Financing Agreement

(Second Additional Financing for the Poverty Alleviation Fund II Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 8, 2013
FINANCING AGREEMENT

AGREEMENT dated July 8, 2013, 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, the Original Financing Agreement, the First Additional Financing Agreement, or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to fifty three million four hundred thousand Special Drawing Rights (SDR 53,400,000) ("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 May 15 and November 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.

**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.

4.02. The Additional Event of Acceleration consists of the following: that the event specified in Section 4.01 of this Agreement occurs.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Additional Condition of Effectiveness consists of the following that the Subsidiary Financing Agreement has been updated, satisfactory to the Association, to reflect the implementation arrangements under this Agreement.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.03. 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 its 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 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL

By

Authorized Representative

Name: Shanker Basnet
Title: Finance Secretary

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Tabitha Logel
Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to improve living conditions, livelihoods and empowerment of the rural poor, with particular attention to groups that have traditionally been excluded by reasons of gender, ethnicity, caste and location.

The Project consists of the First Additional Financing Project, except that Parts C and E are amended to read as follows for purposes of this Financing:

Part C. Product Development, Market Linkages and Pilots

Provision of Block Grants to Beneficiaries to carry out, with POs’ assistance:

(i) Sub-Projects for pocket area development to support market linkages;

(ii) Sub-Projects to enhance the institutional development of such Beneficiaries, including development of livestock insurance schemes; and

(iii) Sub-Projects in peri-urban areas.

Part E. Project Management, Planning and Monitoring and Evaluation

(i) Provision of technical advisory services to PAF to assist it to, among other things: (i) strengthen its monitoring and information system and data collection; (ii) conduct technical and performance audits, (iii) conduct environmental reviews and special studies; and (iv) enhance its communication and information dissemination capacity.

(ii) Strengthening the operational capacity of PAF to carry out the Project through the provision of equipment, vehicles, training and technical assistance to improve financial, procurement, monitoring, and environmental management and other administrative and operational functions.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Financing Agreement

1. To facilitate the further 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 the Subsidiary Financing Agreement, as updated and amended.

2. The Recipient shall exercise its rights under the Subsidiary Financing 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 Financing Agreement or any of its provisions.

B. Anti-Corruption

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

C. Governance and Accountability Action Plan ("GAAP")

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Governance and Accountability Action Plan.

D. Safeguards

The Recipient shall ensure that the Project is carried out in accordance with the EMF and the VCDP.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall maintain, and cause the Project Implementing Entity to maintain, the same arrangements and periodicity for Project monitoring, reporting and evaluation as are set forth in the Original Financing Agreement and the Original Project Agreement.
2. The performance indicators under which the progress of the Project shall be monitored and evaluated shall be those updated for purposes of this Financing.

B. Financial Management, Financial Reports and Audits

The Recipient shall ensure that all the arrangements for financial management, financial reports and audits of Project execution are maintained as set forth in the Original Financing Agreement and the Original Project Agreement.

Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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 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, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least-Cost Selection</td>
</tr>
<tr>
<td>(d) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(e) Single-Source Selection for Firms</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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.
E. **Special Provisions for the Procurement of Goods, Works, and Non-Consulting Services**

Goods, works, and non-consulting services procured under contracts awarded on the basis of National Competitive Bidding, as set forth in the Original Financing Agreement shall be subject to the following procedures:

1. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

2. Bids shall be opened in public in one place, immediately after the deadline for submission of bids.

3. Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the association and contracts shall be awarded to the lowest evaluated bidders.

4. Extension of bid validity shall not be allowed without the prior concurrence of the association (a) for the first request for extension if it is longer than four (4) weeks and (b) for all subsequent requests for extension irrespective of the period.

5. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders.

6. Qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance.

7. Rebidding shall not be carried out without the prior concurrence of the association.

8. There shall not be any restrictions on the means of delivery of the bids.

**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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Block Grants and consultants' services provided by POs</td>
<td>45,900,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(2) Goods, works, consultants' services (other than those provided by POs) and training</td>
<td>5,350,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Incremental Operating Costs</td>
<td>2,150,000</td>
<td>80%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>53,400,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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, 2017.
APPENDIX

Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “EMF” means PAF's Environmental Management Framework for the Project dated September 11, 2007, and approved by the Association, setting forth, inter alia: (i) principles and procedures for screening Sub-Projects for environmental and social impacts; (ii) principles and procedures for environmental management of Sub-Projects in national parks and other protected areas; and (iii) PAF’s Environmental and Social Risk Screening and Management Guidelines for various types of Sub-Projects; as the same may be amended from time to time with the agreement of the Association.

5. “First Additional Financing Agreement” means the additional financing agreement for the Poverty Alleviation Fund II Project between the Recipient and the Association, dated July 13, 2011, as amended to the date of this Agreement (Grant Number H672-NP).

6. “First Additional Financing Project Agreement” means the additional financing project agreement for Poverty Alleviation Fund II Project between the Association and the Project Implementing Entity, dated July 13, 2011, as amended to the date of this Agreement (Grant Number H672-NP).

7. “First Additional Financing Project” means the project described in the First Additional Financing Agreement.

8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

9. “Incremental Operating Costs” means salaries, allowances 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, stationery, rent and utilities.

10. "Operational Manual" means PAF's Operational Manual dated June 20, 2007, updated for purposes of this Agreement in form and substance satisfactory to the Association, which sets forth, inter alia, eligibility and selection criteria and appraisal, approval and monitoring rules and procedures for POs, Beneficiaries and Sub-Projects, as well as the VCDP and a negative list of Sub-Projects, and the indicators agreed with the Association for evaluating the progress of the Project as the same may be amended from time to time with the agreement of the Association.

11. "Original Financing Agreement" means the Financing Agreement for the Poverty Alleviation Fund II Project between the Recipient and the Association dated January 31, 2008 (Grant Number H337-NEP).

12. "Original Project" means the Project described in the Original Financing Agreement.


16. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 26, 2013, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

17. "Project Implementing Entity" means PAF.


20. "VCDP" means Vulnerable Community Development Plan dated June 27, 2007, prepared by the Recipient for the Original Project, describing a program of actions, measures and policies designed to maximize the benefits accruing to vulnerable people, as the same may be revised from time to time in agreement with the Association.