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GRANT NUMBER 0520-NEP(EF)  
(Additional to Grant 0398-NEP[EF])

PROJECT AGREEMENT  
(Externally Financed – Strategic Climate Fund)  
(South Asia Subregional Economic Cooperation  
Power System Expansion Project – Additional Financing)

between

ASIAN DEVELOPMENT BANK

and

NEPAL ELECTRICITY AUTHORITY

DATED 18 JANUARY 2017

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NEP 44219

## PROJECT AGREEMENT

PROJECT AGREEMENT dated 18 January 2017 between ASIAN DEVELOPMENT BANK ("ADB") on the one hand, and the NEPAL ELECTRICITY AUTHORITY ("NEA") on the other hand.

### WHEREAS

(A) by a Grant Agreement of even date herewith between the Recipient and ADB, ADB has agreed to administer a grant financed by the Strategic Climate Fund, in the amount of twenty million Dollars (\$20,000,000 Grant) on the terms and conditions set forth in the Grant Agreement, but only on the condition that the proceeds of the Grant be made available to NEA and that NEA agrees to undertake certain obligations towards ADB set forth herein; and

(B) NEA, in consideration of ADB entering into the Grant Agreement with the Recipient, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Grant Agreement and in the Grant Regulations (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Particular Covenants

Section 2.01. (a) The NEA shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project, NEA shall perform all obligations set forth in the Grant Agreement to the extent that they are applicable to NEA.

Section 2.02. NEA shall make available, promptly as needed, and on terms and conditions mutually acceptable to ADB and the Recipient, the funds, facilities, services and other resources as required, in addition to the proceeds of the Grant, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, NEA shall employ competent and qualified consultants, acceptable to ADB, to an extent and upon terms and conditions mutually satisfactory to ADB and the Recipient.

(b) Except as ADB and the Recipient may otherwise agree, NEA shall procure all items of expenditures to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to the Grant Agreement. ADB may refuse to provide VGF for a PPA whose related Subproject includes a contract where any such item under such contract has not been procured substantially in accordance with the provisions of Schedule 3 to the Grant Agreement or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. NEA shall carry out, and cause the private entity to carry out, the Subprojects in accordance with plans, design standards, specifications, work schedules and construction methods mutually acceptable to ADB and the Recipient. NEA shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. NEA shall ensure that the private entity takes out and maintains with responsible insurers, or make other arrangements satisfactory to ADB, for insurance of Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

Section 2.06. NEA shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Grant, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and NEA shall cooperate fully to ensure that the purposes of the Grant will be accomplished.

(b) NEA shall promptly inform ADB through the Recipient, of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Financing Arrangements, or the accomplishment of the purposes of the Grant.

(c) ADB and NEA shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, NEA and the Grant.

Section 2.08. (a) In so far as it relates to the Project, NEA shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Grant and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial status of NEA; and (v) any other matters relating to the purposes of the Grant.

(b) Without limiting the generality of the foregoing, NEA shall furnish to ADB periodic reports on the execution of the Project. Such reports shall be submitted in such

form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, NEA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by NEA of its obligations under this Project Agreement and the accomplishment of the purposes of the Grant.

Section 2.09. (a) NEA shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Grant proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) NEA shall enable ADB, upon ADB's request, to discuss the financial statements for the Project with the auditors appointed by NEA pursuant to subsections (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of NEA, unless NEA shall otherwise agree.

Section 2.10. NEA shall enable ADB's representatives to inspect the Project and any relevant records and documents.

Section 2.11. (a) NEA shall, promptly as required, take all action within its powers to maintain its existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) In relation to the Project, NEA shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

Section 2.12. Except as ADB may otherwise agree, NEA shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, NEA shall apply the proceeds of the Grant to the financing of expenditures on the Project in accordance with the provisions of the Grant Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB and the Recipient may otherwise agree, NEA shall duly perform all its obligations under the Financing Arrangement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Financing Arrangement.

Section 2.15. NEA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its constitutional documents, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. NEA shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

### **ARTICLE III**

#### **Effective Date; Termination**

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Grant Agreement comes into force and effect. ADB shall promptly notify NEA of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Grant Agreement.

### **ARTICLE IV**

#### **Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at

such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

+63 2 636-2444  
+63 2 636-2338

For NEA

Managing Director  
Nepal Electricity Authority  
Durbar Marg,  
Kathmandu, Nepal

Facsimile Number:

+977 1 415-3009.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement on behalf of NEA may be taken or executed by its Managing Director or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) NEA shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

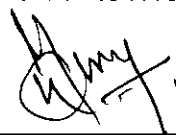
Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

By   
KENICHI YOKOYAMA  
Country Director  
Nepal Resident Mission

NEPAL ELECTRICITY AUTHORITY

By   
KUL MAN GHISING  
Managing Director