation**

Provision of consultants' services to PAF to: (i) disseminate information about the Project and strengthen PAF's Management Information System (MIS); and (ii) 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, monitoring, 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. Implementation Arrangements****A. Institutional Arrangements**

The Recipient shall cause the Project Implementing Entity to maintain, for purposes of this agreement, all the relevant institutional arrangements set forth in the Original Financing Agreement and the Original Project Agreement.

B. Subsidiary Financing Agreement

1. To facilitate the further 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 the Subsidiary Financing Agreement, as amended in furtherance thereof.
2. The Recipient shall further 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.

C. Anti-Corruption

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

D. Governance and Accountability Action Plan (“GAAP”)

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Governance and Accountability Action Plan.

E. Safeguards.

The Recipient shall ensure that the Project is carried out in accordance with the EMF.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall maintain, and shall cause to be maintained, the same arrangements and periodicity for Project monitoring, reporting and evaluation as are set forth in the Original Financing Agreement and the Original Project Agreement.
2. The performance indicators under which the progress of the Project shall be monitored and evaluated shall be updated for purposes of this Financing.

B. Financial Management, Financial Reports and Audits

The Recipient shall ensure that all the arrangements for financial management, financial reports and audits of Project execution are maintained as set forth in the Original Financing Agreement and the Original Project Agreement.

Section III. Procurement

A. General

1. **Goods, works, and Non-consulting Services.** All goods, works, and non-consulting 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 Section I of the Procurement Guidelines, with the provisions of the Original Financing Agreement and with the special provisions of this Section as they relate to procurement methods set forth herein.
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, with the provisions of the Original Financing Agreement.
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. Special Provisions for the Procurement of Goods, works, and Non-consulting Services

1. (a) Goods, works, and non-consulting services procured under contracts awarded on the basis of National Competitive Bidding as set forth in the Original Financing Agreement shall be 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.

C. Review by the Association of Procurement Decisions

The Procurement Plan reflecting the arrangements under this Financing 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:

Category	Amount of the Financing Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Block Grants and consultants' services provided by POs	33,900,000	100% of amounts disbursed
(2) Goods, consultants' services (other than those provided by POs) and training for PAF	5,600,000	100%
(3) Incremental Operating Costs for PAF	1,900,000	80%
TOTAL AMOUNT	41,400,000	

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.
2. The Closing Date is June 30, 2014.

APPENDIX**Section I. 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. “Beneficiary” means a Community Based Organization (CBO), village organization, self-help women group, credit group or any other group eligible pursuant to Section I, paragraph C(d) of the Schedule 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. “Co-financing” means, for purposes of paragraph 11 of the Appendix to the General Conditions, an amount of ten million Dollars (\$10,000,000), to be provided by the Association acting as administrator of the Food Price Crisis Response Trust Fund to assist in financing the Project.
6. “Co-financing Agreement” means an agreement of even date herewith between the Recipient and the Association acting as administrator of the Food Price Crisis Response Trust Fund providing for the Co-financing.
7. “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.
8. “DDC” means a District Development Committee established in each district of the Recipient’s territory pursuant to the Local Self Governance Act, 2055 (1999).

9. “EMF” means PAF’s Environmental Management Framework for the Project dated September 11, 2007, updated on March 10, 2010 in form and substance satisfactory to the Association, which sets 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.
10. “Financial Management Manual” means the manual referred to in paragraph C(a) of Section I of the Schedule to the Project Agreement, as the same may be amended from time to time with the agreement of the Association.
11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 31, 2010.
12. “Governance and Accountability Action Plan” and “GAAP” mean the plan dated March 1, 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.
13. “IGSP” means an Income Generating Sub-Project financed or proposed to be financed under Part B of the Project.
14. “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.
15. “Operational Manual” means PAF’s Operational Manual dated June 20, 2007, updated for purposes of this Agreement in form and substance satisfactory to the Association, which sets 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.

16. “Original Financing Agreement” means the financing agreement for the Poverty Alleviation II Project between the Recipient and the Association, dated January 31, 2008, as may be amended to the date of this Agreement (Grant No H337-NEP).
17. “Original Project” means the Project described in the Original Financing Agreement.
18. “Original Project Agreement” means the agreement for the implementation of the Poverty Alleviation Fund II Project entered between the Poverty Alleviation Fund and the Association in conjunction with the Original Financing Agreement of same date, including all schedules supplemental to the Original Project Agreement, as may be amended to the date of this Agreement.
19. “PAF” means the Poverty Alleviation Fund, an autonomous institution established pursuant to the Recipient’s Poverty Alleviation Fund Act, 2063 (2006).
20. “PO” or “Partner Organization” means a Non-governmental Organization (NGO), a Community Based Organization (CBO) and 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.
21. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank/Association in May 2004 and revised in October, 2006 and May 2010.
22. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 10, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same has been updated to reflect the specific arrangements under this Financing and as shall further be updated from time to time in accordance with the provisions of said paragraphs.
23. “Project Implementing Entity” means PAF.

24. “Project Implementing Entity’s Legislation” means the Recipient’s Poverty Alleviation Fund established under the Recipient’s Poverty Alleviation Fund Act, 2063 (2006).
25. “SSCIP” means a Small-Scale Community Infrastructure Project financed or proposed to be financed under Part A of the Project.
26. “Sub-Project” means an SSCIP, 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.
27. “Sub-Project Grant Agreement” means an agreement to be entered into between PAF and a Beneficiary pursuant to Section I, paragraph C(d) of the Schedule to the Project Agreement.
28. “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.
29. “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.
30. “VDC” means a Village Development Committee established within the Recipient’s territory pursuant to the Local Self Governance Act, 2055 (1999).