Mr. Shanta Raj Subedi  
Secretary  
Ministry of Finance  
Singha Durbar, Kathmandu  

Dear Mr. Subedi:

NEPAL: Urban Governance and Development Program: Emerging Towns Project  
(Credit No. 4905-NP; Grant No. H661-NP)  
Second Amendment to the Financing Agreement

We refer to the Financing Agreement for the Urban Governance and Development Program: Emerging Towns Project (the “Project”) between Nepal (the “Recipient”) and the International Development Association (the “Association”) dated June 30, 2011 (the “Financing Agreement”) as amended to the date of this letter. We also refer to the agreement reached during the implementation support review of January 17 to 30, 2013 and the subsequent visit of April 1 to 12, 2013 to (a) amend the Financing Agreement in order to re-align the Project objective to the on-the-ground institutional capacity of the participating municipalities, reduce the scope of the municipal infrastructure sub-projects in line with the capacity of the participating municipalities and enhance municipal support; and (b) cancel SDR 4,192,200 from the Credit Account due to the reduction in Project scope.

In order to put these understandings into effect:

A. The Association proposes to hereby amend the Financing Agreement as follows:

1. The objective of the Project set out in Schedule 1 is amended to read as follows:

“The objective of the Project is to improve the capacity of the participating municipalities to plan, implement and fund urban development activities.”

2. Schedule 1, Part A is amended to read as follows:

“Part A: Strengthening Municipal Capacity for Urban Development

“Provision of Municipal Grants to the Participating Municipalities to finance Eligible Activities with the objective of improving the capacity of the Participating Municipalities to effectively plan and carry out urban development activities.”

3. Schedule 1, Part B is amended to read as follows:

“Part B: Capacity Building for Municipal Infrastructure Development

“Provision of Sub-project Financings to the Participating Municipalities to finance Sub-projects including engineering and advisory consulting services and associated social and environmental management activities with the objective of improving the capacity of the Participating Municipalities to plan and implement socio-economic infrastructure.”
B. Pursuant to Section 6.03 of the International Development Association General Conditions for Credits and Grants, dated July 31, 2010 (the “General Conditions”), the Association hereby cancels, as of the date of the countersigning of this amendment by the Recipient, the amount of four million one hundred and ninety two thousand two hundred Special Drawing Rights (SDR 4,192,200) from the Credit Account, and the commitment charges on such amount cease to accrue from the same date. The table in Part A.2 of Section IV of Schedule 2 is revised to read as set forth in the attachment to this letter.

Unless the context requires otherwise, the capitalized terms used in this letter have the meanings ascribed to them in the Financing Agreement or the General Conditions.

Please confirm your agreement with the foregoing amendment by signing two originals of this letter and returning one fully executed original to the Association. Please retain the other original for your records. The above amendment shall become effective upon receipt by the Association of the duly countersigned original, as of the date of the countersigning of this letter by the Recipient.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

[Signature]
Tahseen Sayed
Country Manager for Nepal
South Asia Region

AGREED AND CONFIRMED:
NEPAL

[Signature]
Name: Madhmi Kumar Marasini
Title: Joint Secretary
Date: 29 September 2013
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Municipal Grants under Part A of the Project</td>
<td>1,760,000</td>
<td>1,440,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Sub-project Financings under Part B of the Project</td>
<td>2,115,000</td>
<td>2,900,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods and Incremental Operating Costs under Part C of the Project</td>
<td>732,800</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>(4) Consultants’ Services, Training and Workshops under Part C of the Project</td>
<td></td>
<td>2,821,900</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Project Preparation Advance</td>
<td></td>
<td>38,100</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
</tr>
<tr>
<td>Amount cancelled as of the date of the countersigning of this amendment by the Recipient</td>
<td></td>
<td>4,192,200</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>8,800,000</td>
<td>7,200,000</td>
<td></td>
</tr>
</tbody>
</table>
Mr. Shanta Raj Subedi

For Internal Use Only

Prepared by: Minneh Kane (LEGES)

Cleared by and bcc: Ming Zhang (SASDU); Junxue Chu (CTRLN)

Bcc: Elisa Muzzini, Silva Shrestha (SASDU); Yogesh Bom Malla (SARFM); Michelle Lisa Chen, Kalyan Nemkul (SASDO); WBDocs

July 30, 2013