

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4664-NP
GRANT NUMBER H525-NP

Financing Agreement

(Additional Financing For Rural Access Improvement and Decentralization Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 17, 2010

Public Disclosure Authorized

CREDIT NUMBER 4664-NP
GRANT NUMBER H525-NP

FINANCING AGREEMENT

AGREEMENT, dated May 17, 2010, 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 credit and a grant (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 fifteen million seven hundred thousand Special Drawing Rights (SDR 15,700,000) (“Credit”); and
 - (b) an amount equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR12,800,000) (“Grant”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 through DOLIDAR, and cause each DDC to carry out, the Project with due diligence and efficiency, in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices, and in accordance with the provisions of Article IV of the General Conditions. The Recipient shall provide, and cause each DDC to provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.
- 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 by the Recipient and each DDC in accordance with the provisions of Schedule 2 to this Agreement.
- 3.03. The Recipient shall execute with each DDC a Memorandum of Understanding, satisfactory to the Association and including the provisions set forth in Schedule 4 to this Agreement, and promptly upon such execution furnish a copy thereof to the Association, before such DDC participates in the carrying out of any activities under the Project. No withdrawals of the proceeds of the Financing shall be made under the provisions of Section IV of Schedule 2 to this Agreement for payments made for expenditures incurred by such DDC for any activities under the Project unless and until the Recipient has furnished a copy of such Memorandum of Understanding to the Association. If any provision of any such Memorandum of Understanding is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.
- 3.04. The Recipient shall cause each DDC to perform in accordance with the provisions of the applicable Memorandum of Understanding all the obligations of such DDC therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable such DDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.
- 3.05. The Recipient shall exercise its rights under each Memorandum of Understanding in such manner as to: (i) protect the interests of the Recipient and the Association; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project. Except as the Association shall

otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Memorandum of Understanding or any of its provisions.

- 3.06. The Recipient shall make available to each DDC under its Memorandum of Understanding, as a grant and in a timely manner: (i) part of the proceeds of the Financing; and (ii) additional funds from the Recipient's own resources if and as required for such DDC to carry out its activities under the Project.
- 3.07. The Recipient and the Association hereby agree that the obligations set forth in Sections 4.04, 4.05, 4.06, 4.07 and 4.11 of the General Conditions (relating to insurance; land acquisition; use of goods, works and services, maintenance of facilities; plans, documents, records; and visits; respectively) in respect of the activities to be carried out by each DDC shall be carried out by such DDC pursuant to its Memorandum of Understanding.

ARTICLE IV – REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) The Recipient or any DDC shall have failed to perform any of its obligations under its Memorandum of Understanding.
 - (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Recipient or any DDC will be able to perform its obligations under its Memorandum of Understanding.
 - (c) The Recipient or any DDC shall have amended, suspended, abrogated, repealed, waived or failed to enforce any of the provisions of its Memorandum of Understanding so as to materially and adversely affect the carrying out of the activities under the Project within the district of such DDC.

ARTICLE V – 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) 4211-164/165

6.03. The Association's Address is:

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

Facsimile:

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 G. Goldmark

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is for residents of participating districts of the Recipient to utilize improved rural transport infrastructure and services in order to have enhanced access to social services and economic opportunities.

The Project consists of the Original Project and the following additional parts:

Part 1: Rural Transport Infrastructure Improvement in Participating Districts

Carrying out of the following activities in districts covered under the Original Project and in districts not covered under the Original Project:

- (a) Rehabilitation and upgrading of about 550 km of existing dry-season rural roads to all-season standard.
- (b) Upgrading of about 140 km of existing rural trails and tracks to dry-season road standard in remote hill districts.
- (c) Carrying out road maintenance works on about 4,500 km of rural roads, covering routine and recurrent maintenance.
- (d) Construction of trail bridges.
- (e) Development of small community infrastructures, including construction of markets and community trails and roads, to be carried out by Beneficiaries as Community Infrastructure Subprojects with the proceeds of Community Infrastructure Grants.
- (f) Construction of about 10 key motorable river crossings.

Part 2: Capacity Building and Advisory Services

Carrying out of the activities included in Part B of the Original Project in the districts in which the activities under Part 1 above are carried out.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Monitoring Committee (PMC)

The provisions of Paragraph 1 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

B. Project Coordination Team (PCT)

1. The Recipient shall maintain the PCT with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a Project Coordinator; (ii) an Engineer designated for procurement activities (including monitoring and reporting); (iii) an Engineer designated for road maintenance activities (including monitoring and reporting); (iv) two (2) Engineers designated for coordination, monitoring, evaluation and reporting activities; (v) a Planner/Engineer designated for planning and studies activities; (vi) an Accounts Officer; (vii) two (2) accountants; (viii) an Environmental Planner; (ix) a Sociologist; and (x) other relevant support staff.
2. The Recipient shall ensure that the key staff in the PCT 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. District Technical Office (DTO)

The Recipient shall cause each DDC to maintain the DTO with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including, as needed: (i) a District Engineer; (ii) Accounts Staff; (iii) an Engineer/Sub-Engineer; (iv) a laboratory technician; (v) a Social Mobilizer; (vi) a Planning and Designing Engineer Consultant; and (vii) a Social Development Consultant.

D. District Participation Framework

The provisions of Paragraph 4 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

E. DDC's Annual Investment and Maintenance Program and Budget; District Transport Master Plan (DTMP)

The provisions of Paragraphs 5 and 6 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

F. Road Maintenance Program

1. The Recipient shall cause each DDC to utilize in each Fiscal Year funds from its own resources in an amount equivalent to not less than twenty percent (20%) of the costs of the civil works for the maintenance of roads, trails and tracks included in its annual investment and maintenance program and budget for such Fiscal Year to undertake the road maintenance works included in each such program and budget.
2. The Recipient shall cause each DDC, by July15 of every other Fiscal Year, starting with FY2009/10, to carry out an inventory and road conditions survey and to record data collected from such inventory and survey (including updating of the data collected and recorded from the previous inventory) in its road asset management system.
3. The Recipient shall: (i) cause each DDC to prepare by April 30 of each Fiscal Year, starting with FY2009/10, a prioritized annual road maintenance plan, and thereafter to carry out the road maintenance works included in each such plan in accordance with the standards specified by DOLIDAR and with a timetable satisfactory to the Association; and (ii) ensure that a progress report on such road maintenance works in each district is included in each Project Report referred to in Section II of Schedule 2 to this Agreement.

G. Environmental and Social Management Framework (ESMF)

1. The Recipient shall, and shall cause each DDC to, ensure that: (i) the Project (including Community Infrastructure Subprojects) is implemented in accordance with the provisions of the Environmental and Social Management Framework (ESMF) (including the provisions of each Environmental Management Plan, Voluntary Donation Impact Mitigation Plan, Vulnerable Community Development Plan, and other environmental or social management plan prepared

in accordance with such Framework); and (ii) no action is taken which would prevent or interfere with such implementation.

2. Without limiting the generality of the foregoing, the Recipient shall, and shall cause each DDC to, ensure that the implementation of the Project (including Community Infrastructure Subprojects) does not involve: (a) any 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 the affected persons must move to another location; or (b) any involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihood of the affected persons.

H. Annual Review

The provisions of Paragraph 11 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

I. Performance of DDC

The provisions of Paragraph 12 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

J. Unforeseen Circumstances

The provisions of Paragraph 13 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

K. Material Testing Laboratory

Prior to the participation of any DDC in the Project, the Recipient shall cause each DDC to establish, and thereafter maintain, a laboratory to test construction materials and works, with functional quality and staffing satisfactory to the Association.

L. Transfer of Responsibilities for District Roads

The provisions of Paragraph 14 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*, and the date set forth in such Paragraph is changed to December 31, 2011 for purposes of the Project.

M. Consolidation of Budget

The provisions of Paragraph 15 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*, and the date set forth in such Paragraph is changed to December 31, 2011 for purposes of the Project.

N. Rural Transport Services Study and Rural Transport Policy

The provisions of Paragraph 16 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*, and the date set forth in such Paragraph is changed to December 31, 2010 for purposes of the Project.

O. Socioeconomic Impact Monitoring Studies

The provisions of Paragraph 17 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*, and the dates set forth in such Paragraph are changed to December 31, 2011 and June 30, 2013 for purposes of the Project.

P. Community Infrastructure Grants

1. The Recipient shall ensure that each DDC provides each Community Infrastructure Grant to a Beneficiary under Part 1(e) of the Project: (i) in accordance with the eligibility and selection criteria for Community Infrastructure Subprojects and disbursement and administration arrangements for Community Infrastructure Grants, and other relevant provisions set forth in the Community Infrastructure Grant Guidelines; and (ii) pursuant to an agreement to be entered into between such DDC and Beneficiary (Community Infrastructure Subproject Grant Agreement) containing terms and conditions satisfactory to the Association, which shall include the provisions set forth in Schedule 5 to this Agreement.
2. The Recipient shall ensure that each DDC exercises its rights in relation to each Community Infrastructure Grant provided to a Beneficiary under a Community Infrastructure Subproject Grant Agreement in such manner as to: (i) protect the interests of such DDC, the Recipient and the Association; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project. Except as the Association shall otherwise agree, the Recipient shall ensure that such DDC does not assign, amend, abrogate or waive any Community Infrastructure Subproject Grant Agreement or any of its provisions.

Q. Anti-Corruption

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

R. Technical, Environmental and Social Audits

The Recipient shall: (i) by March 31, 2010, submit to the Association terms of reference, satisfactory to the Association, for technical, environmental and social audits of the Project; and (ii) thereafter arrange for an independent agency acceptable to the Association to carry out such audits in each Fiscal Year in accordance with such terms of reference and with a timetable satisfactory to the Association.

S. Remedial Action Plan

The Recipient shall ensure that by March 31, 2010, each DDC completes all payments to families and individuals located in its district as required by the Recipient's Remedial Action Plan for the Project Affected People dated July 2009 under the Original Project.

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 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 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 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 \$100,000 equivalent per contract and works estimated to cost less than \$500,000 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 thereunder), subject to the following:
 - (i) only the model bidding documents for National Competitive Bidding agreed with the Association (as amended from time to time), including qualification criteria, shall be used;
 - (ii) bid documents shall be made available, by mail or in person, to all who pay the required fee;

- (iii) there shall not be any restrictions, such as registration/licensing requirements, for purchase of bid documents and bidding by foreign bidders, and no preference of any kind shall be given to any bidders in the bidding process when competing with the foreign bidders, state owned enterprises, or small scale enterprises;
- (iv) if a registration process is required, a foreign bidder declared as the lowest evaluated responsive bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (v) rebidding shall not be carried out without the prior concurrence of the Association;
- (vi) invitations to re-bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for submission of bids; and
- (vii) except in cases of *force majeure* and/or situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association: (a) for the first request of extension if it is longer than four (4) weeks; and (b) for all subsequent requests for extension irrespective of the period.

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 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

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR)</u>	<u>Amount of the Grant Allocated (Expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (Inclusive of Taxes)</u>
(1)(a) Works under Parts 1(a), 1(b), 1(c) and 1(f) of the Project, and Community Infrastructure Grants under Part 1(e) of the Project	13,000,000	6,800,000	90%
(1)(b) Works under Part 1(d) of the Project	2,100,000	1,700,000	100%
(2) Goods	0	900,000	100%
(3) Consultants' services and training	0	2,500,000	100%
(4) Incremental Operating Costs	0	400,000	100%
(5) Unallocated	600,000	500,000	
TOTAL AMOUNT	15,700,000	12,800,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
Commencing March 15, 2020 to and including September 15, 2029	1%
Commencing March 15, 2030 to and including September 15, 2049	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.

SCHEDULE 4

Memorandum of Understanding

Except as the Association shall otherwise agree, the Memorandum of Understanding to be executed by the Recipient and each DDC pursuant to Section 3.03 of this Agreement shall include, *inter alia*, the following provisions:

(a) Each DDC shall declare its commitment to the objectives of the Project as set forth in Schedule 1 to the Financing Agreement and, to this end, shall agree to carry out its activities under the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, transport, environmental and social practices, and to provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its activities under the Project.

(b) Each DDC shall agree to assume all the obligations applicable or relevant to such DDC under the Financing Agreement and to take all actions necessary to undertake its activities under the Project. Each DDC shall further agree to: (i) carry out its activities under the Project in accordance with the implementation program set forth in Schedule 2 to the Financing Agreement (including without limitation the provisions relating to the Environmental and Social Management Framework and the Anti-Corruption Guidelines applicable to recipients of credit/grant proceeds other than the Recipient) and its DTMP (as such terms are defined in the Financing Agreement), three-year rolling plan and annual investment and maintenance program and budget; (ii) not use any part of the proceeds of the Financing to undertake civil works on any roads, trails or tracks not included in its DTMP, three-year rolling plan and annual investment and maintenance program and budget; and (iii) not commence rehabilitation and upgrading works for more than three roads, trails or tracks in any given Fiscal Year.

(c) The Recipient shall agree to make available to each DDC, as a grant and in a timely manner: (i) part of the proceeds of the Financing; and (ii) additional funds from the Recipient's own resources if and as required for such DDC to carry out its activities under the Project.

(d) Each DDC shall agree that procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Section III of Schedule 2 to the Financing Agreement, as said provisions may be further elaborated in the Procurement Plan (as such term is defined in the Financing Agreement).

(e) Each DDC shall agree that the Recipient and the Association may from time to time inspect the goods, works and services under the Project including all records and documents relating thereto.

(f) Each DDC shall agree to carry out the obligations set forth in Sections 4.04, 4.05, 4.06, 4.07 and 4.11 (relating to insurance; land acquisition; use of goods, works and services, maintenance of facilities; plans, documents, records; and visits; respectively) of the General Conditions (as such term is defined in the Financing Agreement) in respect of its Memorandum of Understanding and its activities under the Project.

(g) Each DDC shall agree to comply and assist the Recipient in complying with the financial covenants prescribed by Section II of Schedule 2 to the Financing Agreement.

(h) Each DDC shall agree to: (i) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to its activities under the Project; and (ii) at the Recipient's or the Association's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association.

(i) Each DDC shall acknowledge that the Recipient may suspend or terminate such DDC's right to use the proceeds of the Financing made available under the Financing Agreement or obtain a refund of all or any part of the amount of the Financing then withdrawn, upon its failure to perform any of its obligations under its Memorandum of Understanding or upon notice by the Association that it intends to exercise its remedies under Article IV of the Financing Agreement.

(j) Each DDC shall acknowledge that if, as a result of a review of Project implementation for any period, including any annual review by the Association and the Recipient, the performance of such DDC during such period is deemed by the Association, in consultation with DOLIDAR (as such term is defined in the Financing Agreement) to be less than satisfactory, the Recipient is not permitted to make any part of the proceeds of the Financing available to such DDC for any of its activities carried out under the Project after such review until further notice by the Association.

(k) Each DDC shall agree that the roads, trails and tracks to be covered by the Project shall be selected annually based on each DDC's DTMP, three-year rolling plan and annual investment and maintenance program and budget. Each DDC shall further: (i) acknowledge that if, however, it is determined by the Association at any time, as part of any annual review referred to in paragraph (j) above or otherwise, that, due to any new developments or previously unforeseen circumstances, continuation of civil works and other related activities on any road, trail or track in the district of such DDC is not feasible or practicable under the Project, the Recipient is required to (A) cause such DDC to promptly reallocate the funds for such civil works and related activities to other roads, trails and tracks included in the Project and located in the same district or

(B) alternatively, promptly reallocate such funds to other roads, trails and tracks included in the Project and located in another district, in either case in consultation with the Association; and (ii) agree to promptly take all necessary action in order to give effect to such reallocation of funds.

(l) Each DDC shall agree to promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of its activities under the Project, the accomplishment of the purposes of the Financing, or the performance of its obligations under its Memorandum of Understanding.

(m) Each DDC shall agree that it shall, from time to time, at the request of the Recipient or the Association: (i) exchange views with the Recipient and/or the Association with regard to the progress of its activities under the Project, the performance of its obligations under its Memorandum of Understanding and other matters relating to the purposes of the Financing; and (ii) furnish all such information related thereto as may reasonably be required by the Recipient and/or the Association.

(n) Each DDC shall agree that it shall: (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date (as such term is defined in the Financing Agreement) or such later date as may be agreed for this purpose among the Association, the Recipient and such DDC, a plan designated to ensure the continued achievement of the Project's objectives; and (ii) afford the Association a reasonable opportunity to exchange views with such DDC on said plan.

SCHEDULE 5

Community Infrastructure Subproject Grant Agreement

Except as the Association shall otherwise agree, in order to provide a Community Infrastructure Grant to a Beneficiary, the relevant DDC shall enter into a written agreement with such Beneficiary (Community Infrastructure Subproject Grant Agreement), pursuant to which the DDC shall obtain rights adequate to protect the interests of the DDC, the Recipient and the Association, including the right to:

- (i) require the Beneficiary to carry out the Community Infrastructure Subproject for which the Community Infrastructure Grant is made:
 - (a) with due diligence and efficiency;
 - (b) in accordance with sound technical, economic, financial, managerial, environmental and social standards; and
 - (c) in accordance with the provisions of the Community Infrastructure Grant Guidelines, the Environmental and Social Management Framework, and the Anti-Corruption Guidelines applicable to recipients of credit/grant proceeds other than the Recipient;
- (ii) require the Beneficiary to provide, promptly as needed, the resources required for the Community Infrastructure Subproject;
- (iii) require the Beneficiary to:
 - (a) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Community Infrastructure Subproject; and
 - (b) at the DDC's, the Recipient's or the Association's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the DDC, the Recipient and the Association;
- (iv) require the Beneficiary to procure the goods, works and services to be financed out of the proceeds of the Community Infrastructure Grant in

accordance with the provisions of Section III of Schedule 2 to the Financing Agreement;

- (v) require the Beneficiary to enable the DDC, the Recipient and the Association to inspect the Community Infrastructure Subproject, its operation and any relevant records and documents;
- (vi) require the Beneficiary to prepare and furnish to the DDC, the Recipient and the Association all such information as they shall reasonably request relating to the foregoing; and
- (vii) suspend or terminate the right of the Beneficiary to use the proceeds of the Community Infrastructure Grant, or obtain a refund of all or any part of the amount of the Community Infrastructure Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Community Infrastructure Subproject Grant Agreement.

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.
2. “Beneficiary” means a community or a group of community residents eligible to receive a Community Infrastructure Grant under Part 1(e) of the Project.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Infrastructure Grant” means a grant to be made by a DDC to a Beneficiary, out of the proceeds of the Financing, to finance the costs of goods, works and services for a Community Infrastructure Subproject under Part 1(e) of the Project.
5. “Community Infrastructure Grant Guidelines” means the Community Infrastructure Grant Guidelines prepared by the Recipient and approved by the Association, setting out, *inter alia*, details of principles, criteria and procedures for selecting and implementing Community Infrastructure Subprojects and details of disbursing and administering Community Infrastructure Grants, as the same may be amended from time to time with the agreement of the Association.
6. “Community Infrastructure Subproject” means a set of activities for the development of small community infrastructures to be undertaken by a Beneficiary with the proceeds of a Community Infrastructure Grant under Part 1(e) of the Project.
7. “Community Infrastructure Subproject Grant Agreement” means an agreement for a Community Infrastructure Grant to be entered into between a DDC and a Beneficiary pursuant to Section I.P of Schedule 2 to this Agreement.
8. “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.
9. “District Development Committee” or “DDC” means the District Development Committee, a local body established at the district level of each of the districts of the Recipient under the Local Self Governance Act, 2055 (1999) of the Recipient and selected to participate in the carrying out of activities under the Project in accordance with the District Participation Framework, or any successor thereto.

10. “District Development Fund” or “DDF” means the fund created in each DDC for channeling funds from the central budget and other sources.
11. “District Participation Framework” or “DPF” means the District Participation Framework prepared by DOLIDAR and approved by the Association, setting forth, *inter alia*: (i) district selection criteria; (ii) district entry conditions and participation criteria; and (iii) district performance and output criteria for continued support.
12. “District Technical Office” or “DTO” means the District Technical Office of each DDC responsible for, *inter alia*, the planning, implementation and supervision of activities to be carried out under the Project at the district level, or any successor thereto.
13. “District Transport Master Plan” or “DTMP” means the District Transport Master Plan of each DDC for the development and maintenance of road assets of that district.
14. “DOLIDAR” means the Department of Local Infrastructure Development and Agriculture Roads of MOLD, or any successor thereto.
15. “Environmental and Social Management Framework” or “ESMF” means the Environmental and Social Management Framework for the Project dated September 2009 and approved by the Association, setting forth, *inter alia*, the assessment and management of environmental and social impacts of the rural transport infrastructure improvement activities to be carried out under the Project and recommendations based on such assessment, and includes frameworks and guidelines for an Initial Environmental Examination (IEE), an Environmental Impact Assessment (EIA), an Environmental Management Plan (EMP), Voluntary Donation Impact Mitigation Plan (VDIMP), and a Vulnerable Community Development Plan (VCDP) set forth therein; as the same may be amended from time to time with the agreement of the Association.
16. “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.
17. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
18. “Incremental Operating Costs” means: (i) expenditures incurred by the PCT or any DTO for the operation and maintenance of facilities, vehicles and equipment used for Project implementation (including without limitation vehicle rental,

office rental, fuel costs and stationeries); and (ii) salaries and allowances of incremental staff assigned to the PCT or any DTO for Project implementation but excluding salaries of the Recipient's civil servants.

19. "Memorandum of Understanding" means each Memorandum of Understanding to be executed by the Recipient and each DDC and furnished to the Association pursuant to Section 3.03 of this Agreement.
20. "MOLD" means the Ministry of Local Development of the Recipient, or any successor thereto.
21. "Original Financing Agreement" means the development grant agreement for the Rural Access Improvement and Decentralization Project between the Recipient and the Association, dated August 1, 2005, as amended to the date of this Agreement (Grant No. H171-NEP).
22. "Original Project" means the Project described in the Original Financing Agreement.
23. "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.
24. "Procurement Plan" means the Recipient's procurement plan for the Project, dated October 20, 2009, 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.
25. "Project Coordination Team" or "PCT" means the Project Coordination Team referred to in Section I.B of Schedule 2 to this Agreement, responsible for, *inter alia*, the planning, implementation and supervision of activities to be carried out under the Project at the central level and the overall coordination and monitoring of activities to be carried out under the Project at the central and district levels.
26. "Project Monitoring Committee" or "PMC" means the Project Monitoring Committee established in MOLD as an apex body to oversee and monitor overall Project implementation, and facilitate inter-ministerial coordination.
27. "Public Procurement Act" means the Recipient's Public Procurement Act, 2063 (2007).

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (1) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

(1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

