

**OFFICIAL  
DOCUMENTS**

---

---

**CREDIT NUMBER 5728-NP**

**Project Agreement**

**(Power Sector Reform and Sustainable Hydropower Development Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**NEPAL ELECTRICITY AUTHORITY**

**Dated FEBRUARY 4 , 2016**

---

---

**PROJECT AGREEMENT**

AGREEMENT dated *February 4*, 2016, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and NEPAL ELECTRICITY AUTHORITY (“NEA”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between NEPAL (“Recipient”) and the Association.

The Association and NEA hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

**ARTICLE II — PROJECT**

- 2.01. NEA declares its commitment to the objectives of the Project. To this end, NEA shall carry out its Respective Parts of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and NEA shall otherwise agree, NEA shall carry out its Respective Parts of the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III — TERMINATION**

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE IV — REPRESENTATIVE; ADDRESSES**

4.01. NEA's Representative is its Managing Director.

4.02. The Association's Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

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

4.03. NEA's Address is:

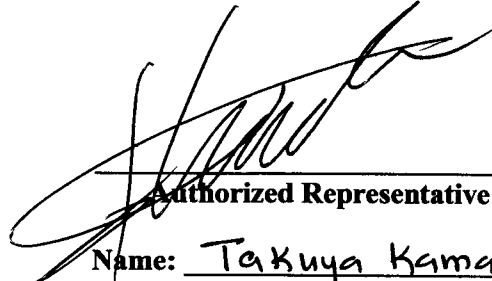
Nepal Electricity Authority  
Durbar Marg  
Kathmandu, Nepal

Cable address:	Facsimile:
VIDYUT Kathmandu	977-1-4153009

AGREED at Kathmandu, Nepal, as of the day and year first above written.

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By



Authorized Representative

Name: Takuya Kamata

Title: Country Manager

**NEPAL ELECTRICITY AUTHORITY**

By



Authorized Representative

Name: Lekh Nath Koirala

Title: Deputy Managing Director

## SCHEDULE

### Execution of the Project

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements.

1. NEA shall establish not later than one (1) month after the Effective Date and before commencing any procurement activities under the Project, and thereafter maintain, throughout the period of Project implementation, the NEA Project Management Unit ("NEA PMU") with structure, functions, and responsibilities satisfactory to the Association, including:
  - (a) headed by a project manager and staffed with key professionals with experience, qualifications, functions, terms of reference, and resources satisfactory at all times to the Recipient and the Association; and
  - (b) responsible for: (i) all aspects of the management, coordination and supervision and the effective implementation of NEA's Respective Parts of the Project, including environmental and social management issues in relation thereto; (ii) the fiduciary aspects, notably the overall procurement, financial management, audit, monitoring and evaluation and reporting in respect thereof; and (iii) the communications and public relations aspects.

#### Dam Safety Panel of Experts

2. NEA shall establish, not later than six (6) months after the Effective Date, and thereafter maintain throughout Project implementation, for purposes of implementation of Part 1 of the Project, a dam safety panel of experts, with terms of reference, composition, functions, qualification, and experience satisfactory to the Association responsible for reviewing and advising NEA on matters relative to dam safety and other critical aspects of dam construction and operation.

#### Environmental and Social Panel of Experts

3. NEA shall establish, not later than six (6) months after the Effective Date, and thereafter maintain throughout Project implementation, for purposes of implementation of Part 1 of the Project, an environmental and social panel of experts, with terms of reference, composition, functions, qualification, and experience satisfactory to the Association responsible for providing independent advice and quality assurance for the environmental and social studies and management plans, including support to NEA in effectively integrating the findings and recommendations of the Safeguard Documents into the design, implementation plans, and operational plans to be prepared under the Project, all in accordance with the Environmental and Social Management Framework.

**B. Anti-Corruption**

NEA shall ensure that its Respective Parts of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Safeguards**

1. NEA shall implement the Environmental and Social Management Framework in a manner and substance satisfactory to the Association. Without limitation on the foregoing, NEA shall:
  - (a) carry out its Respective Parts of the Project in accordance with the Environmental and Social Management Framework, and any Safeguard Documents prepared thereunder;
  - (b) not assign, amend, abrogate or waive, nor permit to be assigned, amended, abrogated or waived, in whole or in part, the Environmental and Social Management Framework, or any Safeguard Documents prepared thereunder, without the prior written concurrence of the Association; and
  - (c) ensure, wherever required pursuant to the Environmental and Social Management Framework, that each contract required for the implementation of the Project and to be financed out of the proceeds of the Credit shall include the obligation of the respective contractor and any sub-contractors to implement, and monitor and evaluate, the Environmental and Social Management Framework, and any Safeguard Documents prepared thereunder.
2. In the event of a conflict between any of the provisions of any of the Environmental and Social Management Framework or any Safeguards Document, and those of this Agreement or the Financing Agreement, the latter shall govern.
3. Without limitation on the provisions of Section II.A.1 of this Schedule, NEA shall take all measures necessary on its part to regularly collect, compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with the Environmental and Social Management Framework and the Safeguard Documents prepared thereunder, providing details of:
  - (a) measures taken in furtherance of such instruments;
  - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such instruments; and
  - (c) remedial measures taken or required to be taken to address any conditions referred to in the preceding sub-paragraph (b).
4. NEA shall ensure that the terms of reference for all consultancies related to studies, technical assistance and/or capacity building under this Agreement shall be satisfactory to the Association following its review thereof and prepared in accordance with the

Environmental and Social Management Framework and, to that end, such terms of reference shall duly incorporate the requirements of the Association's Safeguard Policies then in force, as applied to the advice conveyed through such studies, technical assistance and/or capacity building activities.

5. Without limitations on the provisions of the preceding paragraphs 1 to 4, in carrying out Part 1 of the Project, NEA shall, in accordance with the Environmental and Social Management Framework:
  - (a) (i) ensure that the proposed activities have been screened by the PMU in accordance with the Environmental and Social Management Framework; (ii) ensure that all Safeguards Documents required for such activities by the Environmental and Social Management Framework have been prepared and found acceptable by the Association and disclosed by NEA; and (iii) prepare detailed engineering design and bid documents for the Upper Arun Hydropower Project, the Ikhuwa Khola Hydropower Project, and the Transmission Line Projects, each in accordance with environmental and social safeguard guidelines, policies, and procedures as required by the Environmental and Social Management Framework and acceptable to the Association, including acceptable measures for public consultation and disclosure of relevant documents to the public;
  - (b) without limitation on the foregoing, conduct the social and environmental screening of the Transmission Line Projects to determine, in a manner satisfactory to the Association, the applicable Association's Safeguards Policies and the corresponding required environmental and social studies, including consultation and disclosure requirements; and
  - (c) without limitation on the foregoing, conduct an assessment of the cumulative environmental and social impacts of the Upper Arun Hydropower Project, the Ikhuwa Khola Hydropower Project, and other relevant hydropower projects in the Arun River watershed.
6. Notwithstanding any activities carried out under Part 1 of the Project, NEA expressly acknowledges and agrees that: (a) the Association makes no commitment to fund and/or supervise the implementation of the Upper Arun Hydropower Project, the Ikhuwa Khola Hydropower Project, and the Transmission Line Projects; and (b) the Association shall not be held responsible for, and hereby agrees to hold the Association harmless from, any liabilities associated with the Upper Arun Hydropower Project, the Ikhuwa Khola Hydropower Project, and/or the Transmission Line Projects in the event that the Recipient or NEA obtains financing for such projects from sources other than the Association and/or applies national standards, the standards of such financiers, or any other standards in the design, construction and/or operation of such projects.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

1. NEA shall monitor and evaluate the progress of its Respective Parts of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in the Results Framework. Each such Project Report shall cover the period of a fiscal trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. NEA shall provide to the Recipient not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 4.08 (c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

**B. Mid-term Review**

Without limitation to the provisions of paragraph A.1 above, NEA shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association no later than September 30, 2017, a mid-term review report for its Respective Parts of the Project, summarizing the result of the monitoring and evaluation activities carried out from the inception of the Project, and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

**C. Financial Management, Financial Reports and Audits**

1. NEA shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of NEA, including the operations, resources and expenditures related to its Respective Parts of the Project.
2. NEA shall prepare and furnish to the Association not later than forty-five (45) days after the end of each fiscal trimester, interim unaudited financial reports for its Respective Parts of the Project covering the trimester, in form and substance satisfactory to the Association.
3. NEA shall have its financial statements as well as the financial statements for its Respective Parts of the Project referred to in sub-paragraph 1 above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one Fiscal Year. NEA shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.



4. Without limitation on the provisions of sub-paragraphs 1 to 3 of this Part C, NEA shall:
- (a) conduct trimester internal audits of operations, resources and expenditures related to the Project, in accordance with consistently applied auditing standard acceptable to the Association, and shall prepare and furnish to the Association not later than three (3) months after the end of each fiscal trimester the internal audit reports covering the fiscal trimester, in form and substance satisfactory to the Association;
  - (b) conduct, as part of the internal audits under sub-paragraph (a) above and starting with the internal audit following the first procurement of goods, physical verification and reconciliation of such goods procured in accordance with the Procurement Plan against the records maintained pursuant to Section 4.07 (b) of the General Conditions;
  - (c) prepare and furnish to the Association, as part of the internal audit reports, a reconciliation report of the physical verification and reconciliation conducted in accordance with sub-paragraph (b) above, in form and substance satisfactory to the Association; and
  - (d) carry out not later than September 30, 2016 all the actions of the FM Improvement Action Plan, in a manner acceptable to the Association.

**Section III. Procurement**

All goods and services required for NEA's Respective Parts of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.