

**OFFICIAL  
DOCUMENTS**

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**CREDIT NUMBER 5728-NP**

**Financing Agreement**

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

**between**

**NEPAL**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated** FEBRUARY 4, 2016

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**FINANCING AGREEMENT**

AGREEMENT dated February 4, 2016, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fourteen million four hundred thousand Special Drawing Rights (SDR 14,400,000) (variously, “Credit” and “Financing”), to assist in financing Parts 1, 2(c), 2(d) and 2(e) of the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause NEA to carry out Parts 1, 2(c), 2(d), and 2(e) of the Project (NEA's Respective Parts of the Project) in accordance with the provisions of Article IV of the General Conditions and the Project Agreement; and shall carry out Parts 2(a), 2(b) and 3 of the Project through WECS in accordance with the SAWI-P2 MDTF Grant Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that NEA's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NEA to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following:
  - (a) The Subsidiary Agreement has been executed on behalf of the Recipient and NEA.
  - (b) NEA has furnished to the Association all overdue audited financial statements for Fiscal Year 2013/2014; and
  - (c) The SAWI-P2 MDTF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or executed by the Recipient and NEA and is legally binding upon the Recipient and NEA, in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Secretary, Ministry of Finance of the Recipient.

- 6.02. The Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4211-164

- 6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI)

1-202-477-6391

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

**NEPAL**

By



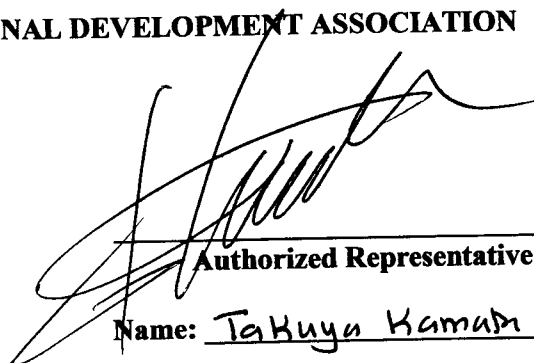
\_\_\_\_\_  
Authorized Representative

Name: Baikuntha Aryal

Title: Joint Secretary

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By



\_\_\_\_\_  
Authorized Representative

Name: Takuya Kamada

Title: Country Manager

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to: (a) strengthen the capacity of the Recipient's power sector agencies to plan and prepare hydropower and transmission line projects following international standards and best practices; and (b) improve the readiness of the power sector agencies for regulatory and institutional reforms.

The Project consists of the following parts:

#### **Part 1: Preparation of Hydropower and Transmission Line Investment Projects**

- (a) The preparation of detailed engineering design and bid documents for the Upper Arun Hydropower Project and the Ikhuwa Khola Hydropower Project with a planned installed capacity of approximately 335 and 30 megawatts respectively, including: (i) preparation of detailed engineering design and bid documents; (ii) conducting environmental and social impact assessments, including a cumulative impact assessment, and mitigation studies; and (iii) hiring the dam safety panel of experts and the environmental and social panel of experts; and
- (b) The undertaking of feasibility studies and the preparation of basic design, route survey, environmental and social impact assessment, and bid documents for the Transmission Line Projects.

#### **Part 2: Studies and Preparation for Policy Recommendations and Sector Reform**

Provision of support for:

- (a) The implementation by WECS of integrated water resource planning and management to guide sustainable hydropower development in selected river basins, using a basin-wide approach;
- (b) The improvement of the regulatory and institutional framework for water resources management and hydropower development, including updating the Water Resource Act and capacity building of WECS;
- (c) The preparation of NEA's power system expansion plan, including updating the generation master plan;
- (d) The establishment and operationalization of a power trading company; and

- (e) The restructuring of NEA for improved distribution business management and efficiency, including asset evaluation and installation of smart meters at consumer premises.

**Part 3: Capacity Building for Safeguard Management and Hydropower Development**

Provision of support to WECS for:

- (a) Conducting an strategic environmental and social assessment to support basin-wide approach for hydropower development planning;
- (b) Preparing recommendations for environmental and social regulations and procedures for conducting strategic environmental and social assessments for water resource and hydropower development;
- (c) Building capacity in the management of social and environmental issues related to transmission lines' right-of-way; and
- (d) Carrying out Project management activities.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient shall establish, no later than one (1) month after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, the Project Steering Committee ("PSC") with functions, composition, and resources satisfactory to the Association, to provide direction to, oversight, and coordination of the PMUs in the implementation of Parts 2 and 3 of the Project.
2. The Recipient shall: (a) cause NEA to implement its Respective Parts of the Project in accordance with the Project Agreement; and (b) through WECS, shall be responsible for implementing Parts 2(a), 2(b) and 3 of the Project in accordance with this Agreement and the SAWI-P2 MDTF Grant Agreement.

##### B. Subsidiary Agreement for NEA's Respective Parts of the Project

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to NEA under a subsidiary agreement between the Recipient and NEA ("Subsidiary Agreement"), under terms and conditions satisfactory to the Association, which shall, *inter alia*, include the following:
  - (a) an amount equivalent to SDR 14,400,000 shall be provided as a subsidiary credit (the "Subsidiary Credit") for the purpose of financing Eligible Expenditures under NEA's Respective Parts of the Project;
  - (b) the financial terms of the Subsidiary Credit shall be the same as the ones applicable to the Financing, including the financial terms referred to in Section 2.03 and Section 2.04 of this Agreement; in addition to these terms, a maximum of one percent (1%) service charge per annum may also apply;
  - (c) the Subsidiary Credit shall be repayable, in Dollars, over a period not exceeding thirty eight (38) years from the date of the Subsidiary Agreement, inclusive of a grace period not exceeding six (6) years; and
  - (d) the foreign exchange risk shall be borne by NEA.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall



otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

**C. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**D. Safeguards**

1. The Recipient shall cause NEA to carry out its Respective Parts of the Project in accordance with Section I.C of the Schedule to the Project Agreement.
2. Notwithstanding any activities carried out under Part 1 of the Project, the Recipient 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. The Recipient shall monitor and evaluate the progress of the Project, and shall cause NEA to monitor and evaluate the progress of NEA's Respective Parts of the Project, and shall prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators set forth in the Results Framework. Each Project Report shall cover the period of one 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.

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

1. The Recipient shall maintain, and cause NEA to maintain, a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause NEA to 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 the Project covering the trimester, in form and substance satisfactory to the Association.

3. The Recipient shall cause NEA to have its Financial Statements as well as the financial statements for the Project audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

### **Section III. Procurement**

#### **A. General**

1. **Goods and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association 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.

#### **B. Particular Methods of Procurement of Goods and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), subject to the additional provisions set out in paragraph 3 below; (b) Shopping; and (c) Direct Contracting.

3. **National Competitive Bidding.** The following additional procedures shall apply to goods and non-consulting services procured on the basis of National Competitive Bidding:
- (a) Only the model bidding documents for National Competitive Bidding agreed with the Association (as amended from time to time), including qualification criteria shall be used;
  - (b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
  - (c) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
  - (d) Bids shall be opened in public in one place, immediately after the deadline for submission of bids;
  - (e) 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;
  - (f) 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 Association and contracts shall be awarded to the lowest evaluated bidders;
  - (g) Under Prior Review, rebidding shall not be carried out without the prior concurrence of the Association;
  - (h) Under Prior Review, 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; and
  - (i) There shall not be any restrictions on the means of delivery of the bids.

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts 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) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall 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 Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods and consultants' services under Part 1 of the Project	12,050,000	100%
(2) Goods, and consultants' services, under Parts 2(c), 2(d) and 2(e) of the Project	2,350,000	100%
<b>TOTAL AMOUNT</b>	14,400,000	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for: (i) Eligible Expenditures under a contract financed or agreed to be financed by any other international institution or agency, or the Association, under any other agreement; or (ii) payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2020.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15, commencing March 15, 2022 to and including September 15, 2053.	<b>1.5625%</b>

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means 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. “Association’s Safeguard Policies” means the Association’s operational policies and procedures set forth in the Association’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 published at [www.WorldBank.org/opmanual](http://www.WorldBank.org/opmanual).
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means 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).
5. “Environmental and Social Management Framework” or the acronym “ESMF” means the framework satisfactory to the Association, dated January 2015, as updated in April 2015, and referred to in Section I.C of the Schedule to the Project Agreement, which sets forth the principles and procedures, governing, *inter alia*: (i) the preparation of Safeguard Documents; (ii) the requirements, activities, processes, and institutional responsibilities for ensuring that all activities under the project are carried out in compliance with Association’s Safeguard Policies; and (iii) the environmental and social protection measures, if any, required to be undertaken in order to avoid or mitigate potential adverse environmental and social impacts; as said framework may be revised from time to time with the prior written concurrence of the Association, and such term includes any annexes or schedules to such framework.
6. “Fiscal Year” or “FY” means the fiscal year of the Recipient and NEA beginning on 16 July in one calendar year and ending on 15 July in the following calendar year.
7. “FM Improvement Action Plan” means the NEA’s “Short Term Action Plan for Financial Management Improvement in NEA”, dated September 18, 2014, acceptable to the Association, as said plan may be revised from time to time with the prior written agreement of the Association.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.

9. “Ikhuwa Khola Hydropower Project” means the potential hydropower project, including run of river scheme diverting water from the Ikhuwa River into the Arun River and located in the Recipient’s eastern development region, for which preparation of detailed engineering design and bid documents will be carried out under Part 1(a) of the Project as described in Schedule 1 to this Agreement.
10. “NEA” means Nepal Electricity Authority, a government-owned utility established under the Nepal Electricity Authority Act, 2041 (1984) and responsible for, among other things, generation, transmission and distribution of electricity in Nepal, which is the “Project Implementing Entity” for the purposes of the General Conditions, and any successor thereto.
11. “NEA’s Legislation” means the Nepal Electricity Authority Act, 2041 (1984), as amended through the date hereof.
12. “NEA Project Management Unit” or “NEA PMU” means the management unit to be established by NEA to manage NEA’s Respective Parts of the Project, and referred to in Section I.A.1 of the Schedule to the Project Agreement.
13. “NEA’s Respective Parts of the Project” means all activities under Part 1, 2 (c), 2 (d), and 2 (e) of the Project.
14. “NIETTP Financing Agreement” means the financing agreement for a Nepal-India Electricity Transmission and Trade Project between the Recipient and the Association, dated July 15, 2011 (Credit Number 4902–NP and Grant Number H660-NP), as amended.
15. “NIETTP Project” means the project described in the NIETTP Financing Agreement.
16. “PMUs” means, collectively, the NEA PMU and the WECS PMU.
17. “Procurement Guidelines” means 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).
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 28, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
19. “Project Agreement” means the agreement between the Association and NEA, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.



20. “Public Procurement Act” means the Recipient’s Public Procurement Act, 2063 (2007).
21. “Respective Parts of the Project” means, with respect to NEA, the “NEA Respective Parts of the Project”, and with respect to the Recipient, Parts 2(a), 2(b) and 3 of the Project.
22. “Results Framework” means the Recipient’s framework dated August 28, 2015, and agreed with the Association, setting forth the indicators and targets for purposes of monitoring and evaluation of the progress of the Project, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes, appendices, or schedules to such framework.
23. “Safeguard Documents” means the assessments, frameworks, plans, sub-plans, and studies, including, *inter alia*, environmental and social impact assessments and plans, cumulative impact assessment, resettlement policy framework, resettlement action plans, vulnerable and indigenous peoples development plans, downstream impacts management plans, gender assessment and action plans, benefit-sharing action plans, and dam safety plans, to be developed in accordance with the Environment and Social Management Framework and agreed with the Association, and setting out mitigation measures, environmental and social management and supervision structures, and institutional 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, as the same may be modified from time to time with the prior written concurrence of the Association; and such term includes any annexes or schedules.
24. “SAWI-P2 MDTF Grant” means an amount of two million five hundred thousand Dollars (\$2,500,000) to be provided by the International Bank for Reconstruction and Development and the Association, both acting as administrator of the South Asia Water Initiative Phase-2 Multi-Donor Trust Fund, to assist in the financing of Parts 2(a), 2(b) and 3 of the Project.
25. “SAWI-P2 MDTF Grant Agreement” means the agreement between the Recipient on the one hand and the International Bank for Reconstruction and Development and the Association (both acting as administrator of the South Asia Water Initiative Phase-2 Multi-Donor Trust Fund) on the other, of the same date as this Agreement, providing for the SAWI-P2 MDTF Grant, as such agreement may be amended from time to time; and such term includes all appendices, schedules and agreements supplemental to said agreement.

26. "Subsidiary Agreement" means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to NEA.
27. "Transmission Line Projects" means one or more transmission line projects within the territory of the Recipient acceptable to the Association and to be proposed by the Recipient for preparation support under Part 1(b) of the Project, based on recommendations of the Transmission System Master Plan.
28. "Transmission System Master Plan" means the transmission system master plan to be prepared under Part C.2 of the NIETTP Project.
29. "Upper Arun Hydropower Project" means the potential hydropower project located in the Recipient's eastern development region on the upper reach of the Arun River, for which preparation of detailed engineering design and bid documents will be carried out under Part 1(a) of the Project as described in Schedule 1 to this Agreement.
30. "Water Resource Act" means the Recipient's Water Resource Act, 2049 (1992).
31. "WECS" means the Recipient's Water and Energy Commission Secretariat, or any successor thereto.
32. "WECS Project Management Unit" or "WECS PMU" means the management unit to be established by the Recipient, through WECS, to specifically manage the Parts 2(a), 2(b) and 3 of the Project, and referred to in Section I.A.2 of Schedule 2 to the SAWI-P2 MDTF Grant Agreement.