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CREDIT NUMBER 4832-NP  
GRANT NUMBER H629-NP

# Financing Agreement

(Additional Financing for Road Sector Development Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 4, 2011

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## **FINANCING AGREEMENT**

AGREEMENT dated March 4, 2011, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 twenty one million seven hundred thousand Special Drawing Rights (SDR 21,700,000) (“Grant”); and
  - (b) an amount equivalent to twenty six million six hundred thousand Special Drawing Rights (SDR 26,600,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 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 carry out the Project through the Department of Roads (DOR) 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 — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that an event has occurred which makes it improbable that any part of the Priority Investment Plan that relates to the activities financed or to be financed under the Project will be carried out.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. 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 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/ Rameshore P. Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is for residents of the Beneficiary Districts to have all-season road access, thereby reducing travel time and improving access to economic centers and social services.

The Project consists of the Original Project, with Part 1 being modified as follows:

#### Part 1: Road Development

- A. Upgrading about 700 km of existing dry-season roads and tracks to all-season standard with sealed gravel pavements.
- B. Carrying out periodic maintenance of about 2550 km of blacktop strategic roads selected based on the maintenance priority established in the PIP and annual road condition surveys.
- C. Carrying out emergency maintenance for the slope protection and feasible pavement works to complete the ongoing upgrading works in selected districts, such as, Dailekh, Darchula, Baitadi, Bajhang and Kalikot.
- D. Carrying out road safety audits to identify black spots in the strategic road network and carrying out road safety physical works to improve the black spots.

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

1. The provisions of paragraphs A, B, C, H, I, J, L, and M of Section I of Schedule 2 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.
2. The Recipient shall ensure that, from FY2011, the government budgetary allocation for road maintenance works for both local roads and strategic roads will be consolidated and channeled through RBN.
3. Without limitation to any other requirements under the prevailing laws in force, the Recipient shall: (i) by March 31, 2011, establish asset registers in each of DOR's divisions for assets in such division that are valued at more than NPRs 1,000,000; and (ii) thereafter, update such asset registers by December 31 of each Fiscal Year. Such asset registers shall include a brief description of each asset, its present value based on depreciation and additional costs that have been incurred on such asset.
4. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the Governance and Accountability Action Plan.
5. Without limitation on the provisions of paragraph C of Section I of Schedule 2 to the Original Financing Agreement, the Recipient shall carry out the Project in accordance with the Environmental and Social Management Framework, the Environmental Management Action Plans, and Resettlement Action Plans.

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

1. 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, commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made. 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 estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract 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) 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 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.
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 International Competitive Bidding; (b) each contract for goods costing more than \$50,000 procured on the basis of National Competitive Bidding; (c) each contract for goods procured on the basis of Shopping and estimated to cost the equivalent of \$20,000 or more; (d) each contract for works procured on the basis of International Competitive Bidding; (e) each contract for works procured on the basis of National Competitive Bidding and estimated to cost the equivalent of \$500,000 or more;

(f) the first three contracts for works procured on the basis of Direct Contracting or Community Participation procedures and estimated to cost the equivalent of \$20,000 or more; (g) each contract for consultants' services provided by a firm and estimated to cost the equivalent of \$100,000 or more; and (h) each contract for consultants' services provided by individuals and estimated to cost the equivalent of \$50,000 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 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) Works under Part 1.A of the Project	18,820,000	15,390,000	100%
(2) Works under Parts 1.B, 1.C, and 1.D of the Project	1,900,000	1,540,000	10%
(3) Consultants' Services, goods, studies, Training, Workshops, study tours, and Incremental Operating Costs	4,520,000	3,680,000	100%
(4) Unallocated	1,360,000	1,090,000	
<b>Total</b>	<b>26,600,000</b>	<b>21,700,000</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 500,000 from IDA Grant may be made for payments made prior to this date but on or after October 1, 2010, for eligible civil works expenditures incurred for Part 1.C of the Project under Category (2) above.
2. The Closing Date is June 30, 2015.

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

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15:	
commencing March 15, 2021 to and including September 15, 2030	1%
commencing March 15, 2031 to and including September 15, 2050	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****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 with the modifications set forth in Section II of this Appendix.
- (2) “Beneficiary District” means each of the districts of Darchula, Baitadi, Kalikot, Dailekh, Surkhet, Bajhang, Jumla, Rukum, Salyan and Jajarkotin which the road improvement activities under Part 1.A of the Project will be carried out.
- (3) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- (4) “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.
- (5) “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons.
- (6) “DOR” means the Department of Roads under MOPPW, or any successor thereto.
- (7) “Environmental Management Action Plans” and the acronym “EMAPs” mean, collectively, all the environmental management action plans prepared and to be prepared to address environmental risks of the Project, which set out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the agreement of the Association; and the term “EMAP” means any of EMAPs.
- (8) “Environmental and Social Management Framework” or “ESMF” means the Environmental and Social Management Framework of DOR for the road sector dated April 2007 and approved by the Association for use in the Project, setting forth, *inter alia*, policies and procedures for the assessment and management of environmental and social impacts of road improvement activities and includes

frameworks and guidelines for an Initial Environmental Examination (IEE), an Environmental Impact Assessment (EIA), Environmental Management Action Plans (EMAPs) and a Social Impact Assessment (SIA), a Resettlement Policy Framework (RPF), a Vulnerable Community Development Framework (VCDF), and Resettlement Action Plans (RAPs) set forth therein; 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 fiscal years, which period commences and ends in mid-July of each calendar year.
- (10) “Governance and Accountability Action Plan” means that Governance and Accountability Action Plan acceptable to the Association, dated October 4, 2010, setting out, *inter alia*, policies and procedures for addressing and mitigating fiduciary risks and other programmatic risks under the Project, 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) “Incremental Operating Costs” means: (i) expenditures incurred by DOR for the operation and maintenance of facilities, equipment and vehicles used for Project implementation, including, without limitation, 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 DOR staff in travel status for Project monitoring; and (iii) salaries and allowances of incremental staff assigned to DOR for Project implementation but excluding salaries of the Recipient’s civil servants.
- (13) “MOPPW” means that Recipient’s Ministry of Physical Planning and Works, or any successor thereto.
- (14) “Original Financing Agreement” means the financing agreement for a Road Sector Development Project between the Recipient and the Association, dated January 31, 2008 (Grant Number H339-NEP).
- (15) “Original Project” means the Project described in the Original Financing Agreement.
- (16) “Priority Investment Plan” or “PIP” means the Priority Investment Plan for the Road Sector (April 2007) of the Recipient, setting forth, *inter alia*, objectives, policies and actions to undertake priority projects for sustainable development of the strategic and rural road network for the period 2007-2016.

- (17) “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.
- (18) “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 28, 2010 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) “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
- (20) “RBN” means the Roads Board Nepal established under the Recipient’s Roads Board Nepal Act, 2058 (2002), to manage the maintenance funds for the strategic and local road network.
- (21) “Resettlement Action Plans” and its acronym “RAPs” mean the resettlement action plans prepared and to be prepared by the Recipient, which sets out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the execution of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plan, as the same may be revised from time to time with the prior agreement of the Association.
- (22) “Training and Workshops” means the reasonable cost of: (i) training materials and rental of training facilities and equipment; (ii) tuition fees, travel, accommodation and per diem of trainers and trainees; and (iii) any other expenses related to training (including study tours and workshops) to be carried out under the Project.

## **Section II. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:
 

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”



2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank.

In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank's website and otherwise be made known to staff and other stakeholders.”