

## The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFORMED COPY

March 28, 2011

Mr. Rameshore Prasad Khanal  
Secretary  
Ministry of Finance  
Singha Durbar  
Kathmandu, Nepal

**Re: Supplementary Agreement to the Letter Agreement for the Nepal Reducing Emissions from Deforestation and Forest Degradation (REDD) Readiness, Readiness Fund of the FCPF  
Grant No. TF094724**

Dear Mr. Khanal:

I wish to refer to the Letter Agreement between Nepal and (“Nepal” or the “Recipient”) and the International Bank for Reconstruction and Development, acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility (“World Bank”), dated July 14, 2009 (“Readiness Letter Agreement”), for the purpose of providing a grant in the amount not to exceed two hundred thousand United States Dollars (US\$200,000) for formulating the Readiness Preparation Proposal (R-PP) (“Formulation Installment”). In accordance with the Readiness Letter Agreement, the Trustee may enter into one or more supplementary agreement(s) to the Readiness Letter Agreement with the Recipient for the purpose of preparing and implementing the R-PP.

The Participants Committee of the FCPF (PC) has reviewed the R-PP submitted by the Recipient and acknowledged the extensive efforts made by the Recipient and the high quality of the R-PP. Accordingly, the PC, through its Resolution (PC/6/2010/5), decided to allocate grant funding to the Recipient in the amount of up to three million four hundred thousand United States Dollars (US\$3,400,000) (“Preparation Installment”), to enable it to move ahead with preparation for readiness, subject to the terms and conditions set out in Resolution PC/6/2010/5.

In response to the request for financial assistance made on behalf of the Recipient and the decision of the PC referred to above, I am pleased to inform you that the World Bank agrees to extend to the Recipient a grant in an amount not to exceed to three million four hundred thousand United States Dollars (US\$3,400,000) (the “Grant”) to assist in the financing of preparation and implementation of the R-PP. The Grant shall be subject to the terms and conditions set forth or referred to in this letter agreement (“Supplementary Agreement”), which includes the attached Annex with description of activities (“Preparation Activities”).

Since the execution of the Readiness Letter Agreement, the FCPF Charter has been amended. Where there are inconsistencies between the Readiness Letter Agreement and this Supplementary Agreement including in the use of terminologies, the provisions in the Supplementary Agreement shall prevail.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Supplementary Agreement and to carry out the Preparation Activities in accordance with the terms and conditions set forth or referred to in this Supplementary Agreement.

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

Very truly yours,  
**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**  
**Acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility**

By: /s/ Susan Goldmark  
Country Director  
South Asia Region

AGREED:  
**NEPAL**

By: /s/ Lal Shanker Ghimire  
Title: Joint Secretary  
Date: March 31, 2011

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 31, 2010.
- (2) Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

ANNEX

**Article I  
Application**

1.01 **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 31, 2010 (“Standard Conditions”), with the following modifications, constitute an integral part of this Supplementary Agreement:

The following term shall be inserted in the Appendix to the Standard Conditions as paragraph 6bis:

“6 bis. “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;”

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

(a) “Civil Service Act” means the Recipient’s Civil Service Act of 2049 (1993), or any amendment thereto.

(b) “ESMF” means the Environmental and Social Management Framework to be prepared by the Recipient and referred to in Section 2.03(a) of the Annex to the Supplementary Agreement;

(c) “Ministry of Agriculture and Cooperative” means the Recipient’s Ministry of Agriculture and Cooperative or any successor thereto;

(d) “Ministry of Energy” means the Recipient’s Ministry of Energy or any successor thereto;

(e) “Ministry of Environment” means the Recipient’s Ministry of Environment or any successor thereto;

(f) “Ministry of Forests and Soil Conservation” means the Recipient’s Ministry of Forests and Soil Conservation or any successor thereto;

(g) “Ministry of Industries” means the Recipient’s Ministry of Industries or any successor thereto;

(h) “Ministry of Land Reform and Management” means the Recipient’s Ministry of Land Reform and Management or any successor thereto;

(i) “Ministry of Local Development” means the Recipient’s Ministry of Local Development or any successor thereto;

(j) “Ministry of Physical Planning and Works” means the Recipient’s Ministry of Physical Planning and Works or any successor thereto;

(k) “Ministry of Science and Technology” means the Recipient’s Ministry of Sciences and Technology or any successor thereto;

(l) “Ministry of Tourism and Civil Aviation” means the Recipient’s Ministry of Tourism and Civil Aviation or any successor thereto;

(m) “National Planning Commission” means the Recipient’s National Planning Commission or any successor thereto;

(n) “REDD Coordinating and Monitoring Committee” means the multi-sectoral, multi-stakeholder inter-ministerial highest governing body established by the Recipient for the overall supervision of the Preparation Activities, and referred to in Section 2.03(b)(i) of the Annex to this Supplementary Agreement;

(o) “REDD Working Group” means the group established under the Ministry of Forests and Soil Conservation and referred to in Section 2.03(b)(iii) of the Annex to this Supplementary Agreement;

(p) “REDD-Forestry and Climate Change Cell” is the Preparation Activities implementation unit established under the Ministry of Forests and Soil Conservation and referred to in Section 2.03(b)(ii) of the Annex to the Supplementary Agreement; and

(q) “SESA” means the Social and Environmental Strategic Assessment to be conducted by the Recipient under terms of reference satisfactory to the World Bank and referred to in Section 2.03(a) of the Annex to the Supplementary Agreement.

## **Article II Execution of Preparation Activities**

2.01. **Objectives and Description.** The objective of the Preparation Installment is to assist the Recipient to prepare the activities identified in the R-PP. The Preparation Activities consist of the following parts:

### **Part 1. REDD Analysis and Policy Development**

#### **(a) Stakeholder consultation and participation**

- (i) Conducting stakeholder consultation workshops in the REDD (Reducing Emission from Deforestation and Forest Degradation) readiness activities to enhance the potential positive benefits and reduce the risks and adverse effects.
- (ii) Provision of training activities and workshops to staff of relevant institutions implementing REDD readiness activities and other stakeholders, including journalists and relevant academic institutions.
- (iii) Formulation of a team of master trainers through training the trainers programs and development of training curricula and manuals.

**(b) Land use and forest policy analysis**

Conducting various studies on forest sector governance, law enforcement and policy implementation, including studies on the: (i) drivers of deforestation and forest degradation in *Terai*, *Churia* and in the High Mountain physiographic regions, (ii) value-chain of forest products (timber and a few key non-timber forest products); (iii) existing and potential supply and demand situation for forest products in different regions; and (iv) development and coordination mechanisms amongst government departments and between government department and other stakeholders.

**(c) Strategic analysis**

Conducting analytical studies that will provide scientific foundation for the national REDD strategy to help fill the knowledge gaps about land use, the forestry sector, and the drivers of deforestation and forest degradation, as well as to help identify the magnitude of the potential impacts of REDD in Nepal.

**(d) Implementation framework development**

Conducting studies that will address (i) forest carbon ownership and land tenure; (ii) REDD implementation; (iii) financing mechanisms; (iv) stakeholder engagement and governance; (v) institutional arrangement for data management, forest monitoring and emissions reporting; (vi) Institutional and governance reform; and (vii) work plan and budget.

**(e) Social and Environmental Strategic Assessment**

Conducting studies that lead to the preparation of a SESA involving possible REDD arrangements, and preparation of an ESMF, to guide future development of REDD projects and programs.

**Part 2. Reference Scenario Formulation**

Application of new data and modeling techniques to model historical emission due to deforestation and forest degradation against which emission reductions and transaction can be conducted, and formulation of scenarios of carbon emissions from land-use model simulations in Nepal.

**Part 3. Monitoring, Reporting and Verification Systems Development**

Conducting field surveys, studies, modeling and systems design work and acquisition of satellite-based information and data from new and experimental systems, for the development of information sources and systems capable of supporting future emissions reductions claims and transactions, including enhancement of current and planned systems of timber and non-timber forest products surveys, inventories and data management systems to include carbon accounts. This activity will build the basic capacity, data structure and technical knowledge to support a future operational system to track forest cover change and its associated carbon emission in Nepal.

#### **Part 4. Program Monitoring and Evaluation and National Readiness Management**

Provision of technical and administrative assistance to support the national REDD institutions including the REDD Coordinating and Monitoring Committee, the REDD Working Group and the REDD-Forestry and Climate Change Cell, including support for financial management, procurement and consultant selections, contract management and overall management and consolidation of work under the Preparation Activities.

##### **2.02. Execution Generally**

The Recipient declares its commitment to the objectives of the Preparation Activities. To this end, the Recipient shall carry out the Preparation Activities through the Ministry of Forests and Soil Conservation 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 (“Anti-Corruption Guidelines”); and (c) this Article II.

##### **2.03. Implementation Arrangements**

(a) In carrying out Part 1(e) of the Preparation Activities, the Recipient shall, not later than the Closing Date of the Grant, conduct a SESA under terms of reference satisfactory to the World Bank; and based on the SESA, prepare an ESMF acceptable to the World Bank, to guide the development of future REDD projects and programs. The ESMF shall describe, *inter alia*, relevant environmental and social eligibility criteria, the procedures for review, and implementation of environmental and social mitigation measures, monitoring, training, technical assistance, and institutional measures, resettlement and compensation procedures, procedures to ensure free, prior and informed consultations of indigenous peoples in case they exist in the subsequent project or program areas and staffing requirements and functions for environmental and social safeguards oversight.

(b) The Recipient shall maintain throughout the period of implementation of the Preparation Activities:

- (i) the REDD Coordinating and Monitoring Committee, chaired by the Minister of Ministry of Forest and Social Conservation, comprising of representatives of the National Planning Commission, Ministry of Finance, Ministry of Environment, Ministry of Tourism and Civil Aviation, Ministry of Energy, Ministry of Agriculture and Cooperative, Ministry of Land Reform and Management, Ministry of Industries, Ministry of Local Development, the Ministry of Physical Planning and Works and the Ministry of Science and Technology, for the purpose of multi-sectoral coordination and cooperation for the planning and implementation of REDD activities.
- (ii) (a) the REDD Forestry and Climate Change Cell, with the Environment Division, Ministry of Forestry and Soil Conservation, responsible for coordinating the overall day to day management of the Preparation Activities, with an adequate number of key professionals with skills, qualifications, experience, and terms of reference satisfactory to the World Bank, including without limitation: (A) coordinator; (B)

procurement officer; and (C) accountant; and (b) shall ensure that the key staff in the REDD Forestry and Climate Change Cell listed in (a) above are not transferred to other positions during the period of Preparation Activities implementation (and in the case of the accountant, until six (6) months following the Closing Date or until submission of the final audited Financial Statements to the World Bank, pursuant to Section 2.05(c) of this Supplementary Agreement, whichever occurs later), assuming satisfactory performance, except with prior notice to and consultation with the World Bank and as required by the applicable laws of the Recipient; and (c) shall ensure that all staff and employees, who have participated in an international training course or a study visit under the Project, will remain in post for a minimum period as specified by Clause 40 (c) of the Civil Service Act, 2049 (1993), or any amendment thereto.

- (iii) the REDD Working Group under the leadership of the Secretary of the Ministry of Forests and Soil Conservation, comprising of representatives from the government, indigenous peoples groups, community forest user groups, private sector, and development partners, responsible for ensuring institutional representation of different forestry stakeholders to the REDD planning process.

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

2.05. ***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 Preparation 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 for the Preparation Activities audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover one (1) fiscal year of the Recipient. The audited Financial Statements for each 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, and services required for the Preparation Activities and to be financed out of the proceeds of the R-PP Formulation Installment shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“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 Preparation Activities in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the following additional procedures:

- (a) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (b) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (c) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (d) 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;
- (e) 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;



- (f) bidding shall not be carried out without the prior concurrence of the World Bank;
- (g) 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 (4) weeks and (B) for all subsequent requests for extension irrespective of the period; and
- (h) there shall not be any restrictions on the means of delivery of the bids.

(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Limited International Bidding; (B) Shopping; (C) Direct Contracting; (D) Force Account; and (E) International Competitive Bidding, subject to the provisions of paragraph 3.13 (a) of the Procurement Guidelines.

(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; (F) Selection of Service Delivery Contractors which have been found acceptable to the World Bank; (G) Selection of Individual Consultants; and (H) Sole 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 Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Formulation Installment 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 Supplementary Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Formulation Installment ("Category"), the allocations of the amounts of the Formulation Installment to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the R-PP Formulation Installment Allocated (expressed in USD)	Percentage of Expenditures to be Financed
Consultants' Services, Goods, Training and Workshops and Incremental Operating Costs	3,400,000	100%
<b>Total</b>	3,400,000	

For the purpose of Section 3.01, (i) the term “Workshops and Training” means the costs associated with training and workshop participation of personnel involved in the implementation of the Preparation Activities including 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 courses and workshop preparation and implementation; and (ii) the term “Operating Costs” means the operating costs incurred on account of the implementation of the Preparation Activities including office supplies and consumables, utilities, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of bank accounts required for the Preparation Activities, and travel, lodging and per diems, but excluding salaries of officials of the Recipient’s civil service.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Supplementary Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Supplementary Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2013.

**Article IV  
Additional Remedies**

4.01 **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the Default in Implementation set forth in Section 6.5 (a) (i) and (ii) of the Charter.

**Article V  
Recipient’s Representative; Addresses**

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

5.02. **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

5.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD	248423 (MCI) or	1-202-477-6391
Washington, D.C.	64145 (MCI)	