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CONFIRMED COPY

CREDIT NUMBER 4932-NP
GRANT NUMBER H676-NP

Financing Agreement

(Kabeli Transmission Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 27, 2011

CREDIT NUMBER 4932-NP
GRANT NUMBER H676-NP

FINANCING AGREEMENT

AGREEMENT dated June 27, 2011, 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 grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000) (“Grant”); and
 - (b) an amount equivalent to seventeen million three hundred thousand Special Drawing Rights (SDR 17,300,000) (“Credit”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 15 and October 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 Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: (i) cause NEA to carry out Parts 1 and 2 of the Project; and (ii) cause AEPC to carry out Part 3 of the Project, all in accordance with the provisions of Article IV of the General Conditions.
- 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 and the Project Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) 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; and
 - (b) AEPC's Formation Order has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AEPC to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that either event specified in Section 4.01(a) or 4.01(b) of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement has been executed on behalf of the Recipient and NEA.

- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified 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: INDEVAS
 - Telex: 248423 (MCI)
 - Facsimile: 1-202-477-6391
 - Washington, D.C.

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

NEPAL

By /s/ Krishna Hari Baskota

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to support the addition of transmission capacity to the Recipient's integrated power system; and (ii) to provide access to electricity and cooking fuel to communities in the area of the Kabeli 132 kV transmission line.

The Project consists of the following parts:

Part 1: Kabeli Corridor 132 kV Transmission Line

Construction of a 90-kilometer, 132 kV double circuit transmission line and three (3) substations, including, inter alia, the supervision and monitoring of the construction activities, together with all technical advisory services and Project implementation assistance needed in connection therewith.

Part 2: Community-based Rural Electrification-Grid Extension

Extension of the electrification grid, where technically feasible, to currently un-electrified communities located within the vicinity of the transmission line to be erected under Part 1 of this Project.

Part 3: Rural Enhanced Energy Services

Provision of enhanced energy services to communities, including: (a) carrying out Community Sub-projects to pilot community-level energy schemes by providing rural electrification and improving cooking fuel through biogas applications; and (b) provision of technical assistance to AEPC and participating districts/villages to facilitate Project implementation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall ensure that:

- (a) AEPC is maintained responsible, throughout Project implementation, for the overall implementation and supervision of Part 3 of the Project;
- (b) the implementation arrangements as detailed in the AEPC's Project Implementation Manual are maintained until the completion of Part 3 of the Project;
- (c) a District Energy and Environment Management Committee, with mandate, terms of reference and composition acceptable to the Association, is maintained in each district covered under the Project until completion of the Project, to review and approve applications for the release of Community Subproject Grants from DEFs to CEFs;
- (d) the DEES of the DDC in each district covered by the Project are maintained, until the completion of the Project, to process the release of Grant Funds from DEFs to CEFs upon approval of such release by District Energy and Environment Management Committees, and to oversee the review and approval of Community Subproject proposals submitted by CFGs; and
- (e) CFGs are maintained in each Beneficiary Community, to be responsible, subject to the general guidance and oversight functions of DEES, for:
 - (i) preparing and submitting Community Subproject proposals in accordance with, among others, the technical and financial analyses carried out for each Community Subproject by the AEPC technical review committee;
 - (ii) securing loans from local financing institutions;
 - (iii) day-to-day implementation, management and supervision of Community Subprojects, including procurement and financial management, and the selection and training of managers and operators of Community Subprojects; and
 - (iv) preparing reports on the progress of Community Subprojects and submitting them for the review of DEES and AEPC.

2. The Recipient shall ensure that all legal and administrative instruments required to enable the carrying out of selected activities under the Project by the entities participating in the Project, and therewith, the potential receipt of proceeds of the Financing by each of said entities, are duly issued in accordance with the Recipient's applicable laws.
3. The Recipient shall ensure that: (a) all key staff referred to in this Agreement, and described in detail in the NEA Project Implementation Plan and the AEPC Project Implementation Plan, respectively, are not, assuming satisfactory performance, transferred to other positions during the Project period (and in the case of staff specifically selected in respect of accounts and finance and procurement matters, until six (6) months following the Closing Date or until submission of the final audited Financial Statements, whichever occurs later), except with prior notice to and consultation with the Association and as required by the applicable laws of the Recipient and (b) 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.
4. The Recipient shall: (a) make such budgetary allocations as shall be required for the Project as its counterpart contribution and provide such contribution in a timely and adequate manner to NEA and AEPC; and (b) ensure that the funds so provided are used for the efficient implementation of the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out of Parts 1 and 2 of the Project, the Recipient shall make part of the proceeds of the Financing available to NEA under a subsidiary agreement between the Recipient and NEA, under terms and conditions satisfactory to the Association, which shall, inter alia, include the following:
 - (a) an amount equivalent to SDR 17,300,000 shall be provided as a subsidiary credit (the "Subsidiary Credit") for the purposes of financing goods and works under Part 1 of the Project; and an amount equivalent to SDR 5,800,000 shall be provided for the purposes of financing part of goods and works and consultant services under Part 1 of the Project and all Eligible Expenditures under Part 2 of the Project as the Recipient's equity contribution to NEA; and (b) the principal amount of the Subsidiary Credit shall be denominated and repayable in Rupees;
 - (b) the Subsidiary Credit shall be charged a 5% interest on the principal amount withdrawn and outstanding from time to time; and

- (c) the Subsidiary Credit shall be repayable over a period not exceeding twenty (20) years from the date of the Subsidiary Agreement, inclusive of a grace period not exceeding five (5) years.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing and, 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. Implementation documents

1. The Recipient shall cause AEPC to adopt a Project Implementation Manual satisfactory to the Association, consisting in various schedules setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of Part 3 of the Project, including the following:
- (i) (A) the detailed description of the implementation activities under Part 3 of the Project, their sequencing and the prospective timetable and benchmarks in relation thereto; and (B) the detailed sub-institutional arrangements in respect thereof;
 - (ii) the administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto, including Standard Bidding Documents for the procurement methods set forth in the Procurement Plan and the final form of the interim unaudited financial reports and Financial Statements for the Project and the terms of reference for the financial audits of the Project;
 - (iii) the selection criteria for: (A) the Beneficiary Communities under Part 3 of the Project; (B) the Community Subprojects; (C) the guidelines for the screening, appraisal, selection, approval, implementation, monitoring and evaluation of the Community Subprojects; (D) the terms and conditions for the Community Subproject Grant Agreements, and (E) the model forms of the Community Subproject Grant Agreements;
 - (iv) detailed guidelines and procedures for the carrying out of all financial, technical and social audits of Project activities under Part 3 of the Project;
 - (v) the overview of planned capacity building and training activities to be carried out for purposes of the Project under Part 3 of the Project;

- (vi) the plan for the monitoring and supervision of Part 3 of the Project, including all pertinent environmental and social aspects in relation thereto; and
 - (vii) the AEPC VCDP, the AEPC Environmental Assessment Guidelines and the AEPC Environmental Management Plan.
2. The Recipient shall cause AEPC to carry out Part 3 of the Project, in accordance with the AEPC Project Implementation Manual, the AEPC VCDP, the AEPC Environmental Assessment Guidelines and the AEPC Environmental Management Plan.
 3. In the event that any provision of the AEPC Project Implementation Manual, the AEPC VCDP, the AEPC Environmental Assessment Guidelines and the AEPC Environmental Management Plan shall conflict with any provision under this Agreement, the provisions of this Agreement shall prevail.
 4. The AEPC Project Implementation Manual, the AEPC VCDP, the AEPC Environmental Assessment Guidelines and the AEPC Environmental Management Plan may be amended from time to time only with the Association's prior written consent.

D. Anti-Corruption

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

E. Governance and Accountability Action Plan

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Governance and Accountability Action Plan.

F. Sub-projects.

1. The Recipient shall cause AEPC to ensure that all of the requirements and provisions set forth in: (a) Section I.A.1 (a) through (e) of Schedule 2 to this Agreement, regarding the activities and responsibility of each entity participating in the appraisal, selection, implementation, disbursement of funds, monitoring and evaluation of Community Subprojects under Part 3 of the Project; and (b) the terms, conditions and modalities for the processing of each Community Subproject, as set forth in Schedule 4 to this Agreement, and in further detail in the AEPC Project Implementation Manual, are complied with in a manner satisfactory to the Association.

2. Without limitation on the provisions of paragraph 1 of this Section F, the Recipient, through AEPC, shall ensure that no Community Sub-project shall be eligible for financing out of the proceeds of a Community Sub-project Grant, unless the Community Subproject Grant has first been approved in accordance with the procedures, and on the terms and conditions, set forth or referred to in this Agreement and in the AEPC Project Implementation Manual.

G. Safeguards

The Recipient shall cause AEPC to ensure that: (i) Part 3 of the Project is implemented in accordance with the provisions of the AEPC Environmental Assessment Guidelines, the AEPC Environmental Management Plan and the AEPC VCDP; and (ii) no action shall be taken which would prevent or interfere with such implementation.

H. Additional Implementation Arrangements

1. The Recipient shall ensure that an NEA-AEPC coordination committee is established not later than one month after the Effective Date, and thereafter is maintained throughout Project implementation, as set forth in the NEA Project Implementation Plan and the AEPC Project Implementation Manual, to coordinate the implementation of rural electrification activities under Parts 2 and 3 of the Project.
2. The Recipient shall cause NEA to carry out, the financial management action plan agreed with the Association on December 2010.
3. By no later than August 2013, or such other date as the Association shall communicate in writing to the Recipient, the Recipient shall cause NEA and AEPC to carry out a midterm review of the implementation of their respective Parts of the Project. To that end, the Recipient shall cause NEA and AEPC, at least one month prior to the date of the midterm review, to prepare and furnish to the Association, for its review and comments, a report including, *inter alia*: (i) a review of the Project's progress to date against performance indicators agreed with the Association; (ii) a review of the Recipient's fulfillment of the financial management, disbursement, and procurement requirements under this Agreement; (iii) a review of the technical assistance provided under the Project, including findings of studies and research undertaken under the Project; (iv) lessons learned and obstacles encountered in the implementation of the Project; and (v) recommendations for the strategic directions and expenditures priorities for the remainder of Project implementation.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause AEPC: (a) to monitor and evaluate the progress of Part 3 of the Project and prepare in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report from AEPC shall cover the period of one (1) 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 to be maintained 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 AEPC to prepare and furnish to the Association as part of the Project Report 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 AEPC to have its Project Financial Statements, in respect of Part 3 of the Project, audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Project Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Project 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 Works.** All goods and works 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, goods estimated to cost less than US\$500,000 equivalent per contract and works estimated to cost less than US\$1,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), subject to the following:
 - (i) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
 - (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
 - (iii) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
 - (iv) 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;
 - (v) 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;
 - (vi) rebidding shall not be carried out without the prior concurrence of the Association;
 - (vii) 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
 - (viii) there shall not be any restrictions on the means of delivery of the bids.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works in accordance with the provisions of the Public Procurement Act (and regulations made thereunder). The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods
(a) Limited International Bidding
(b) Shopping
(c) Direct Contracting
(d) Force account
(e) Community Participation procedures acceptable to the Association as set forth in the AEPC Project Implementation Manual

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 table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Methods
(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) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. The Procurement Plan shall set forth all contracts, including those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.
2. Notwithstanding paragraph 1 above, and except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated

to cost the equivalent of US\$300,000 or more and each contract for works estimated to cost the equivalent of US\$500,000 or more, irrespective of the method of procurement; (b) all direct contracts; (c) each contract for consultants' services provided by a firm and estimated to cost the equivalent of US\$200,000 or more; (d) all single source selection of consultants (firms) and each contract for consultants' services provided by an individual and estimated to cost US\$ 10,000 or more.

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

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Part 1 of the Project			
(a) Goods and works	17,300,000	2,200,000	100%
(b) Consultant services		800,000	100%
(2) Part 2 of the Project			
(a) Goods and works		2,600,000	100%
(b) Consultant services		200,000	100%
(3) Part 3 of the Project			
(a) Community		550,000	100%

Subproject Grants			
(b) Consultants' services and Training		180,000	100%
(c) Incremental Operating Costs		170,000	80%
TOTAL AMOUNT	17,300,000	6,700,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for:
 - (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US\$5,000,000 equivalent may be made for payments made prior to this date but on or after May 1, 2011, for Eligible Expenditures under Category 1;
 - (b) payments under Categories (1) and (2) until: (i) the NEA Project Implementation Plan has been adopted by NEA in form and substance satisfactory to the Association; and (ii) NEA has submitted to the Association appropriate documents, satisfactory in substance to the Association, setting out the institutional arrangements for the implementation of environmental and social safeguard activities under Parts 1 and 2 of the Project; or
 - (c) payments under Category (3) until the AEPC Project Implementation Manual has been adopted by AEPC in form and substance satisfactory to the Association.
2. The Closing Date is June 30, 2015.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2021 to and including April 15, 2031	1%
commencing October 15, 2031 to and including April 15, 2051	2%

* 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.

SCHEDULE 4

Terms and Conditions for the Community Subproject Grants

1. For purposes of Part 3(a) of the Project, the Recipient shall cause AEPC to make Community Subproject Grants to Beneficiary Communities in accordance with eligibility criteria and procedures acceptable to the Association, which shall include the following.
2. The Recipient shall make each Community Subproject Grant under a Community Subproject Grant Agreement with a respective Beneficiary Community on terms and conditions satisfactory to the Association, as set out in the AEPC Project Implementation Manual, and which shall include the following:
 - (a) the Community Subproject Grant shall consist of a non reimbursable transfer of financial resources;
 - (b) no Community Subproject Grant shall be made to finance a Community Subproject unless: (i) the Community Subproject contributes to enhancing rural energy services; and (ii) the Beneficiary Community has established and undertaken to maintain a CFG;
 - (c) goods, works and services required for the purposes of financing Community Subprojects shall be procured in accordance with procedures referred to in Section III of Schedule 2 to this Agreement, and set forth in the AEPC Project Implementation Manual;
 - (d) unless otherwise agreed by the Recipient and the Association, no expenditures for a Community Subproject shall be eligible for financing out of the proceeds of the Community Subproject Grant allocated from time to time to Part 3(a) of the Project unless:
 - (i) the Recipient shall have furnished to the Association an AEPC Environmental Management Plan relating to the proposed Community Sub-project, prepared pursuant to guidelines agreed upon between the Recipient and the Association, together with evidence, satisfactory to the Association, that: (A) the Sub-project shall not involve any involuntary resettlement of the local population; and (B) all land required for the Community Subproject shall be voluntarily made available by communities forming part of CFGs, in a form and manner acceptable to the Association; and
 - (ii) the Recipient shall have furnished to the Association evidence, satisfactory to the Association, that the economic rate of return of the proposed Community Subproject equals or exceeds ten percent (10%).

3. The Recipient shall cause AEPC to obtain rights adequate to protect its interests and those of the Association, including the right to:
 - (i) suspend or terminate the right of any Beneficiary Community to use the proceeds of a Community Subproject Grant, or obtain a refund of all or any part of the amount of a Community Subproject Grant then withdrawn, upon the Beneficiary Community's failure to perform any of its obligations under the Community Subproject Grant Agreement; and
 - (ii) require each Beneficiary Community to:
 - (A) carry out the relevant Community Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient;
 - (B) provide, promptly as needed, the resources required for the purpose;
 - (C) procure the goods, works and services to be financed out of the Community Subproject Grant in accordance with the provisions of this Agreement;
 - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Community Subprojects and the achievement of their objectives;
 - (E) (1) 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, resources and expenditures related to the Community Subproject; and (2) at the Association's or the request of the Recipient, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;

(F) enable the Recipient and the Association to inspect the relevant Community Subproject and any relevant records and documents; and

(G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

4. The Recipient shall exercise its rights under each Community Subproject Grant Agreement in such manner as to : (a) protect the interests of the Recipient and the Association; (b) achieve the purposes of Part 3 of the Project and (c) accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Community Subproject Grant Agreements or any of their provisions.

APPENDIX

Section I. Definitions

1. “AEPC” means the Alternative Energy Promotion Center of the Recipient’s Ministry of Environment, established and operating under the Formation Order, 2053 (1996) pursuant to the Development Board Act, 2013 (1956) or any successor thereto acceptable to the Association.
2. “AEPC Environmental Assessment Guidelines” means, collectively: (i) AEPC Environmental Assessment Guidelines for Micro-Hydro Village Electrification Program dated March 2003; and (ii) AEPC Environmental Management and Mitigation Plan dated September 2010 for environmental assessment of biogas schemes under Part 3(a) of the Project, including any amendments made to such guidelines from time to time with the Association’s consent, setting forth, among other things, the procedures for developing and implementing AEPC Environmental Management Plans.
3. “AEPC Environmental Management Plan” means each plan prepared and to be prepared in accordance with the AEPC Environmental Assessment Guidelines by a Beneficiary Community for a Community Subproject which sets out the environmental protection measures in respect of the Community Subproject, as well as the administrative and monitoring arrangements to ensure the implementation of the plan, including any amendments made to such plan, from time to time with the consent of the Association.
4. “AEPC Formation Order” means the Formation Order, 2053 (1996) pursuant to the Development Board Act, 2013 (1956).
5. “AEPC Project Implementation Manual ” means the Implementation Manual for Part 3 of the Project, referred to in Section I C.1 of Schedule 2 to this Agreement, updated and adopted for purposes of the Project pursuant to the provisions of paragraph B1.(c) of Section IV of Schedule 2 to this Agreement, providing details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of Part 3 of the Project, including: (i) administrative, accounting and financial procedures; (ii) procurement and disbursement arrangements; (iii) performance indicators, monitoring and evaluation guidelines, and (iv) environmental assessment methodology, as the same may be amended from time to time with the consent of the Association, and such term includes any schedules to the AEPC Project Implementation Manual.
6. “AEPC VCDP” refers to the Vulnerable Community Development Plan dated March 2003, including therein the policies and procedures for developing a

vulnerable community development plan, if required for a proposed Community Subproject under Part 3(a) of the Project, as the same may be amended from time to time with the consent of the Association, and such term includes any schedules to the AEPC VCDP.

7. “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.
8. “Beneficiary Community” means a community, represented by a CFG, to which the Recipient proposes to make or has made a Community Subproject Grant under Part 3(a) of the Project.
9. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
10. “CEFs” means Community Energy Funds through which Community Subproject Grants shall be provided to Beneficiary Communities under Part 3(a) of the Project.
11. “CFG” means the Community Functional Group, with legal personality, which shall be established by members of a Beneficiary Community to implement renewable energy projects.
12. “Community Subproject” means any activity under Part 3(a) of the Project in respect of which a Community Subproject Grant has been, or may be, provided.
13. “Community Subproject Grant” means a grant extended by the Recipient through AEPC for the carrying out of Community Subprojects.
14. “Community Subproject Grant Agreement” means an agreement for a Community Subproject Grant referred to in Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Community Subproject Grant Agreement.
15. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
16. “DDC” means a District Development Committee established in each district of the Recipient under the Local Self Governance Act, 2056 (1999).
17. “District Energy Fund” or “DEF” means a fund for energy development managed by the DDC, through which Grant funds shall be provided to CEFs for use by Beneficiary Communities.

18. “District Energy and Environment Management Committee means the committee referred to in Section I.A 1 (c) of Schedule 2 to this Agreement.
19. “EMP” means NEA’s Environmental Management Plan, dated November 2010, a part of NEA’s initial environmental examination which governs the management of social and environmental aspects of Parts 1 and 2 of the Project, and containing various schedules and annexes, as may be amended from time to time with the prior approval of the Association.
20. “Fiscal Year” or “FY” means the fiscal year of the Recipient, NEA and AEPC.
21. “Governance and Accountability Action Plan” and “GAAP” mean the plan dated April 4, 2011, satisfactory to the Association, which sets out the key actions to be undertaken by the Recipient, NEA and AEPC during Project implementation to strengthen governance, transparency, and accountability under the Project, as such plan may be amended from time to time with the prior written agreement of the Association.
22. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
23. “Incremental Operating Costs” means expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, IT and office administration costs, utilities, travel, per diem and supervision costs and salaries of locally contracted employees.
24. “Kabeli Project Unit” means the unit in charge of Project implementation of Parts 1 and 2 of the Project, as referred to in Section I.A.1 of the Schedule to the Project Agreement.
25. “NEA” means the Nepal Electricity Authority established under the Nepal Electricity Authority Act, 2041 (1984), and any successor thereto acceptable to the Association.
26. “NEA Project Implementation Plan” means the implementation plan for Parts 1 and 2 of the Project, referred to in Section I.D.4 of the Schedule to the Project Agreement, updated and adopted for purposes of the Project pursuant to the provisions of paragraph B 1.(b) of Section IV of Schedule 2 to this Agreement for purposes of the Project, as the same may be amended from time to time with the prior written consent of the Association, and such term includes any schedules to the NEA Implementation Plan.
27. “NEA Legislation” means the Nepal Electricity Authority Act, 2041 (1984).

28. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006 and May 2010.
29. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 3, 2011 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
30. "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.
31. "Project Implementing Entity" means NEA, or any successor thereto acceptable to the Association.
32. "Public Procurement Act" means the Recipient's Public Procurement Act, 2063 (2007).
33. "RAP" means NEA's Resettlement Action Plan, dated December 2010, setting forth actions, policies and other measures prepared in respect of Parts 1 and 2 of the Project for the compensation, physical relocation and assistance to persons to be displaced on account of Project implementation.
34. "SMF" means NEA's Social Management Framework, dated December 2010, setting forth a framework of actions, policy and other measures for addressing social impacts on vulnerable populations and for the compensation, physical relocation and assistance to persons potentially displaced on account of Project implementation.
35. "Subsidiary Agreement" refers to the agreement described in Section I.B 1 of Schedule 2 to this Agreement, entered into between NEA and the Recipient for purposes of carrying out Parts 1 and 2 the Project.
36. "Training" means, in respect of Category 3(b): (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees (iii) workshops and travel study tours; (iv) training facility rentals; and (v) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under said section.