

CONFORMED COPY

GRANT NUMBER H369-NP

Financing Agreement

(Additional Financing For Second Rural Water Supply and Sanitation Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 26, 2008

GRANT NUMBER H369-NP

FINANCING AGREEMENT

AGREEMENT dated August 26, 2008, 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, in the Appendix to this Agreement, or in the Original Financing Agreement (as defined 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 sixteen million four hundred thousand Special Drawing Rights (SDR 16,400,000) (“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 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 cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

- 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 Schedule to the Project Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: 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 Condition of Effectiveness consists of the following: that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: that the Subsidiary Grant Agreement has been duly authorized by, and executed and delivered on behalf of, the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. 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 Prasad Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan Goldmark

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve rural water supply and sanitation sector institutional performance and mainstream the Rural Water Supply and Sanitation Fund Development Board approach within the Recipient's governmental system; and (b) support communities to form inclusive local WSUGs that can plan, implement and operate drinking water and sanitation infrastructure that delivers sustainable health, hygiene and productivity benefits to rural households.

The Project consists of the Original Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Grant Agreement

1. To facilitate the 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 a subsidiary grant agreement between the Recipient and the Project Implementing Entity, with terms and conditions satisfactory to the Association (“Subsidiary Grant Agreement”) which shall include the release of the Project Implementing Entity’s budget as block grants in three (3) tranches under a separate budget head in the Recipient’s budget (Red Book) to the Rural Water Supply and Sanitation Fund Development Board.
2. 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 Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any of its provisions.

B. Sector Monitoring and Evaluation System

The Recipient shall establish the RWSS Sector monitoring and evaluation system in operational manner by July 16, 2009, or such later date as agreed with the Association.

C. RWSS Monitoring and Evaluation Unit

The Recipient shall continue to allocate, from its own resources, an adequate operating budget to the RWSS Monitoring and Evaluation Unit within MPPW to carry out RWSS sector monitoring.

D. Indigenous People’s Development Plan

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

E. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and cause Project Reports to be prepared 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 one (1) 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 cause to be prepared and furnished 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 unaudited financial reports for the Project covering the Fiscal Year trimester, in form and substance satisfactory to the Association.
3. The Recipient shall ensure that the Project Implementing Entity's financial statements are audited in accordance with the provisions of Section II of the Schedule to the Project Agreement. Each audit of the financial statements shall cover the period of one (1) Fiscal Year of the Project Implementing Entity. 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 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 \$100,000 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 (and regulations made as provisioned therein), 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.
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.

Procurement Method	
(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 as provisioned

therein) 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.

Procurement Method	
(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 equipment and materials for the Board estimated to cost the equivalent of \$50,000 or more; (b) each contract for consultants' services provided by a firm and estimated to cost the equivalent of \$100,000 or more; and (c) 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 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) Goods, works and services for the Schemes: (a) Development Phase (b) Implementation Phase	 3,160,000 9,720,000	 100% of grants under Part B of the Project 100% of grants under Part B of the Project
(2) Goods, consultants’ services, studies, training, workshops, and study tours	3,400,000	100%
(3) Incremental Operating Costs	120,000	15%
TOTAL AMOUNT	<u>16,400,000</u>	

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 608,000 equivalent may be made for payments made prior to this date but on or after July 16, 2008, for Eligible Expenditures.
2. The Closing Date is December 31, 2010.

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. “Board” means the Rural Water Supply and Sanitation Fund Development Board established and operating under the Project Implementing Entity’s Legislation.
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.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “Original Financing Agreement” means the development credit agreement for the Second Rural Water Supply and Sanitation Project between the Recipient and the Association, dated September 14, 2004, as amended to the date of this Agreement (Credit No. 3911-NEP).
7. “Original Project” means the Project described in the Original Financing Agreement.
8. “Original Project Agreement” means the project agreement for the Second Rural Water Supply and Sanitation Project between the Association and the Project Implementing Entity, dated September 14, 2004, as amended to the date of this Agreement (Credit No. 3911-NEP).
9. “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.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 3, 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.
11. “Project Implementing Entity” means the Board.

12. “Project Implementing Entity’s Legislation” means the Recipient’s Formation Order dated March 14, 1996 establishing the Board, issued pursuant to Section 3 of the Recipient’s Development Board Act, 2013 (1956), as amended from time to time.
13. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
14. “Subsidiary Grant 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.