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

Re: JSDF Grant No. TF015780
Pro-poor Urban Regeneration Pilot Project

Dear Mr. 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"), acting as administrator of grant funds provided by the Government of Japan ("Donor"), under the Japan Social Development Fund, proposes to extend to the Recipient, a grant in an amount not to exceed two million seven hundred and fifty thousand United States Dollars (U.S.$2,750,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in 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 Tahseen Sayed
Country Manager for Nepal
South Asia Region
AGREED:

NEPAL

By [Signature]
Authorized Representative

Name Madhu Kumar Marasini
Title Joint Secretary
Date Feb 10, 2014

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
(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
ANNEX

Article I
Standard Conditions; Definitions


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 as follows:

(a) “Approval Committee” means the committee to be established by the Recipient, in accordance with Section 2.03.B of this Annex, chaired by an independent expert, and staffed with an adequate number of key professional staff with skills, qualifications, experience, and terms of reference satisfactory to the World Bank.

(b) “Environmental and Social Impact Assessment” means, assessments of the environmental and social impacts of activities to be implemented under the Project, including pro-poor community-based initiatives and pro-poor business development initiatives using Sub-grants, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such assessments.

(c) “Environmental and Social Management Framework” means the social and environmental management framework, which includes the resettlement policy framework and the indigenous peoples and vulnerable communities development framework, dated August 30, 2013, and incorporated into the Project Operations Manual for purposes of setting forth the environmental and social framework to address the adverse temporary or permanent environmental and social impacts resulting from, or likely to result from, the carrying out of the Project, including providing guidance on the protection of physical cultural resources, as such Framework has been and may be updated from time to time in a manner satisfactory to the World Bank.

(d) “Environmental and Social Management Plan” means, the plan to be prepared by the Recipient, including if required, a resettlement action plan and indigenous peoples plan, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental and social impacts of activities to be implemented under the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, and including guidelines and procedures for the preparation of health, safety and environmental and management plans, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such plan; and “Environmental and Social Management Plans” means more than one “Environmental and Social Management Plan”.

(e) “Lalitpur Sub-municipal Corporation” means an autonomous municipality created as per the Local Self Governance Act of 1999, and for the purposes of this Project, it is the Project Implementing Entity.

(f) “Ministry of Urban Development” means the Recipient’s ministry responsible for urban development, or any successor thereto.
"MOU" means the memorandum of understanding to be entered into between the Recipient through the Ministry of Urban Development, and the Project Implementing Entity, and referred to in Section 2.03.A of this Annex.

"Periodic Plan of the Lalitpur Sub-municipal Corporation" means the urban development plan developed by the Lalitpur Sub-municipal Corporation, and described in the Project Operations Manual.

"Project Area" means selected wards of the historic core of Lalitpur City that are located in the buffer zone of the Kathmandu Valley's UNESCO World Heritage Site identified on the basis of criteria agreed between the Recipient and the World Bank and specified in the Project Operations Manual.

"Project Implementing Entity" means the Lalitpur Sub-municipal Corporation.

"Project Management Team" means the team established by the Recipient in the Lalitpur Sub-municipal Corporation in accordance with Section 2.03.B of this Annex and staffed with an adequate number of key professional staff with skills, qualifications, experience, and terms of reference satisfactory to the World Bank, including, without limitation, a core team comprising of staff to carry out accounting, finance, procurement and monitoring and evaluation functions.

"Project Operations Manual" means the manual dated October 2013, acceptable to the World Bank, aimed at assisting the Recipient, the Project Implementing Entity and the Sub-grant Recipients in the implementation of the Project, including the pro-poor community-based initiatives and pro-poor business development initiatives using Sub-grants, and referred to Section 2.03.C of this Annex.

"Safeguards Instruments" means, the Environmental and Social Management Framework, which includes the resettlement policy framework and indigenous peoples and vulnerable communities development framework, and all plans prepared or to be prepared thereunder.

"Steering Committee" means the committee to be established by the Recipient under the Ministry of Urban Development in accordance with Section 2.03.B of this Annex, comprising, without limitations, senior officials of the Kathmandu Valley Development Authority, the Ministry of Urban Development and other relevant ministries, chief and executive officer of the Lalitpur Sub-municipal Corporation and experts from the civil society.

"Sub-grant Agreement" means the agreement to be entered into between the Project Implementing Entity and each Sub-grant Recipient for the carrying out of the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project; and the term "Sub-grant Agreements" means, collectively, all of such Sub-grant Agreements.

"Sub-grant" means a grant made, or proposed to be made by the Project Implementing Entity to a Sub-grant Recipient, out of the proceeds of the Grant under Part B of the Project, for the carrying out of the pro-poor community-based initiatives and pro-poor business
development initiatives, and the term “Sub-grants” means, collectively, all of such Sub-grants.

(q) “Sub-grant Recipient” means non-governmental organizations, formally organized groups, or other groups as may be determined in agreement between the Recipient and the World Bank, that are eligible to receive Sub-grants for the purpose of carrying out the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project for the benefit of poor and vulnerable individuals and households in the Project Area.

### Article II

#### Project Execution

2.01. **Project Objectives and Description.** The objectives of the Project are to (a) contribute to improving the living conditions of poor and vulnerable households in selected wards of the historic core of Lalitpur City (“the Project Area”) by piloting urban regeneration activities; and (b) demonstrate the feasibility of an integrated urban regeneration approach to decision-makers in the Kathmandu Valley. The Project consists of the following parts:

- **Part A:** Participatory Action Plan for Pro-poor Urban Regeneration. Preparation of a participatory action plan for pro-poor urban regeneration of the Project Area, including needs assessment, market assessment, and site management framework, consistent with the Periodic Plan of the Lalitpur Sub-municipal Corporation.

- **Part B:** Grant Facility for Pro-poor Urban Regeneration/Sub-grants. Provision of financing and Sub-grants for municipal investment initiatives, pro-poor community-based initiatives and pro-poor business development initiatives.

- **Part C:** Community Awareness and Local Capacity Building for Pro-poor Urban Regeneration. Carrying out community awareness-raising initiatives and local capacity building to support the effective implementation of the urban regeneration activities and the sustainability of the outcomes.

- **Part D:** Project Management and Administration, Participatory Monitoring and Evaluation and Knowledge Dissemination. Technical assistance including training and financial support to the Project Implementing Entity for monitoring and evaluation, knowledge dissemination and Project management and administration.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall through the Ministry of Urban Development and the Lalitpur Sub-municipal Corporation carry out the Project, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 (“Anti-Corruption Guidelines”); (c) this Article II; (d) the Project Operations Manual; and (e) the Environmental and Social Management Framework.

2.03. **Implementation Arrangements.**

A. **MOU**

The Recipient shall, through the Ministry of Urban Development, make the proceeds of the Grant available to the Project Implementing Entity in a timely manner under an MOU to be entered into between the Recipient, through the Ministry of Urban Development, and the Project Implementing Entity, under terms and conditions acceptable to the World Bank.
B. COMMITTEES

The Recipient shall cause the Project Implementing Entity:

(i) to establish a Steering Committee no later than three (3) months after the countersignature date of this Agreement, and thereafter maintain said committee throughout the implementation period of the Project. The Steering Committee shall meet periodically to review progress and provide overall oversight, coordination and policy guidance at the central level.

(ii) to maintain the Project Management Team throughout the implementation period of the Project. The Project Management Team shall be responsible for the overall implementation of the Project, including monitoring and evaluation and reporting.

(iii) to establish a Municipal Coordination Committee no later than three (3) months after the countersignature date of this Agreement, and thereafter maintain said committee throughout the implementation period of the Project. The Municipal Coordination Committee shall be responsible for the coordination of the implementation of the Project among stakeholders at the municipal level.

(iv) to establish an Approval Committee no later than three (3) months after the countersignature date of this Agreement, and thereafter maintain said committee throughout the implementation period of the Project. The Approval Committee shall be responsible for reviewing and approving Sub-grant proposals based on information provided by the Project Management Team for the pro-poor community-based initiatives and the pro-poor business development initiatives Sub-grants, based on procedures and criteria defined in the Project Operations Manual.

C. Project Operations Manual

The Recipient shall cause the Project Implementing Entity (i) to ensure that the Project is carried out in accordance with the Project Operations Manual; and (ii) except as the World Bank shall otherwise agree in writing, not to assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the Project Operations Manual or any provision thereof.

D. Annual Work Plan and Budget

The Recipient shall through the Ministry of Urban Development cause the Project Implementing Entity to submit an annual work plan and budget to the World Bank for comments by April 30 of each year, starting April 30, 2014 and thereafter implement said annual work plan and budget taking into account of the World Bank’s comments thereon.

E. Safeguards

1. The Recipient shall ensure, at all times during Project implementation, that: (i) the Project, including the implementation of the pro-poor community-based initiatives and pro-poor business development initiatives using the Sub-grants, is carried out in
accordance with the provisions of the Environmental and Social Management Framework, which includes the resettlement policy framework and the indigenous peoples and vulnerable communities development framework, and all plans prepared or to be prepared thereunder, and any additional social and environmental safeguard measures described in the Project Operations Manual; and (ii) no action is taken which would prevent or interfere with such implementation.

2 Prior to the commencement of civil works under the Project, the Recipient shall, and shall cause the Project Implementing Entity and Sub-grant Recipients to:

(a) carry out the relevant site-specific environmental and social impact assessment, and thereafter prepare, in accordance with the Environmental and Social Management Framework, resettlement action plans, environmental management plans, and/or indigenous development plans, as the case may be, in form and substance satisfactory to the World Bank; and

(b) except as otherwise agreed with the World Bank, submit the said plans to the World Bank for review and approval and thereafter adopt the plans and ensure that they are disclosed publicly.

3. Without limitation upon its other reporting obligations under Section 2.05 of this Annex, the Recipient shall, and shall cause the Project Implementing Entity through the Ministry of Urban Development to take all measures necessary on its part to regularly collect, compile and submit to the World Bank, on a trimester basis and as part of the progress reports due under the Project, reports on the status of compliance with the frameworks and plans referred to under paragraph 2(a) above, such reports to detail:

(a) measures taken in furtherance of such frameworks and plans;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such frameworks and plans; and

(c) remedial measures taken or required to be taken to address such conditions.

F. Sub-grants under Part B of the Project

1. The Recipient shall:

(a) through the Project Implementing Entity, after endorsement from the Approval Committee make the Sub-grants available to the Sub-grant Recipients on a grant basis for the carrying out of the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project; and

(b) monitor and evaluate the progress of the pro-poor community-based initiatives and the pro-poor business development initiatives in accordance with the provisions of the Project Operations Manual.

2. The Recipient shall cause the Project Implementing Entity to enter into a Sub-grant Agreement with each Sub-grant Recipient, under terms and conditions satisfactory to the World Bank and in accordance with the Project Operations Manual, the Anti-Corruption
Guidelines and the Safeguards Instruments, for the purposes of financing the activities to be carried out using the Sub-grants, and furnish to the World Bank copies of said fully executed Sub-grant Agreements as and when the World Bank shall reasonably request.

3. Other terms of the Sub-grant Agreement shall include the following:

(a) each Sub-grant Recipient shall undertake to carry out the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project, with due diligence, efficiency and in accordance with appropriate management, financial, engineering and public utility practices, and social and environmental standards acceptable to the World Bank, and shall provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) each Sub-grant Recipient shall mobilizing matching contributions (in cash or in-kind) for the implementation of its respective pro-poor community-based initiatives and pro-poor business development initiatives in accordance with procedures set out in the Project Operations Manual;

(c) each Sub-grant Recipient shall undertake to implement the activities to be financed out of the proceeds of the Sub-grant in a cost effective manner and within the budget set out in the Sub-grant Agreement and in accordance with the procedures set out in the Project Operations Manual;

(d) each Sub-grant Recipient shall submit regular progress reports and undertake to maintain records and accounts adequate to reflect sound accounting practices, its operations and financial condition;

(e) each Sub-grant Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Sub-grants until at least the later of: (a) one (1) year after the Recipient and the World Bank have received the audited financial statements covering the period during which the last withdrawal from the Sub-grant account was made; and (b) two (2) years after the Closing Date; and

(f) each Sub-grant Recipient shall enable the Recipient and the World Bank’s representatives to examine such records; and monitor and evaluate the progress of the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project, in accordance with the provisions of the Project Operations Manual.

4. The Recipient shall have the right to suspend or terminate the right of any Sub-grant Recipient to the use of the proceeds of the Sub-grants made available under a Sub-grant Agreement upon failure by any Sub-grant Recipient to perform its obligations under such Sub-grant Agreements.

5. The Recipient shall exercise its rights under the Sub-grant Agreements in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Project. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Sub-grant Agreements or the provisions of any of such Sub-grant Agreements.
6. In the event of a conflict between the provisions of any of the Sub-grant Agreements, and those of this Agreement, the latter shall prevail.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank as set out in the Project Operations Manual. Each Project Report shall cover the period of one (1) fiscal trimester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each fiscal year 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 Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than six (6) months after the end of such period.

2.07. **Procurement.** (a) All goods, works, and/or consulting services required for the Project and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in 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 (“Procurement Guidelines”), and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (“Consultant Guidelines”).

(b) Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Grant shall be included in the procurement plan prepared by the Recipient and approved by the World Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior to initiating the procurement process for any such contract.

(c) Goods and works procured through National Competitive Bidding will be carried out in accordance with the Public Procurement Act, 2007, subject to the following additional procedures:
(i) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, a minimum of 30 days prior to the deadline for submission of bids;

(ii) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(iii) Only the model bidding documents for National Competitive Bidding agreed with the World Bank and as amended for time to time, shall be used for bidding;

(iv) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(v) Bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(vi) Qualification criteria (in case pre-qualifications are 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;

(vii) 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 World Bank and contracts shall be awarded to the lowest evaluated bidders;

(viii) Re-bidding shall not be carried out without the prior concurrence of the World Bank;

(ix) Extension of bid validity shall not be allowed without the prior concurrence of the World Bank (a) for the first request for extension, if it is longer than four weeks; and (b) for all subsequent requests for extension, irrespective of the period (such concurrence will be considered by the World Bank only in cases of Force Majeure and circumstances beyond the control of the Purchaser/Employer);

(x) There shall not be any restrictions on the means of delivery of the bids; and

(xi) As per paragraph 1.16(e) of the World Bank's Procurement Guidelines, the World Bank's right to inspect the accounts and records of bidders, suppliers and contractors will be included in the bidding documents.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant 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 “World Bank Disbursement Guidelines for Projects” dated May 2006, 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 table below.

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Grant amount in USD</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods under Parts C and D of the Project</td>
<td>124,400</td>
<td>100%</td>
</tr>
<tr>
<td>2. Works under Part B of the Project</td>
<td>820,000</td>
<td>90%</td>
</tr>
<tr>
<td>3. Consultants' Services under Parts A, C and D of the Project</td>
<td>406,100</td>
<td>100%</td>
</tr>
<tr>
<td>4. Training and Workshops under Parts A, B, C and D of the Project</td>
<td>222,000</td>
<td>100%</td>
</tr>
<tr>
<td>5. Operating Costs under Parts C and D of the Project</td>
<td>267,500</td>
<td>100%</td>
</tr>
<tr>
<td>6. Sub-grants under Part B of the Project</td>
<td>910,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,750,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this paragraph, the term: (i) “Training and Workshops” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services); and (ii) “Operating Costs” means expenditure incurred exclusive for the purposes of the Project, for consumable materials and supplies, utilities, communication costs, vehicle fuels and rental fees, and travel and subsistence for the purpose of supervision by the project team; (iii) Sub-grants means the funds competitively allocated to eligible Sub-grant Recipients for the carrying out of the pro-poor community-based initiatives and pro-poor business development initiatives under Part B of the Project based on procedures set out in the Project Operations Manual.

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.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is September 30, 2017.
Article IV
Recipient’s Representative; Addresses

4.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Secretary, Ministry of Finance.

4.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Government of Nepal
Singha Durbar, Kathmandu
Nepal

Facsimile: 977-1-4211-164

4.03. World Bank’s Address. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile: 1-202-477-6391