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GRANT NUMBER H367-NP

# Financing Agreement

(Emergency Peace Support Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 26, 2008

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**GRANT NUMBER H367-NP**

**FINANCING AGREEMENT**

AGREEMENT, dated August 26, 2008, 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 in an amount equivalent to thirty-one million three hundred thousand Special Drawing Rights (SDR 31,300,000) (“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 January 15 and July 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 carry out the Project 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 – TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. 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 – REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Secretary, Ministry of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4211-164

- 5.03. 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/Rameshore Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan Goldmark

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to contribute to the consolidation of the Nepal peace process by supporting: (i) the Recipient to meet commitments to selected groups affected by the conflict, including families of those killed as a result of the conflict, conflict-related widows and orphans, disabled people and Maoists in cantonments; (ii) increased transparency in implementation of benefits for the conflict-affected groups; and (iii) strengthening of key institutions which are tasked with policy and implementation functions in peace building, reintegration and rehabilitation.

The Project consists of the following parts:

Part 1: Benefit Payments during Transition Period

Provision of periodic benefit payments to eligible Beneficiaries for the period from July 2007 through mid-January 2009, as part of the Recipient's transitional social safety net program.

Part 2: Benefit Payments to Families of Those Killed as a Result of Conflict; Initial Reintegration Support to Other Conflict-affected Groups

- A. Provision of one-time benefit payments to eligible survivor families of people killed as a result of the conflict, as part of the Recipient's transitional social safety net program.
- B. Provision of reintegration support to other conflict-affected groups (including people disabled in the conflict, internally displaced people, families of persons who have disappeared, minors involved in the conflict, orphaned children, and widows) in the forms of, *inter alia*, training, legal and counseling services, rehabilitation services for disabled people, stipends and grants, and piloting of other interventions.

Part 3: Capacity Building of Key Institutional Structures in Support of Peace Process; Project Management Support

- A. Provision of capacity building activities and technical assistance to MOPR to enable it to effectively perform its core functions, including its oversight role on payments to Beneficiaries and families of deceased and its coordination role in peace process support.
- B. Support to PMT for core project implementation tasks, including procurement and financial management, and evaluation of project interventions through surveys and other assessment tools.

- C. Provision of technical assistance, training and operational support to other participants and stakeholders in the peace process as needed, including the Peace Commission, Local Peace Committees, and other institutions and groups associated with the peace process.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Peace Commission (PC)**

The Recipient shall ensure that responsibilities for high level oversight of the implementation of Project activities are vested in the NPTF Steering Committee until the formation of the Peace Commission.

##### **B. Project Management Team (PMT)**

1. The Recipient shall maintain the Project Management Team (PMT) with functions and key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including: (i) Project Coordinator (Joint Secretary of the Conflict Management Division of MOPR); (ii) representatives from other Divisions and Sections of MOPR - Conflict Analysis and Policy Formulation Division, Relief and Rehabilitation Section, Planning and Monitoring Section, and Office of the Central Coordinator of Cantonment Management; (iii) Accounts Officer; and (iv) Procurement Officer.
2. The Recipient shall ensure that the key staff in the Project Management Team (PMT) listed in Paragraph 1 above are not transferred to other positions during the period of Project implementation (and in the case of the Accounts Officer, until six (6) months following the Closing Date or until the submission of the final audited Financial Statements to the Association pursuant to Section II of Schedule 2 to this Agreement, whichever occurs later), except with prior notice to the Association and as required by the applicable laws of the Recipient.

##### **C. Benefit Payments under Parts 1 and 2.A of the Project**

The Recipient shall ensure that: (i) the identification and verification of Beneficiaries, transfers of benefit payments to such Beneficiaries, monitoring and evaluation of such transfers, and related activities under Parts 1 and 2.A of the Project shall be implemented in accordance with the principles, criteria, procedures and other provisions set forth in the Benefit Payment Operational Guidelines for the respective Parts of the Project, and for Part 2.A of the Project, also in a manner consistent with the Directives on Norms for Financial Support and Relief of Conflict Victims; and (ii) no action is taken which would prevent or interfere with such implementation.

**D. Reintegration Support under Part 2.B of the Project**

The Recipient shall ensure that: (i) the reintegration support activities under Part 2.B of the Project are implemented in accordance with the provisions of the Reintegration Support Operational Guidelines; and (ii) no action is taken which would prevent or interfere with such implementation.

**E. Anti-Corruption**

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

**F. Annual Work Program and Budget (AWPB)**

1. The Recipient shall: (i) at least sixty (60) days prior to the beginning of each Fiscal Year, prepare and furnish to the Association a proposed Annual Work Program and Budget (AWPB) for such Fiscal Year; and (ii) afford the Association a reasonable opportunity to discuss each such AWPB with the Recipient prior to submitting it for final governmental approval.
2. Without limitation on Paragraph 1 above, the Recipient shall ensure that the total project costs set forth in each such AWPB include activities to be funded by the Recipient in amounts satisfactory to the Association.

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

**A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. 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 prepare and furnish 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 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. 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**

1. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), 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.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than National Competitive Bidding, which may be used for goods. 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 regulations made thereunder) 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**

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods procured on the basis of a method other than Direct Contracting or Shopping and estimated to cost the equivalent of \$100,000 or more; (b) each contract for goods procured on the basis of Shopping and estimated to cost the equivalent of \$50,000 or more; (c) each contract for goods

procured on the basis of Direct Contracting and estimated to cost the equivalent of \$20,000 or more; (d) each contract for consultants' services provided by a firm, procured on the basis of a method other than Single-Source Selection or Consultants' Qualifications, and estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services provided by a firm, procured on the basis of Single-Source Selection or Consultants' Qualifications, and estimated to cost the equivalent of \$50,000 or more; and (f) each contract for consultants' services provided by individuals and estimated to cost the equivalent of \$15,000 or more.

2. 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.

<u>Category</u>	<u>Amount of the Financing Allocated (Expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (Inclusive of Taxes)</u>
(1) Benefit payments under Part 1 of the Project	11,240,000	100%
(2) Benefit payments and Reintegration Support under Part 2 of the Project		100%
(a) Benefit Payments	14,230,000	
(b) Reintegration Support	3,130,000	
(3) Goods, consultants' services, training, workshops under Part 3 of the Project, and Operating Costs under Parts 1, 2 and 3 of the Project	2,700,000	100%
<b>TOTAL AMOUNT</b>	<b>31,300,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 12,500,000 equivalent may be made for payments made prior to this date but on or after July 1, 2007;
  - (b) under Category (1) unless the Recipient has: (i) adopted the Benefit Payment Operational Guidelines satisfactory to the Association; and (ii) executed a memorandum of understanding with each of the Rastriya Banijya Bank, the Nepal Bank Limited, and the Nepal Rastra Bank, as applicable, setting forth implementation and internal control arrangements for benefit payments under Part 1 of the Project satisfactory to the Association;

- (c) under Category (2)(a) unless the Recipient has adopted the Guidelines for Family Benefit, in form and substance satisfactory to the Association; and
- (d) under Category (2)(b) unless: (i) the Recipient has adopted the Reintegration Support Operational Guidelines satisfactory to the Association; and (ii) the Peace Commission, or any other alternative mechanism satisfactory to the Association, has endorsed the information provided by MOPR on benefit payments to Maoists in cantonments and families of deceased.

2. The Closing Date is June 30, 2011.

## 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. “AWPB” or “Annual Work Program and Budget” means an Annual Work Program and Budget of MOPR to be prepared for each Fiscal Year for the Project and setting forth, *inter alia*, activities planned under its work program for the Project and estimated costs for such activities.
3. “Beneficiary” means a person eligible to receive a benefit payment under Part 1 or Part 2.A of the Project.
4. “Benefit Payment Operational Guidelines” means the Benefit Payment Operational Guidelines to be adopted by the Recipient and referred to in Sections I and IV of Schedule 2 to this Agreement, setting out, *inter alia*, details of principles, guidelines, criteria, procedures, timetables and other institutional and implementation arrangements for the identification and verification of Beneficiaries, transfers of payments to such Beneficiaries, monitoring and evaluation of such transfers, and other activities under Part 1 of the Project, as the same may be amended from time to time with the agreement of the Association.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
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.
7. “Directives on Norms for Financial Support and Relief of Conflict Victims” means the document titled, “Directives on Norms for Financial Support and Relief of Conflict Victims,” as approved by the Recipient’s Council of Ministers in March 2008 and setting out, *inter alia*, policies and entitlements of conflict-affected populations.
8. “Fiscal Year” or “FY” means the twelve (12)-month period corresponding to any of the Recipient’s fiscal years, which period commences and ends in mid-July of each calendar year.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005 (as amended through October 15, 2006).

10. “Guidelines for Family Benefit” means the Operational Guidelines to be adopted by the Recipient, setting out, *inter alia*, details of principles, guidelines, criteria, procedures, timetables and other institutional and implementation arrangements for the identification and verification of Beneficiaries among families of those killed as a result of the conflict, transfers of payments to such Beneficiaries, monitoring and evaluation of such transfers, and other activities under Part 2.A of the Project, as the same may be amended from time to time with the agreement of the Association.
11. “Local Peace Committee” or “LPC” means a Local Peace Committee to be established by the Recipient at the district level for the purposes of, *inter alia*, monitoring and implementing different aspects of the peace process at the local and community levels, or any successor thereto.
12. “Maoists in cantonments” means those Beneficiaries encamped in cantonments, as per the Comprehensive Peace Accord dated November 21, 2006 and who have subsequently been verified by the United Nations Mission in Nepal through its two-stage verification process, and who are eligible for benefits under the Project.
13. “MOPR” means the Recipient’s Ministry of Peace and Reconstruction, or any successor thereto.
14. “NPTF Steering Committee” means the Steering Committee of the Nepal Peace Trust Fund, established by the Recipient for channeling funds to support the peace process, and administered by the Recipient’s Ministry of Finance and technically supported by MOPR.
15. “Operating Costs” means: (i) expenditures incurred by MOPR or another agency or entity engaged in implementation of the Project for the operation and maintenance of facilities, equipment and vehicles used for Project implementation, including, without limitation, office rental, vehicle rental, fuel, routine repair and maintenance of equipment, vehicles and office premises, communication costs, use of internet costs, stationeries and other office supplies, and costs of translation, printing, photocopying and advertising; (ii) transportation costs and subsistence allowances for staff of any such agency or entity in travel status for Project implementation; and (iii) salaries and allowances of incremental staff assigned to any such agency or entity for Project implementation but excluding salaries of the Recipient’s civil servants.
16. “Peace Commission” or “PC” means the Peace Commission to be established by the Recipient at the national level for the purposes of, *inter alia*, providing multi-party oversight of the peace process, or any successor thereto.

17. “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.
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 28, 2008, 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.
19. “Project Management Team” or “PMT” means the Project Management Team maintained in MOPR and responsible for, *inter alia*, planning, implementing, coordinating, supervising, and internal monitoring and evaluating activities to be carried out under the Project.
20. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
21. “Reintegration Support” means expenditures incurred on account of services in the area of training or social service provision and on account of such other support for integration of conflict-affected populations, as agreed between the Recipient and the Association, and provided by non-governmental agencies or other specialized institutions to the Recipient’s various departments and agencies.
22. “Reintegration Support Operational Guidelines” means the Reintegration Support Operational Guidelines to be adopted by the Recipient and referred to in Sections I and IV of Schedule 2 to this Agreement, setting out, *inter alia*, details of principles, guidelines, criteria, procedures, timetables and other institutional and implementation arrangements for the economic reintegration support activities under Part 2.B of the Project, as the same may be amended from time to time with the agreement of the Association.