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CP 2406-1.3

March 28, 2016

Mr. Lok Darshan Regmi
Secretary
Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu, Nepal

Dear Mr. Regmi:

**Re: Nepal: Earthquake Housing Reconstruction Project
(IDA Credit No. 5706)
Amendment to the Financing Agreement**

We refer to the Financing Agreement between Nepal (the “Recipient”) and the International Development Association (the “Association”) for the Earthquake Housing Reconstruction Project (the “Project”) dated August 14, 2015 (the “Financing Agreement”).

We also refer to your letter dated February 28, 2016 requesting the transfer of the implementation responsibilities of the Project Management Unit housed within the Ministry of Finance to the recently established National Reconstruction Authority in accordance with Section I.A.3 (b) of Schedule 2 to the Financing Agreement.

We are pleased to inform you that, after due consideration, the Association accedes to your request and proposes to amend the Financing Agreement as follows:

1. Section 3.01 is amended to read as follows:

“3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out Parts 1, 2, and 3 of the Project through **NRA**, **MOFALD**, and **MOUD** as per the allocation of responsibilities set forth in the Operations Manual and Part 4 of the Project through the Coordinating Authority, all in accordance with the provisions of Article IV of the General Conditions.”
2. Part 3 of Schedule 1 (Project Description) to the Financing Agreement is amended to read as follows:

“Provision of support to **NRA**, **MOFALD**, and **MOUD** (including the PMU, PIUs, and DL-PIUs) to strengthen their capacity to effectively procure and manage delivery systems, including monitoring and evaluation, damage assessment, beneficiary household identification, payment systems, management information system, grievance redress, and communication/ outreach as set forth in the Operations Manual.”
3. Paragraph 1 of Section I.A of Schedule 2 (Project Execution) to the Financing Agreement is amended to read as follows:

- “1. The Recipient shall maintain throughout the period of implementation of the Project, the Project Management Unit, housed within **NRA**, with adequate professional and administrative staff, in numbers and with qualification and experience, and under terms of reference satisfactory to the Association, including a project director responsible for supervising the Project **and qualified procurement, social, and environmental specialists with skills, qualifications, experience and terms of reference satisfactory to the Association**, as shall be required to provide policy guidance and coordination for, and exercise general oversight of, the implementation of Project activities, **including preparation of an annual consolidated Procurement Plan for the Association’s review and clearance, and coordination, oversight, and guidance on procurement, financial management, safeguards, monitoring and evaluation aspects of the Project.**”
4. Paragraph 3 of Section I.A of Schedule 2 (Project Execution) to the Financing Agreement shall be deleted in its entirety and the subsequent paragraphs renumbered accordingly.
5. Paragraph 1 of Section I.B of Schedule 2 (Project Execution) to the Financing Agreement is amended to read as follows:
 - “1. The Recipient shall prepare and through each of **NRA**, MOFALD and MOUD adopt, by the earlier of August 15, 2015 or the date on which the Recipient first proposes to release a Housing Grant, and thereafter carry out the Project in accordance with, the Operations Manual, acceptable to the Association, which manual shall set forth:
 - (i) the institutional arrangement for the implementation of the Project, including: (a) eligibility criteria, methodology and procedural standards for the selection of Participating Household Beneficiaries; (b) terms and conditions of the Housing Grants, including criteria for determining and the amount of each tranche, and the format of the participation agreement which each Participating Household Beneficiary must sign with the Recipient, through MOFALD, prior to receiving any Housing Grant; (c) management information systems, verification protocols, financial management duties and disbursements, monitoring and evaluation systems, grievance redress mechanisms, and payment reconciliation protocols; (d) governance and accountability setups and operating mechanisms, including independent operational audits and third-party monitoring; and (e) selection and coordination mechanisms of Payment Service Providers and the required terms of agreement to be entered into between each Payment Service Provider and the Recipient;
 - (ii) the technical guidelines for housing reconstruction under the Project which can be easily extracted for communication to Participating Household Beneficiaries, including the architectural standards, technical specifications, environmental and social safeguards standards consistent with the Safeguards Documents, and construction guidelines and milestones for measuring tranche

release of Housing Grants (“Housing Reconstruction Guidelines”);

- (iii) the administrative, accounting, auditing, internal control, asset management, reporting, financial, procurement and disbursement (flow of funds) procedures for the Project; which procedures shall be consistent with those of this Agreement and the Association’s instructions hereunder;
- (iv) the procedural steps for the update of the Procurement Plan and an outline of the mechanism for the settlement of procurement complaints and the disclosure of critical procurement information;
- (v) policies and procedures for data collection, public awareness and information campaigns, provision of training, and monitoring and evaluation of Project activities and their related impacts;
- (vi) the guidelines and arrangements for training and capacity building activities under the Project; and
- (vii) the plan for implementing, monitoring and supervision of Project activities, including all technical, environmental and social aspects in relation thereto.”

6. Paragraph 8 of Section I.D of Schedule 2 (Project Execution) to the Financing Agreement is amended to read as follows:

“8. Prior to the release to a Participating Household Beneficiary of the second and subsequent tranches of such Participating Household Beneficiary’s Housing Grant, the Recipient, through **NRA and MOFALD**, shall ensure that:

- (i) the verification procedures related to the Participating Household Beneficiary’s compliance with the Housing Reconstruction Guidelines and satisfactory achievement of the pre-agreed milestones in the construction work of the multi-hazard resilient core housing unit, including the preparation of verification reports on the completion of outputs, are carried out following the procedures set forth in the Operations Manual; and
- (ii) that the proceeds of the Credit are only used to pay for Housing Grants to Participating Household Beneficiaries that have completed reconstruction of their multi-hazard resilient core housing unit, in accordance with the quality standards set forth in the Operations Manual. Housing Grants paid to Participating Household Beneficiaries whose housing units are deemed incomplete and/or of substandard quality, shall be deemed ineligible for financing under the Project, except in the event of force majeure as determined by the Association. Any amounts advanced for the financing for such ineligible Housing Grants

shall be promptly reimbursed to the Association upon the Association's request."

7. In the Appendix to the Financing Agreement, the definitions in paragraphs 21 and 35 are deleted in their entirety, the existing paragraphs are renumbered accordingly, and a new paragraph is added to read as follows:

"NRA" means the Recipient's National Reconstruction Authority established pursuant to the Recipient's Reconstruction of Earthquake Affected Structures Act, 2015 (2072), which is charged with the general oversight and overall supervision and coordination of the Recipient's Earthquake emergency reconstruction program."

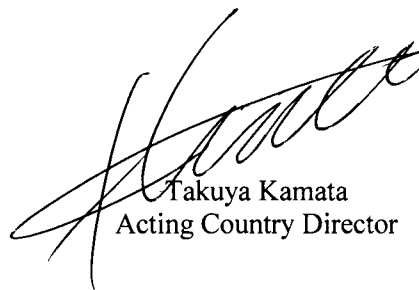
Except as specifically amended in this letter of amendment, all other provisions of the Financing Agreement shall remain unchanged and in full force and effect.

The Association will disclose this letter of amendment and related information in accordance with the Association's Policy on Access to Information. By entering into this letter of amendment, the Recipient consents to such disclosure.

Please confirm your agreement to the foregoing on behalf of the Recipient by countersigning and dating the corresponding form of confirmation set forth below, and returning one fully countersigned original of this letter to us. Upon receipt by the Association of the original of this letter of amendment countersigned by you, this letter of amendment shall become effective as of the date of countersignature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION


Takuya Kamata
Acting Country Director

AGREED:
NEPAL



By: _____

Name: Baikuntha Aryal

Title: _____

Date: 21 April 2016