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GRANT NUMBER H091-NEP

# Development Grant Agreement

(Poverty Alleviation Fund Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 14, 2004

Public Disclosure Authorized



**GRANT NUMBER H091-NEP**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated September 14, 2004, between KINGDOM OF NEPAL (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

(B) the Project will be carried out by the Nepal Poverty Alleviation Fund (PAF) with the Recipient's assistance and, as part of such assistance, the Recipient will make the proceeds of the grant provided for in Article II of this Agreement (the Grant) available to PAF, as set forth in this Agreement;

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and the Nepal Poverty Alleviation Fund (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions) with the modifications set forth in Schedule 4 to this Agreement constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary" means, within the Project Area (as hereinafter defined), Community Based Organization (CBO), village organization, self-help women group, credit groups, or any other group eligible pursuant to Part B.1 of Schedule 2 to the Project Agreement and other eligibility criteria as set forth in the Operational Manual;

(b) “Block Grants” means a grant made or proposed to be made by the Recipient, out of the proceeds of the Grant, to a Beneficiary to finance the costs of goods, works, and services for Sub-Projects under Parts A, B or C of the Project;

(c) “DDC” means a District Development Committee established in each district of the Recipient’s territory under the Local Self Governance Act, 2055 (1999);

(d) “Environmental Assessment” means the Recipient’s environmental assessment, in form and substance satisfactory to the Association, dated March 7, 2004, including, *inter alia*: (i) the identification and assessment of the potential environmental impact of activities to be carried out under Sub-Projects; (ii) an evaluation of alternative measures; and (iii) the EMF (as hereinafter defined) detailing the appropriate mitigation, monitoring, institutional and management measures required for the implementation of Sub-Projects with a view to ensuring compliance of the activities referred to in subparagraph (i) herein with said measures and to eliminating adverse environmental impacts, offsetting such impacts, or reducing them to acceptable levels;

(e) “EMF” means the Recipient’s Environmental Management Framework which sets out, *inter alia*: (i) key principles for environmental management of Sub-projects; (ii) procedures to screen and process Sub-Projects for significant environmental impacts, and to assist in mitigating impacts; and (iii) procedures to ensure that these principles and procedures are properly applied;

(f) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of the Project Agreement;

(g) “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;

(h) “IGSP” means an Income Generating Sub-Project financed or proposed to be financed under Part A of the Project;

(i) “Innovative Grants” means Block Grants made by PAF to selected Beneficiaries under Part C of the Project;

(j) “Nepal Rastra Bank” means the central bank of the Recipient, established and operating pursuant to the provisions of the Recipient’s Nepal Rastra Bank Act, 2058 (2001);

(k) “Nepalese Rupee” and the sign “NRs” mean the currency of the Recipient;

(l) “Operational Manual” means the Recipient’s Operational Manual dated March 7, 2004, satisfactory to the Association, containing PAF’s eligibility criteria and

appraisal, approval and supervision rules and procedures for POs (as hereinafter defined), Beneficiaries and Sub-Projects; as well as, EMF, VCDP (as hereinafter defined) and negative list of Sub-Projects, and the Financial Management Manual, as the same may be amended from time to time with the agreement of the Association;

(m) “PAF” means the Poverty Alleviation Fund, an autonomous institution established pursuant to the Recipient’s “Poverty Alleviation Fund Ordinance, 2004”;

(n) “Performance Indicators” means indicators set out in Schedule 4 to the Project Agreement;

(o) “PO” or “Partner Organization” means a Non-governmental Organization (NGO), VDC (as hereinafter defined), DDC, CBO or private sector institution or entity, involved in poverty alleviation work, which meets the eligibility criteria for POs set forth in the Operational Manual;

(p) “PO Agreement” means an agreement to be entered into between PAF and a PO pursuant to Part A of Schedule 2 to the Project Agreement;

(q) “Project Agreement” means the agreement between the Association and PAF of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(r) “Project Area” means the six (6) districts that have been identified for the purpose of carrying out the Project, namely *Mugu* and *Darchula* in the mountains, *Ramechhap* and *Pyuthan* in the hills, and *Kapilvastu* and *Siraha* in the Terai;

(s) “Project Preparation Advance” means the Project preparation advance provided by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on October 17, 2003 and on behalf of the Recipient on December 26, 2003 and referred to in Section 2.02 (c) of this Agreement;

(t) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(u) “SSIP” means a Small-Scale Community Infrastructure Development Project financed or proposed to be financed under Part B of the Project;

(v) “Sub-Project” means an IGSP, SSIP or a development project or scheme to be carried out by a community under Parts A, B or C of the Project, which meets the eligibility criteria to receive financing in the form of Block Grants;

(w) “Sub-Project Grant Agreement” means an agreement to be entered into between a PAF and a Beneficiary pursuant to paragraph 3 (b) of Part B of Schedule 2 to the Project Agreement;

(x) “Subsidiary Grant Agreement” means the agreement to be entered into between the Recipient and PAF pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement;

(y) “VCDP” means Vulnerable Communities People’s Development Plan/Operational Guidelines dated March 7, 2004, prepared by the Recipient in consultation with the local communities in the Project Area describing a program of actions, measures and policies designed to maximize the benefits accruing to vulnerable people under the Project, as the same may be revised from time to time in agreement with the Association; and

(z) “VDC” means a Village Development Committee established within the Recipient’s territory pursuant to the Local Self Governance Act, 2055 (1999).

## **ARTICLE II**

### **The Grant**

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million one hundred thousand Special Drawing Rights (SDR10,100,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of: (i) the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) under Block Grants to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in Nepal Rastra Bank, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be February 1, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.06. The Secretary, Ministry of Finance of the Recipient, or any person whom he or she shall designate in writing, is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Grant Agreement, shall cause the PAF to perform in accordance with the provisions of the Project Agreement all the obligations of the PAF therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the PAF to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Recipient shall make the proceeds of the Grant available to the Board under a Subsidiary Grant Agreement to be entered into between the Recipient and the PAF, under terms and conditions which shall have been approved by the Association.

(c) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Recipient and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, and maintenance, respectively) shall be carried out by PAF pursuant to Section 2.05 of the Project Agreement.

Section 3.04. The Recipient shall maintain, in form and substance satisfactory to the Association, the VCDP, and implement it in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein, to ensure that vulnerable people in the Project Area shall benefit fully from the activities financed under the Project.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards, acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Grant Account is made, have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year, or other period agreed to by the Association, audited, in accordance with consistently applied auditing standards



acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, or such other period agreed to by the Association, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
  - (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:
- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
  - (ii) enable the Association's representatives to examine such records; and
  - (iii) ensure that such statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Association, referred to in paragraph (b) of this Section.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

- (a) the PAF shall have failed to perform any of its obligations under the Project Agreement;
- (b) As a result of events which have occurred after the date of the Development Grant Agreement, an extraordinary situation shall have arisen which shall

make it improbable that the PAF will be able to perform its obligations under the Project Agreement;

(c) The Poverty Alleviation Fund Ordinance shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PAF to perform any of its obligations under the Project Agreement; and

(d) The Recipient or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PAF or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Recipient; and

(b) the events specified in paragraphs (b), (c) and (d) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI Effective Date; Termination**

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and the PAF.

Section 6.02. The following are specified as additional matters within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by the PAF, and is legally binding upon the PAF in accordance with its terms; and

(b) that the Subsidiary Grant Agreement has been duly authorized or ratified by the Recipient and PAF and is legally binding upon the Recipient and the PAF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Recipient; Addresses

Section 7.01. The Secretary of Ministry Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4259-891

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Kathmandu, Kingdom of Nepal, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ Bhanu Prasad Acharya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Grant**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Block Grants for:		100% of amounts disbursed
(a) IGSPs	2,300,000	
(b) SSIPs	5,490,000	
(c) Innovative Grants	410,000	
(2) Consultants' services	310,000	85%
(3) Equipment and vehicles for PAF	220,000	100% of foreign expenditures, and 85% of local expenditures
(4) Training and knowledge sharing	390,000	100%
(5) Incremental Operating Costs	110,000	80%
(6) Refunding of Project Preparation Advance	300,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	570,000	
<b>TOTAL</b>	<u>10,100,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term “Incremental Operating Costs” means, salaries, per diem, 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, stationary, rent and utilities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures: (a) for all Block Grants including Innovative Grants; (b) training, knowledge sharing; (c) incremental operating costs; (d) under contracts for equipment and vehicles, costing less than \$200,000 equivalent per contract; (e) under contracts for services of consulting firms and POs costing less than \$100,000 equivalent per contract; and (f) under contracts for services of individual consultants costing less than \$50,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Recipient.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to carry out demand- and community-driven approach to improve access to income-generating Sub-Projects and community infrastructure, benefiting groups excluded by reasons of gender, ethnicity and caste, as well as the poorest groups in rural communities.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objective:

#### Part A: Income Generating Sub-Projects

Provision of Block Grants to Beneficiaries to carry out IGSP in the areas, *inter alia*, of: (i) micro-irrigation; (ii) micro-enterprises; (iii) crafts; (iv) land productivity; and (v) animal husbandry.

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

Provision of Block Grants to Beneficiaries to carry out SSIPs in the areas, *inter alia*, of: (i) engineered trails; (ii) footbridges; (iii) schools; and (iv) clinics.

#### Part C: Innovation and Special Programs

Provision of demand-driven Innovative Grants to selected Beneficiaries for the carrying out of:

- (i) Sub-Projects requiring innovative approaches for targeting and improving livelihoods; and
- (ii) Special Sub-Projects proposed by Beneficiaries.

#### 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 funding proposals; and
- (ii) Provision of consultants' services to build the capacity of the POs, and assist them in monitoring implementation of Sub-Projects.

2. Capacity Building for Local Bodies

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

3. Capacity Building of Beneficiaries

Provision of consultants' services to build the Beneficiaries' capacity in areas including: (i) training of village health workers; (ii) veterinary skills; (iii) crafts skills; (iv) introduction of improved varieties of agricultural produce; (v) marketing; (vi) entrepreneurship; and (vii) bookkeeping.

4. Support to Micro-finance Intermediaries

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

5. Monitoring and Evaluation System

Provision of consultants' services to monitor, supervise and evaluate the implementation of the Project.

Part E: Administration of the PAF

Strengthening the operational capacity of PAF through the provision of equipment, vehicles, studies and training and technical assistance to improve information management, financial systems, procurement and environmental management.

\* \* \*

The Project is expected to be completed by July 31, 2008.



### **SCHEDULE 3**

#### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1)(a), (1)(b), (1)(c), (2), (3), (4), and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$600,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
    - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of

the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the

Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## **SCHEDULE 4**

### **Modifications to the General Conditions**

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05 and Article VII, are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
  - (a) The term “Borrower” is modified to read “Recipient”.
  - (b) The term “Credit” is modified to read “Grant”.
  - (c) The term “credit” is modified to read “grant”; except that where used in Sections 2.03 (b), 6.02 (a)(ii) and 6.02 (c)(i), as modified below, the term “credit” shall continue to read “credit”.
  - (d) The term “Credit Account” is modified to read “Grant Account”.
  - (e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Article IV is modified as follows:
  - (a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable.

    - (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.
    - (b) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

- (b) Section 4.03 and its heading are modified to read as follows:

“Section 4.03 Amount of the Grant.

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a)(ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02(c)(i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

6. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

**Seble Berhanu**

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**May**

**21,**

**2004**

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**PM**