



OFFICIAL DOCUMENTS

April 20, 2017

Dr. Shanta Raj Subedi
Secretary
Ministry of Finance
Government of Nepal
Singh Durbar, Kathmandu

Re: Nepal: Advance Agreement for Preparation of Proposed Urban
Governance and Infrastructure Improvement Project II
Project Preparation Advance No. V071-NP

Dear Dr. Subedi:

In response to the request for financial assistance made on behalf of Nepal ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed five million Dollars (US\$5,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of the proposed project designed to support service delivery of the participating municipalities and improve their capacity to plan, implement and fund urban development ("Project").

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

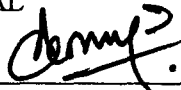
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By 
Qimiao Fan
Country Director Nepal
South Asia Region

AGREED:

NEPAL

By 
Authorized Representative
Name Baskuntha Aryal
Title Joint Secretary
Date: 19/05/2017

Enclosures:

- (1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and
- (2) Disbursement Letter for the Advance of the same date as this Agreement, together with "Disbursement Guidelines for Investment Project Financing" dated February 2017.
- (3) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.
- (4) "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised July 2014.
- (5) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised July 2014.

PPA No. V071-NP
ANNEX**Article I**
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

- (a) “DUDBC” means the Department of Urban Development and Building Construction under the Ministry of Urban Devevelopment, or any successor thereto.
- (b) “Incremental Operating Costs” means means reasonable expenditure incurred by the Recipient on account of implementation and management of the Activities (which expenditures would not have been incurred absent of the Activities), including the Recipient’s staff travel costs, allowances, costs of vehicle rental, fuel and maintenance, communication costs, office supplies and equipment, bank charges, office rental fees, utilities, and consumables required for holding meetings related to the Activities, but excluding salaries of civil servants of the Recipient.
- (c) “MoFALD” means the Ministry of Federal Affairs and Local Development, or any successor thereto.
- (d) “MoUD” means the Ministry of Urban Development, or any successor thereto.
- (e) “Project Coordination Office” or the acronym “PCO” mean the office established under the Ministry of Urban development headed by a Project Director (a class-I officer) and staffed with an adequate number of key professional staff with skills, qualifications, experience, and terms of reference satisfactory to the Association, including, without limitation, a core team of experts to carry out accounting, finance, procurement and safeguards related functions.
- (f) “TDF” means means Town Development Fund, established in 1997 under the TDF Act as a corporate body, with mandates to provide financial and technical support to urban sector institutions, or any successor thereto.
- (g) “Training and workshops” means reasonable costs incurred by the Recipient for the Activities related training, workshops and learning visits, including purchase, translation and publication of materials, rental of facilities, course fees, rental of equipment, travel costs, accommodation and subsistence of training/ workshop/ learning visit participants.

Article II Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts

(a) Preparatory studies for the proposed project

This includes carrying out analysis and assessment of the infrastructure and institutional development in the selected municipalities, including technical, institutional, financial and economic aspects. Also, other studies and assessments required for project preparation activities required for specific lending instruments such as IPF or PforR, institutional, fiduciary and safeguards assessments will be covered under this.

(b) Organization of workshops, training and learning visits

Provision of training and workshops to staff of MoUD, MoFALD, DUDBC, PCO, municipalities and TDF on infrastructure planning, infrastructure financing techniques, financial management procurement, safeguards measures, social accountability, inclusion and gender issues, to build their capacities in Project management. Learning visits to the appropriate locations to the municipalities and related agencies as part of the project preparation process is also included under this activity.

(c) Establishment and operations of the Project Coordination Office

Provision of support in carrying out activities related to the preparation of the project, including procurement of small IT equipment, maintaining office setup for PCO at the premises of DUDBC, maintaining basic logistics and equipments, hiring of support staff, and providing basic logistics and IT equipment to the selected municipalities.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through the PCO under the Ministry of Urban Development in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.

2.03. **Institutional and Other Arrangements.** The Recipient shall, throughout the period of implementation of the Project, maintain a Project Coordination Office, headed by a Project Director (a class-I officer), and staffed with an adequate number of key professional staff with skills, qualifications, experience, and terms of reference satisfactory to the Association, including, without limitation, a core team comprising of staff to carry out accounting, finance, procurement and monitoring and evaluation functions.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. Financial Management.

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each trimester, covering the trimester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period of one (1) or part of the fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. Procurement

(a) General. All goods, non-consulting services and consultants' services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

- (i) Section I of the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Procurement Guidelines"), in the case of goods and non-consulting services;
- (ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Consultant Guidelines") in the case of consultants' services; and
- (iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods, and Non-consulting Services

- (i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis

of National Competitive Bidding subject to the following additional procedures:

- A. Model bidding documents, including contract conditions agreed with the Association (as amended from time to time), shall be used. Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- B. Eligibility to participate in a procurement process for and to be awarded an Association-financed contract shall be as defined under Section I of the Procurement Guidelines. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders.
- C. Prospective bidders shall be given at least thirty (30) days from the date of publication of the invitation to bid or the date of availability of the bidding documents, whichever is later, to prepare and submit bids. There shall not be any restriction on the modality for delivery of bids. Bids may be withdrawn or modified any time before the deadline for submission of bids. Bids shall be opened in public in one place, immediately after the deadline for submission of bids. Bids received after the deadline for bid submission shall be rejected and returned to bidders unopened.
- D. Qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents for all contracts, irrespective of the value, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity to register, without let or hindrance.
- E. Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents. Contract shall be awarded to the qualified bidder whose bid has been determined: (a) to be substantially responsive to the bidding documents, and (b) to offer the lowest-evaluated cost.
- F. For contracts subject to the Association's prior review, all bids shall not be rejected, the procurement process shall not be cancelled, and new bids shall not be solicited without the Association's prior concurrence. In case of re-bidding, the time for preparation and submission of bids shall be as set forth under provision (iii) of this Annex.
- G. Bids shall be valid as per the period stated in the bidding documents. For contracts subject to prior review, the 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.

- H. Bid and performance securities shall be in the format included in the bidding documents. The bid security shall be valid for twenty-eight days (28) beyond the original validity period of the bid, or beyond any period of extension if requested. Performance security shall be an amount of five (5) to ten (10) percent (%) of the contract price and shall not be increased merely on the basis of comparison of the contract price with the pre-bid cost estimate.
- I. If a contract is terminated because of fundamental breach of contract by the contractor, the amount to be recovered from the contractor representing the employer's additional costs for completing the contract shall be provisioned as agreed with the Association in model bidding documents.
- J. At the Recipient's request, the Association may agree to the Recipient's use, in whole or in part, of its electronic procurement system, provided the Association is satisfied with the adequacy of such system.
- K. With respect to contracts subject to the Association's prior review, the Recipient shall obtain the Association's no objection before agreeing to: (a) a material extension of the stipulated time for performance of a contract; (b) any substantial modification of the scope of services or other significant changes to the terms and conditions of the contract; (c) any variation order or amendment (except in cases of extreme urgency) which, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than 15 percent; or (d) the proposed termination of the contract. A copy of all contract amendments shall be provided to the Association.
- L. The bidding document and contract as deemed acceptable by the Association shall include provisions stating the Association's policy to sanction firms or individuals, found to have engaged in fraud and corruption as defined in the Procurement Guidelines.
- M. In accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Association financing shall require that bidders, suppliers, contractors and their subcontractors, agents, personnel, consultants, service providers, or suppliers to permit the Association to inspect all accounts, records and other documents relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Guidelines.

- (ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods, and non-consulting services for those contracts specified in the Procurement Plan: (A) Limited International Bidding; (B) Shopping; and (C) Direct Contracting
- (d) Particular Methods of Procurement of Consultants' Services
- (i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- (ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.
- (e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III Withdrawal of the Advance

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "Disbursement Guidelines for Investment Project Financing" dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance ("Category"), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Advance Allocated (expressed in Dollars)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, and consultants' services	2,820,000	100%
(2) Training and Workshops	880,000	100%

(3) Incremental Operating Costs	1,300,000	100%
TOTAL AMOUNT	5,000,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed \$275,000 equivalent may be made for payments made prior to this date but on or after February 1, 2017, for Eligible Expenditures under Categories (1) and (3)

3.03. **Refinancing Date.** The Refinancing Date is December 31, 2018.

Article IV Terms of the Advance

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent ($3/4$ of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

- (i) if the amount of the Withdrawn Advance Balance does not exceed \$50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- (ii) if the amount of the Withdrawn Advance Balance exceeds \$50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice

Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

Article VI
Recipient's Representative; Addresses

5.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is the Secretary, Ministry of Finance of the Recipient.

5.02. **Recipient's Address.** The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
Government of Nepal
Singh Durbar, Kathmandu

Facsimile:

(977-1) 4211-164

5.03. **World Bank's Address.** The World Bank's Address referred to in Section 9.01 of the Standard Conditions is:

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

Telex:

248423 (MCI)

Facsimile:

1-202-477-6391