

15-Mar-2024

---

Mr. Shreekrishna Nepal  
Joint Secretary  
Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu, Nepal

**Re: Advance Agreement for the Preparation of the  
Proposed Upper Arun Hydroelectric Project  
Preparation Advance Number IDA V501-NP**

Dear Mr. Nepal:

In response to the request for financial assistance made on behalf of Nepal (“Recipient”), I am pleased to inform you that the International Development Association (“IDA” or “Bank”) proposes to extend to the Recipient an advance out of the Bank’s Project Preparation Facility in an amount not to exceed six million Dollars (\$6,000,000) (“Advance”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in financing the activities described in the Annex (“Activities”). The objective of the Activities is to facilitate the preparation of a proposed project designed to increase renewable and sustainable electricity supply and regional electricity trade (“Project”).

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the Bank.

Very truly yours,

**INTERNATIONAL DEVELOPMENT ASSOCIATION**



By \_\_\_\_\_

Faris Hadad-Zervos  
Country Director for  
Maldives, Nepal, and Sri Lanka

**AGREED:**

**NEPAL**



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

Name \_\_\_\_\_  
Shreekrishna Nepal

Title \_\_\_\_\_  
Joint secretary

Date \_\_\_\_\_  
17-Mar-2024

Enclosures:

- (1) "Standard Conditions for Advances Made by the Bank under its Project Preparation Facility", dated August 1, 2022; and
- (2) Disbursement and Financial Information Letter for the Advance of the same date as this Agreement, together with "Disbursement Guidelines for Investment Project Financing", dated February 2017.

**PPA Number IDA V501-NP  
ANNEX**

**Article I  
Standard Conditions; Definitions**

1.01. **Standard Conditions.** The Standard Conditions (as defined in Section 1.02 below) constitute an integral part of this Agreement.

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

- (a) “Anti-Corruption Guidelines” means, for purposes of paragraph 11 of the Appendix to the Standard Conditions, 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, and as of July 1, 2016.
- (b) “Category” means a category set forth in the table in Section 3.01 of this Agreement.
- (c) “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated January 9, 2023, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out by UAHEL to address the potential environmental and social risks and impacts of the Activities, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
- (d) “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; and (x) “Environmental and

Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Bank.

- (e) “Implementing Entities” means NEA and UAHEL.
- (f) “Incremental Operating Costs” means reasonable costs of incremental expenditures incurred on account of implementation of the Activities, which expenditures would not have been incurred absent the Activities, including, *inter alia*: costs of office utilities and supplies, communication, printing services, bank charges, advertising expenses, vehicle rental, operation and maintenance of vehicles, office equipment and facilities, travel, lodging and per diem expenses, and salaries and allowances of contractual staff (other than consultants) for the Activities; but excluding salaries and allowances of the Recipient’s and Implementing Entities’ civil servants or other regular staff.
- (g) “NEA” means the Nepal Electricity Authority, established pursuant to the Recipient’s Nepal Electricity Authority Act, 2041 (1984) (i.e. Act 18 of the year 2041 (1984)), published in the Nepal Gazette on November 12, 1984, or any successor thereto.
- (h) “PIU” means the Project Implementation Unit established within UAHEL and referred to in Section 2.03 (a) of this Agreement, responsible for supporting and monitoring operational, technical, social environmental, procurement, and financial management activities under the Advance.
- (i) “Procurement Regulations” means, for purposes of paragraph 50 of the Appendix to the Standard Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
- (j) “Safeguard Instruments” means any environmental and social documents to be prepared, completed and/or updated for the Project, including the environmental and social impact assessment (including cumulative impact assessment), resettlement action plan for the transmission line, high resolution environmental flows assessment, assessment of protected areas and terrestrial biodiversity, stakeholder engagement plan, labor management procedures, and indigenous peoples plan.
- (k) “Standard Conditions” means the “Standard Conditions for Advances Made by the Bank under its Project Preparation Facility”, dated August 1, 2022.
- (l) “Subsidiary Agreements” means the Subsidiary Loan Agreement and the Subsidiary Financing Agreement referred to in Section 2.03 (b) of this Agreement, to be concluded between the Recipient and NEA and between NEA and UAHEL respectively and pursuant to which the Recipient shall make the proceeds of the Advance available to UAHEL through NEA.

- (m) “Subsidiary Financing Agreement” means the agreement to be concluded between NEA and UAHEL.
- (n) “Subsidiary Loan Agreement” means the agreement to be concluded between the Recipient and NEA.
- (o) “Training” means reasonable costs associated with training, workshop participation, and anticipated study tours under the Activities, consisting of travel and subsistence costs for training participants, costs associated with securing the services of trainers and presenters, rental of training facilities, translation and interpretation services, preparation and reproduction of training materials, and other costs directly related to training, or anticipated study tour preparation and implementation, but excluding fees of consultants.
- (p) “UAHEL” means Upper Arun Hydroelectric Limited, established pursuant to the Recipient’s Nepal Companies Act 2063 (2006), or any successor thereto.

**Article II**  
**Execution of the Activities**

2.01. ***Description of the Activities.*** The Activities for which the Advance is provided consist of the following parts:

- (a) Undertake feasibility studies and preparation of detailed technical and engineering designs, and bidding documents as required for the Project, including for proposed Upper Arun Hydro Electric Plant and transmission lines.
- (b) Support: (i) for the preparation, completion and/or update of key documents and related technical assistance, including results framework, operational manual, tender documentation, and Safeguards Instruments for the proposed Project; and (ii) consultations with participating stakeholders to facilitate the informed consent process for the Project.
- (c) Provision of a dam safety panel and an environmental and social panel of experts.
- (d) Strengthen the institutional and technical capacity of the UAHEL to support key areas of Project preparation, including technical matters, procurement, contract management, financial management, and environmental and social management.

2.02. ***Execution of the Activities Generally.*** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall cause the Activities to be carried out by the Implementing Entities in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; (c) the Anti-Corruption Guidelines; (d) Subsidiary Agreements; and (e) the Implementation Agreement.

2.03. ***Institutional and Other Arrangements.***

- (a) The Recipient shall vest the overall responsibility for the implementation of the Activities in the Implementing Entities. To that end: (i) NEA shall have the overall responsibility for oversight and guidance of the implementation of the Activities; and (ii) UAHEL shall be responsible for the day-to-day implementation of the Activities, and shall maintain, at all times during the implementation of the Activities, staff and resources for such purpose, including the PIU, satisfactory to the Bank.
- (b) To facilitate the carrying out of the Activities, the Recipient shall cause the proceeds of the Advance made available to UAHEL through NEA under the respective Subsidiary Agreement, under terms and conditions approved by the Bank.
- (c) The Recipient shall exercise its rights under the respective Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Advance. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreements or any of its provisions.

2.04. ***Environmental and Social Standards.***

- (a) The Recipient shall, and shall cause the UAHEL to, ensure that the Activities are carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Bank.
- (b) Without limitation upon paragraph (a) above, the Recipient shall, and shall cause the UAHEL to, ensure that the Activities are implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Bank. To this end, the Recipient shall, and shall cause UAHEL to, ensure that:
  - (i) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
  - (ii) sufficient funds are available to cover the costs of implementing the ESCP;
  - (iii) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
  - (iv) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Bank shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.

- (c) In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- (d) The Recipient shall, and shall cause the UAHEL to, ensure that:
  - (i) all measures necessary are taken to collect, compile, and furnish to the Bank through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Bank, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Bank, setting out, *inter alia*: (A) the status of implementation of the ESCP; (B) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (C) corrective and preventive measures taken or required to be taken to address such conditions; and
  - (ii) the Bank is promptly notified of any incident or accident related to or having an impact on the Activities which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
- (e) The Recipient shall, and shall cause the UAHEL to, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Activities-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Bank.

2.05. ***Monitoring, Reporting and Evaluation of the Activities.*** The Recipient shall ensure that each Activity Report is furnished to the Bank not later than forty-five (45) days after each calendar quarter, covering the calendar quarter.

### **Article III Withdrawal of the Advance**

3.01. ***Eligible Expenditures.*** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; and (b) this Section, to finance Eligible Expenditures as set forth in the following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance (“Category”), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Advance Allocated (expressed in Dollars)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Consulting services, non-consulting services, Incremental Operating Costs, and Training under the Activities	6,000,000	100%
<b>TOTAL AMOUNT</b>	<b>6,000,000</b>	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed \$400,000 equivalent may be made for payments made prior to this date but on or after March 15, 2023 for Eligible Expenditures under Category 1.

3.03. **Refinancing Date.** The Refinancing Date is November 30, 2024.

**Article IV  
Terms of the Advance**

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the Bank of an



amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) *Repayment in the absence of a Refinancing Agreement:* If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date, it has been so executed but terminates without becoming effective, then:

- (i) if the amount of the Withdrawn Advance Balance does not exceed \$50,000, it shall be repaid by the Recipient to the Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- (ii) if the amount of the Withdrawn Advance Balance exceeds \$50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the “Aggregate Balance”) shall be paid by the Recipient to the Bank in ten approximately equal semiannual installments, in the amounts and on the dates (“Payment Dates”) which the Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date (“Notice Date”) of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

#### **Article V Effectiveness; Termination**

5.01. The Additional Conditions of Effectiveness consist of the following: the Subsidiary Agreements referred to in Section 2.03 (b) of this Agreement have been executed and are effective.

5.02 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

#### **Article VI Recipient’s Representative; Addresses**

6.01. ***Recipient’s Representative.*** The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is its Secretary, Ministry of Finance, or its Joint Secretary of the International Economic Cooperation Coordination Division, Ministry of Finance.

6.02. **Recipient's Address.** For purposes of Section 9.01 of the Standard Conditions:

- (a) the Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

- (b) the Recipient's Electronic Address is:

Facsimile:

E-mail:

(977-1) 4211-164

secretary@mof.gov.np

6.03. **Bank's Address.** For purposes of Section 9.01 of the Standard Conditions:

- (a) the Bank's Address is:

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

- (b) the Bank's Electronic Address is:

Facsimile:

1-202-477-6391