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CREDIT NUMBER 3766 - NEP  
GRANT NUMBER H039- NEP

# Development Financing Agreement

(Power Development Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 9, 2003

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**CREDIT NUMBER 3766 - NEP  
GRANT NUMBER H039 - NEP**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated July 9, 2003, between KINGDOM OF NEPAL (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) Part C of the Project will be carried out by Nepal Electricity Authority (hereinafter referred to as NEA) with the Borrower's assistance, and as part of such assistance, the Borrower will make parts of the proceeds of the Credit and of the Grant provided for in Article II available to NEA as set forth in this Agreement;

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made;

(D) by an agreement of March 2002, between the Borrower's Ministry of Finance, the Alternative Energy Promotion Center and the United Nations Development Program (UNDP) (the UNDP Grant Agreement), UNDP has agreed to provide a grant to the Borrower equivalent to eight hundred thousand United States dollars (US\$800,000) (the UNDP Grant) to assist in financing part of the Project on the terms and conditions set forth in the UNDP Grant Agreement; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and the Grant to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and NEA (the Project Agreement);

NOW, THEREFORE, the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through

October 6, 1999), with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Administrator” means the Administrator of the PDF (as hereinafter defined), appointed by the Borrower to carry out the functions described in paragraph A.1 of Schedule 4 to this Agreement;

(b) “Administration Agreement” means the Administration Agreement to be entered into between the Administrator and the PDF Board (as hereinafter defined) on behalf of the Borrower, pursuant to Section 6.01(a) of this Agreement for the management of the PDF;

(c) “AEPC” means the Alternative Energy Promotion Center of the Borrower’s Ministry of Science and Technology, established and operating under the Formation Order, 2053 (1996) pursuant to the Development Board Act, 2013 (1956);

(d) “AEPC Environmental Guidelines” means the guidelines for environmental assessment of micro-hydro schemes for Part B of the Project, prepared by the Borrower in March 2003, under the UNDP funded Rural Energy Development 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 (as hereinafter defined);

(e) “AEPC Environmental Management Plan” means each plan prepared in accordance with the AEPC Environmental Guidelines by the Beneficiary Community (as hereinafter defined) for a Community Subproject (as hereinafter defined), 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;

(f) “AEPC Project Implementation Plan” means the Implementation Plan for Part B of the Project dated January 2002, providing details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of Part B 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 Plan;

(g) “AEPC Special Account” means the special deposit account for Part B of the Project referred to in Section 2.02 (b) of this Agreement;

(h) “Beneficiary Community” means a community represented by an MHFG (as hereinafter defined), to which the Borrower proposes to make or has made a Community Subproject Grant under Part B of the Project;

(i) “CEFs” means Community Energy Funds through which grants shall be provided to Beneficiary Communities under Part B of the Project;

(j) “Community Subproject” means any activity under Part B of the Project in respect of which a Community Subproject Grant has been, or may be, provided;

(k) “Community Subproject Grant” means any subsidy extended by the Borrower through AEPC for the carrying out of Community Subprojects;

(l) “Community Subproject Grant Agreement” means an agreement for a Community Subproject Grant referred to in paragraph E.4 of 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;

(m) “DDC” means a District Development Committee established in each district of the Borrower under the Local Self Governance Act, 2056 (1999);

(n) “District Energy Fund” or “DEF” means a revolving fund for energy development managed by the DDC, through which Grant funds shall be provided to CEFs for use by Beneficiary Communities;

(o) “DOED” means the Borrower’s Department of Electricity Development within MOWR (as hereinafter defined);

(p) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement and Section 4.02 of the Project Agreement;

(q) “Fiscal Year” or “FY” means the fiscal year of the Borrower and NEA beginning on 16 July in one calendar year and ending on 15 July in the following calendar year;

(r) “Investment Enterprise” means an enterprise to which the Borrower proposes to make or has made an Investment Sub-loan (as hereinafter defined);

(s) “Investment Subproject” means a specific small or medium-sized hydro power project or related infrastructure project financed under Part A of the Project;

(t) “Investment Sub-loan” means a loan made or proposed to be made from the PDF to an Investment Enterprise for the purpose of carrying out an Investment Subproject, and Investment Sub-loans shall mean all such Investment Sub-loans;

(u) “Investment Sub-loan Agreement” means the agreement for an Investment Sub-loan referred to in paragraph D.6 of Schedule 4 to this Agreement;

(v) “MHFG” means the Micro-Hydro Functional Group which shall be established by members of a Beneficiary Community to implement a micro-hydro village electrification program;

(w) “MOPE” means the Borrower’s Ministry of Population and Environment;

(x) “MOST” means the Borrower’s Ministry of Science and Technology;

(y) “MOWR” means the Borrower’s Ministry of Water Resources;

(z) “NEA” means the Nepal Electricity Authority established under the Nepal Electricity Authority Act, 2041 (1984), and any successor thereto;

(aa) “NEA Implementation Plan” means the implementation plan for Part C of the Project of March 2003, and referred to in paragraph 2 of Schedule 2 to the Project Agreement, as the same may be amended from time to time with the consent of the Association, and such term includes any schedules to the NEA Implementation Plan;

(bb) “NEA Special Account” means the special deposit account for Part C of the Project referred to in Section 2.02 (b) of this Agreement;

(cc) “Operational Manual” means the Operational Manual of Environmental Impact Assessment for Investment Subprojects, of March 2003, which sets forth the procedures and mechanisms regarding the environmental impact assessments applicable to Subprojects financed under Part A of the Project, including the mitigation measures required to address any potential adverse impact, as the same may be amended from time to time with the consent of the Association, and such term includes any schedules to the Operational Manual;

(dd) “PDF” means the Power Development Fund to be established by the Borrower under Part A of the Project;

(ee) “PDF Board” means the Power Development Fund Board to be established by the Borrower pursuant to Section 6.01(c) of this Agreement, and referred to in paragraph A.2 of Schedule 4 to this Agreement;

(ff) "PDF Special Account" means the special deposit account for Part A of the Project referred to in Section 2.02 (b) of this Agreement;

(gg) "PDF Implementation Plan" means the Project implementation plan for Part A of the Project of March 2003, providing details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of Part A 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 PDF Implementation Plan;

(hh) "Participating Credit Institutions" or "PCIs" means the financing institutions selected in accordance with eligibility criteria laid out by the PDF Board and acceptable to the Association, for purposes of Part A.2 of the Project;

(ii) "Policy Framework for Environmental Impact Assessment" means the Policy Framework for Environmental and Social Impact Assessment dated August 2002, setting out the Borrower's policies and procedures concerning environmental and social safeguards applicable to Investment Subprojects and activities to be financed under Parts A and C of the Project, including *inter alia* rules and procedures for land and other assets acquisition, resettlement, rehabilitation and compensation of persons displaced on account of the execution of the Project, and such term includes all schedules, plans, attachment, or annexes to the Policy Framework for Environmental and Social Impact Assessment;

(jj) "PSU" means the Program Support Unit established under UNDP's Rural Energy Development Project and funded by UNDP or any other agencies to provide program support services to AEPC for the implementation of Part B of the Project;

(kk) "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;

(ll) "Project Implementation Plans" means collectively the AEPC Project Implementation Plan and the PDF Implementation Plan;

(mm) "REDS" means a Rural Energy Development Section under the DDC which administers the energy development program in the district;

(nn) "Special Accounts" means collectively the PDF Special Account, the AEPC Special Account and the NEA Special Account; and

(oo) “Subsidiary Financing Agreement” means the agreement to be entered into between the Borrower and NEA pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Financing Agreement.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to thirty six million eight hundred thousand Special Drawing Rights (SDR 36,800,000) (the Credit); and

(b) an amount in various currencies equivalent to eighteen million four hundred thousand Special Drawing Rights (SDR 18,400,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in each case in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of: (i) the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Financing; (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under an Investment Sub-loan to meet the reasonable cost of eligible expenditures relating to an Investment Subproject, and in respect of which the withdrawal from the Financing Account is requested; and (iii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under a Community Subproject Grant to meet the reasonable cost of eligible expenditures relating to a Community Subproject, and in respect of which the withdrawal from the Financing Account is requested.

(b) The Borrower shall open and maintain in dollars in the Nepal Rastra Bank on terms and conditions satisfactory to the Association, the following three separate special deposit accounts: (i) the PDF Special Account for Part A of the Project; (ii) the AEPC Special Account for Part B of the Project; and (iii) the NEA Special Account for Part C of the Project. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15, commencing November 15, 2013, and ending May 15, 2043. Each installment up to and including the installment payable on May 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita Gross National Product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:



- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A and B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause NEA to perform in accordance with the provisions of the Project Agreement all the obligations of NEA therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable NEA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(d) The Borrower shall make the proceeds of the Financing allocated from time to time to Category 3 of the table in paragraph 1 of Schedule 1 to this Agreement available to NEA under a Subsidiary Financing Agreement to be entered into between the Borrower and NEA under terms and conditions satisfactory to the Association, and which shall include: (i) repayment of principal in twenty-five years with a grace period of five years; (ii) interest at a rate of 10.25% per annum, or such other rate as may be agreed by the Borrower and NEA, acceptable to the Association; and (iii) the bearing by the Borrower of any foreign exchange risks.

(e) The Borrower shall exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and the Grant, and, except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the Subsidiary Financing Agreement, or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for Parts A and B of the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part C of the Project, shall be carried out by NEA pursuant to Section 2.04 of the Project Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives of Parts A and B of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. The Borrower shall, no later than December 31, 2003, prepare and furnish to the Association, a Vulnerable Communities Development Plan (VCDP), satisfactory to the Association, for the purpose of the carrying out of Community Subgrants under Part B of the Project, including, *inter alia*, guidelines and procedures for the informed participation of ethnic and indigenous people, as defined by the laws of the Borrower, and for the preparation, adoption and implementation of culturally appropriate plans to mitigate or offset adverse impact of the Project upon them.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts A and B of the Project.

- (b) The Borrower shall:
  - (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
  - (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Financing Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Financing Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part F of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report (FMR) for Parts A and B of the Project, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for Parts A and B of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under Parts A and B of the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first Fiscal Year trimester after the Effective Date, and shall cover the period from the incurrence of the first expenditures under Parts A and B of the

Project through the end of such first Fiscal Year trimester; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent Fiscal Year trimester, and shall cover such Fiscal Year trimester.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) NEA shall have failed to perform any of its obligations under the Project Agreement;

(b) the Administrator shall have failed to perform any of its obligations under the Administration Agreement;

(c) as a result of events which have occurred after the date of the Development Financing Agreement, an extraordinary situation shall have arisen which shall make it improbable that: (i) NEA will be able to perform its obligations under the Project Agreement; or (ii) the Administrator will be able to perform its obligations under the Administration Agreement; and

(d) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the UNDP Grant made to the Borrower for the financing of part of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the UNDP Grant Agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(i) the events respectively specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(ii) the event specified in paragraph (d) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of subparagraph (ii) of that paragraph.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Administration Agreement has been entered into by the PDF Board on behalf of the Borrower, and the Administrator;

(b) the Subsidiary Financing Agreement has been executed on behalf of the Borrower and NEA; and

(c) the PDF Board has been established by the Borrower.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or executed by NEA, and is legally binding upon NEA in accordance with its terms;

(b) that the Administration Agreement has been duly authorized or executed, and is legally binding upon the Borrower and the Administrator in accordance with its terms; and

(c) that the Subsidiary Financing Agreement has been duly authorized or executed by the Borrower and NEA and is legally binding upon the Borrower and NEA in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Borrower, is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
His Majesty's Government of Nepal  
Baghdurbar  
Kathmandu, Nepal

Cable address:

ARTHA  
Kathmandu, Nepal

Facsimile:

(977-1) 4259-891

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(1-202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Kathmandu, Nepal, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ Bhanu Prasad Acharya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Country Director  
Nepal



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Financing**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant to each Category and the percentage of expenditures for items to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in (SDR Equivalent))</u>	<u>Amount of the Grant Allocated (Expressed in (SDR Equivalent))</u>	<u>% of Expenditures to be Financed</u>
<b>(1) Part A of the Project:</b>			
(a) Investment Sub-loans	24,110,000	0	100% of amounts disbursed
(b) PDF Administration Fees	0	1,830,000	85%
<b>(2) Part B of the Project:</b>			
(a) Community Subproject Grants	0	2,350,000	100% of amounts disbursed
(b) Goods	0	230,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(c) Consultants' services	0	440,000	85%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(d) Training and promotional activities	0	80,000	100% of local expenditures
(e) Incremental Operating Costs	0	440,000	75% for FY 04 and 05; 60% for FY 06 and 07; and 45% thereafter
<b>(3) Part C of the Project:</b>			
(a) Goods			100 of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(i) For Part C (excluding Part C.1(a)(ii))	6,730,000	6,580,000	
(ii) For Part C.1(a)(ii)	1,470,000	1,610,000	
(b) Works			85%
(i) For Part C (excluding Part C.1(a)(ii))	1,540,000	1,610,000	
(ii) For Part C.1(a)(ii)	370,000	300,000	
(c) Consultants' Services	0	1,030,000	85%
<b>(4) Unallocated</b>	2,580,000	1,900,000	
<b>TOTAL</b>	<u>36,800,000</u> =====	<u>18,400,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “PDF Administration fees” means the fees to be paid to the Administrator under the provisions of the Administration Agreement, including expenditures incurred on account of the duties performed in relation to the Project by the PDF Board in accordance with the said provisions; and

(d) the term “Incremental Operating Costs” means costs incurred by AEPC on account of the administration of Part B of the Project including the maintenance of equipment, costs of consumables, fuel, office rentals, incremental salaries, office utilities and supplies, but excluding the salaries of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) expenditures under:

(i) Category (1), unless a financial management system, satisfactory to the Association, has been established for the purposes of Part A of the Project and Section 4.01(a) of this Agreement; and

(ii) Category (1) (a), until evidence, satisfactory to the Association, has been furnished to the Association showing that the Investment Sub-loan has been approved in accordance with the procedures, and on the terms and conditions set forth or referred to in this Agreement and the Project Implementation Plans;

(c) expenditures under Category (2) (a) until evidence, satisfactory to the Association, has been furnished to the Association showing that the Community Subproject Grant has been approved in accordance with the procedures, and on the terms and conditions set forth or referred to in this Agreement and the AEPC Project Implementation Plan; and

(d) expenditures for the construction of 132 kV circuit transmission line between Dhalkebar and Bhattamod under Part C.1 (a)(ii) of the Project, under Category 3(a)(ii) and Category 3(b)(ii), unless the Borrower has taken all legal,

administrative, institutional and environmental and social safeguards measures to carry out such construction work, in form and substance acceptable to the Association.

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for expenditures:

- (a) under Part A of the Project, for PDF Administration fees, under such terms and conditions as the Association shall specify by notice to the Borrower.
- (b) under Part B of the Project, for: (i) Community Subproject Grants; (ii) goods under contracts costing less than \$50,000 equivalent each; (iii) consultants' services under contracts costing less than \$50,000 equivalent each for consulting firms, and less than \$25,000 equivalent each for individuals; (iv) Incremental Operating Costs; and (v) training and promotional activities.
- (c) under Part C of the Project, for: (i) works and goods under contracts costing less than \$100,000 equivalent each; and (ii) consultants' services under contracts costing less than \$100,000 equivalent each for consulting firms, and less than \$25,000 equivalent each for individuals, under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to: (i) develop the Borrower's hydropower potential in an environmentally and socially sustainable manner so as to help meet electricity demand; (ii) improve access of rural areas to electricity services; (iii) promote efficient private participation in the power sector; and (iv) mobilize financing for the power sector's investment requirements.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### **Part A: Power Development Fund**

1. Establishment and operation of the PDF for the provision of Investment Sub-loans.
2. Provision of financing to Investment Enterprises, either directly or through selected PCIs, for the carrying out of Investment Subprojects involving small and medium size grid-connected hydro generating stations, or other rural power systems licensed by DOED.

#### **Part B: Micro-Hydro Village Electrification Program**

Carrying out a micro-hydro village electrification program of an aggregate capacity of about three megawatts, through the development and carrying out of Community Subprojects, including the provision of small grants.

#### **Part C: NEA Transmission and Distribution**

1. (a) Carrying out a program for the construction, reinforcement and extension of two transmission schemes, including: (i) construction of a 220kV double circuit transmission line between Khimti and Dhalkebar with only one circuit strung, and extension of associated substations; and (ii) construction of a 132kV double circuit transmission line between Dhalkebar and Bhittamod and extension of associated substations, and carrying out of a program for the construction or extension of transmission, sub-transmission and distribution schemes in accordance with the eligibility criteria applicable to such activities.

(b) Reinforcement of distribution systems and carrying out a program for rural electrification for the districts of Lalitpur, Bhaktapur, Kavre, Dhading and Nuwakot.

2. Institutional strengthening of NEA through: (a) the provision of technical advisory services and acquisition of equipment and software for the upgrading and strengthening of the financial management, accounting and auditing systems; (b) provision of studies and training to the staff of NEA on financial management related issues; (c) development of service quality and performance norms for use in the monitoring of service performance and tariff setting; and (d) provision of technical advisory services for the 220kV scheme under Part C.1(a) of the Project.

\* \* \* \* \*

The Project is expected to be completed by December 31, 2008

### SCHEDULE 3

#### Procurement and Consultants' Services under Parts A and B of the Project

##### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works required for Parts A and B of the Project shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured for Parts A and B of the Project under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

##### (a) Notification and Advertising

The invitation to bid for each contract estimated to cost \$200,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

##### (b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Works under Part A of the Project estimated to cost less than \$3,000,000 equivalent per contract up to an aggregate amount not to exceed \$10,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods under Part A of the Project estimated to cost less than \$3,000,000 equivalent per contract up to an aggregate amount not to exceed \$6,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Goods and works under Part B of the Project estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(d) For the purpose of the procurement referred to in (a), (b) and (c) above, the following shall be observed:

(i) only the model bidding documents for NCB agreed with the Bank (as amended from time to time) shall be used;

(ii) invitations to bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for submission of bids;

(iii) bid documents shall be made available, by mail or in person, to all who pay the required fee;

(iv) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to any bidders in the bidding process when competing with the foreign bidders, state owned enterprises, or small scale enterprises;

(v) qualification criteria shall be stated in bidding documents, and, if registration process is required, a foreign bidder declared as the lowest evaluated responsive bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(vi) bid shall be opened in public in one location, immediately after the deadline of the submission of bids;

(vii) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(viii) except with the prior concurrence of the Association, there shall not be negotiation of price with the lowest evaluated responsive bidder or with any other bidders;

(ix) contracts shall be awarded to the lowest evaluated responsive bidder;



- (x) rebidding shall not be carried out without the prior concurrence of the Association;
- (xi) all bidders/contractors shall provide bid security/performance security as indicated in the bidding documents;
- (xii) evaluation of bids shall be made in strict adherence to the criteria stipulated in the bidding documents, in a format and within a specified period agreed with the Association;
- (xiii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to a specific contract under which it was furnished;
- (xiv) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xv) except in cases of *force majeure* and/or situations beyond the control of the Project, extension of bid validity shall not be allowed without the prior concurrence of the Association: (i) for the first request of extension if it is longer than eight weeks; and (ii) for all subsequent requests for extension irrespective of the period, and
- (xvi) there shall not be any restriction on the means of delivery of the bids.

2. National Shopping

(i) Goods under Part A of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(ii) Goods under Part B of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods and works under Part B of the project, which should be procured as an extension of an existing contract/must be purchased from the original supplier to be compatible with existing equipment/are of a proprietary nature and costing \$10,000 equivalent or less per contract up to an aggregate amount not to exceed \$100,000, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

Works under Part B of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$5,000 equivalent or less per contract, up to an aggregate amount not to exceed \$100,000, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Commercial Practice

Works under Part A of the Project costing less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000, may be procured in accordance with established practices acceptable to the Association.

6. Community Participation

Goods and works under Part B of the Project, estimated to cost less than \$30,000 per contract, up to an aggregate amount not to exceed \$100,000, may be procured in accordance with the provisions paragraph 3.15 of the Guidelines and procedures acceptable to the Association.

7. BOO/BOT/BOOT Procurement

(a) An Investment Subproject under Part A of the Project shall be constructed, and operated and subsequently transferred under a contract awarded to an entrepreneur on the basis of international competitive bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13(a) thereof. The goods, works and services required for the construction of the Investment Subproject shall then be procured in accordance with the applicable procedures of said entrepreneur.

(b) In those cases where an entrepreneur has not been selected in accordance with the procedures set forth in subparagraph (a) hereof, the goods and works to be financed out of the proceeds of the Credit required for an Investment Subproject to be constructed by such Investment Enterprise shall be procured under contracts awarded on the basis of international competitive bidding procedures in accordance with, respectively, the provisions of Section II of the Guidelines, paragraph 3.13(b), and according to Part C(1) and (2) of this Schedule.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and

approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (i) goods, works, and supply and installation of plant and equipment under Part A of the Project estimated to cost the equivalent of \$500,000 or more; (ii) the first two Investment Subprojects under Part A of the Project regardless of value; (iii) the first two micro-hydro village electrification systems under Part B of the Project regardless of value; (iv) each contract for goods under Part B of the Project estimated to cost the equivalent of \$50,000 or more, and (v) the first three contracts under each of Parts A and B of the Project, procured under National Shopping method, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of consultants

1. Selection Based on Consultants' Qualifications

Services for technical assistance under Part A of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, under Part B of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms under Part A of the Project, estimated to cost the equivalent of \$100,000 or more, and under Part B of the Project, estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Implementation Program**

#### **A. Institutional Arrangements Under Part A of the Project**

##### **1. PDF Administrator and Administration Agreement**

(a) The Borrower shall exercise its rights under the Administration Agreement in such manner as to protect the interests of the Borrower and the Association, comply with its obligations under this Agreement and accomplish the purposes of the Project, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Administration Agreement or any provision thereof.

(b) The Borrower shall ensure that an Administrator, with mandate, terms of reference and composition acceptable to the Association, shall administer the PDF, in accordance with procedures acceptable to the Association. The Administrator shall be responsible for: (i) reviewing Investment Sub-loan proposals and making recommendations for their approval by the PDF Board, and forwarding them to the Association for its non-objection; (ii) preparing Investment Sub-loan Agreements and negotiating their terms with the Investment Enterprise; (iii) monitoring the performance of Investment Enterprises under the Investment Sub-loan Agreement; (iv) handling debt service collections of Investment Sub-loans; (v) maintaining records and accounts of the PDF; (vi) collecting progress reports from Participating Credit Institutions and preparing and furnishing consolidated reports to the Association on a trimestrial basis; and (vii) preparing and furnishing financial monitoring reports to the Association, the Borrower and the PDF Board on Investment Subprojects and on the status of outstanding Investment Sub-loans.

##### **2. PDF Board**

The Borrower shall cause the PDF Board, until the completion of the Project, to be responsible for: (i) receiving, reviewing and approving Investment Sub-loan proposals taking into account the recommendations of the Administrator, and forwarding such approved proposals to the Administrator for onward transmission to the Association for its non-objection; (ii) certifying Participating Credit Institutions; (iii) advising the Borrower on the management reports furnished by the Administrator to the Borrower; and (iv) monitoring the execution of the Administration Agreement and the performance of the Administrator.

B. Institutional Arrangements Under Part B of the Project

1. The Borrower shall ensure that:

(a) AEPC shall be responsible for the overall implementation, guidance and supervision of the micro-hydro village electrification program under Part B of the Project;

(b) the PSU, with mandate, terms of reference and composition acceptable to the Association, shall be maintained until the completion of the Project. The PSU shall be responsible, subject to the general oversight and guidance of AEPC, for the carrying out of the day-to-day management and implementation of Part B of the Project, including: (i) coordinating the implementation of Part B of the Project; (ii) supervising Beneficiary Communities and reviewing reports submitted by MHFG's on the progress of Community Subprojects; (iii) compiling reports (including reports prepared by MHFG's) and preparing reports on the overall implementation of Part B of the Project for review by the Association; (iv) development of the annual work program and budget; (v) establishment and maintenance of a financial management system; (vi) preparation and production of annual progress reports and financial statements; (vii) management of procurement and disbursement; (viii) monitoring and evaluation activities; and (ix) forwarding the Community Subproject proposal to the Association for its non-objection, prior to any decision about its financing.

(c) a District Rural Energy Management Committee, with mandate, terms of reference and composition acceptable to the Association, shall be maintained in each program district until the completion of the Project, to review and approve applications for the release of Grant funds from District Energy Funds to Community Energy Funds;

(d) the Rural Energy Development Section (REDS) of the DDC in each program district shall be maintained until the completion of the Project, to process the release of Grant funds from DEF's to CEF's upon approval of such release by District Rural Energy Management Committees, and to oversee the review and approval of Grant proposals submitted by MHFGs; and

(e) MHFG's shall be established and maintained in each beneficiary community, to be responsible, subject to the general guidance and oversight functions of REDS, for: (i) preparing and submitting Grant 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 the PSU.

C. Project Implementation Plans

1. The Borrower shall carry out Parts A and B of the Project in accordance with the PDF Implementation Plan and the AEPC Project Implementation Plan (collectively referred to as the Project Implementation Plans). Except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Plans if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of Parts A and B of the Project or the achievement of the objectives thereof.

D. Investment Subprojects Under Part A of the Project

1. The Borrower shall exercise its rights in respect of each Investment Subproject in such manner as to: (a) protect the interests of the Borrower and the Association; and (b) achieve the purposes of Part A of the Project.

2. The proceeds of the Financing allocated to Category (1) (a) of the table in paragraph A of Schedule 1 to the Development Financing Agreement shall be subject to the following additional terms and conditions:

(a) the amounts so allocated shall be used exclusively to provide Investment Sub-loans to finance Investment Subprojects, in accordance with criteria, and terms and conditions, set forth in the PDF Implementation Plan;

(b) Investment Sub-loans shall be provided only for Investment Subprojects that meet the licensing requirements of the MOWR; and

(c) Investment Sub-loans shall be provided for the benefit of Investment Enterprises, and according to an investment formula which shall be acceptable to the Association and specified in the PDF Implementation Plan; provided, however, that:

(i) the proceeds of an Investment Sub-loan shall not be used to finance taxes or duties levied on or in respect of eligible expenditures relating to an Investment Subproject, or any part thereof;

(ii) except as the Association shall otherwise agree, the Investment Enterprise's equity contribution to the cost of any Investment Subproject shall not be less than 20 percent of the total cost of the Investment Subproject; and

(iii) PDF may finance up to a maximum of 60 per cent of the cost of small sized Investment Subprojects and 40 per cent of the cost of medium-sized Investment Subprojects.



3. The Borrower shall ensure that when presenting an Investment Sub-loan to the Association for non-objection (after approval by the PDF Board), the Administrator shall furnish to the Association an application, in form and substance satisfactory to the Association, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Investment Sub-loan; (ii) the proposed terms and conditions of the Investment Sub-loan, including the schedule of amortization of the Investment Sub-loan; (iii) evidence of compliance with the eligibility and evaluation criteria established under the Administration Agreement; (iv) evidence of compliance with standards set forth in the Policy Framework for Environmental Impact Assessment for Projects under PDF; and (v) such other information as the Association shall reasonably request.

4. Goods, works and services required for the purpose of financing Investment Subprojects shall be procured in accordance with procedures set out in Schedule 3 to this Agreement, and the PDF Implementation Plan.

5. The Borrower shall cause:

(a) every Investment Subproject to be classified according to environmental impact category, and subjected as necessary to environmental impact assessment, to ensure that: (i) it is fully consistent with the standards set forth in the Policy Framework for Environmental Impact Assessment; and (ii) where appropriate, mitigation measures designed to minimize adverse effects of the proposed Investment Subproject are identified and incorporated in the Investment Subproject design; and

(b) each Investment Enterprise or Participating Credit Institution as the case may be, to furnish evidence satisfactory to the Borrower and the Association showing that the Investment Subproject: (i) complies with the standards set forth in the Policy Framework for Environmental Impact Assessment and in the environmental impact assessment; and (ii) where applicable, includes a resettlement plan for populations and economic activities displaced as a result of the Investment Subproject, based on principles and procedures satisfactory to the Association.

6. For purposes of each Investment Sub-loan, an agreement (hereinafter referred to as an Investment Sub-loan Agreement) shall be concluded between the Administrator and the Investment Enterprise in form and substance acceptable to the Association, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, the amount of the Investment Enterprise's contribution to the cost of the Investment Sub-loan, and the additional terms and conditions specified in Schedule 5 to this Agreement.

E. Community Subprojects Under Part B of the Project

1. The Borrower shall exercise its rights in respect of each Community Subproject in such manner as to: (a) protect the interests of the Borrower and the Association; and (b) achieve the purposes of Part B of the Project.

2. The proceeds of the Grant allocated to Category (2) (a) of the table in paragraph A of Schedule 1 to this Agreement shall be subject to the following additional terms and conditions:

(a) the amounts so allocated shall be used exclusively to provide Community Subproject Grants to finance Community Subprojects, in accordance with criteria, and terms and conditions, set forth in the AEPC Project Implementation Plan;

(b) no Community Subproject Grant shall be made to finance a Community Subproject unless the Community Subproject contributes to micro-hydro village electrification, and is fully consistent with the micro-hydro village electrification program and the Project;

(c) Community Subproject Grants shall be provided for the benefit of eligible Beneficiary Communities, provided, however, that the proceeds of a Community Subproject Grant shall not be used to finance taxes or duties levied on or in respect of eligible expenditures relating to a Community Subproject, or any part thereof; and

(d) goods, works and services required for the purposes of financing Community Subprojects shall be procured in accordance with procedures referred to in Schedule 3 to this Agreement, and set forth in the AEPC Project Implementation Plan.

3. Unless otherwise agreed by the Borrower and the Association, no expenditures for a Sub-project shall be eligible for financing out of the proceeds of the Grant allocated from time to time to Part B of the Project unless:

(a) the Borrower shall have furnished to the Association an Environmental Management Plan relating to the proposed Sub-project, prepared pursuant to guidelines agreed upon between the Borrower and the Association, together with evidence, satisfactory to the Association, that: (i) the Sub-project shall not involve any involuntary resettlement of the local population; and (ii) all land required for the Community Subproject shall be voluntarily made available by communities forming part of MHFGs, in a form and manner acceptable to the Association; and

(b) the Borrower 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%).

4. For purposes of each Community Subproject Grant, an agreement (hereinafter referred to as Community Subproject Grant Agreement) shall be concluded between the Borrower and the Beneficiary Community setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, and the additional terms and conditions specified in Schedule 5 to this Agreement.

F. Monitoring and Evaluation, Reports and Reviews for Parts A and B of the Project

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators satisfactory to the Association the carrying out of Parts A and B of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, no later than December 31, 2005, unless otherwise agreed by the Association, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Parts A and B of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Parts A and B of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by January 31, 2006, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Parts A and B of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

## **SCHEDULE 5**

### **Procedures and Terms and Conditions of Investment Sub-loan Agreements and Community Subproject Grant Agreements**

Each Investment Sub-loan Agreement and Community Subproject Grant Agreement shall include the following terms and conditions satisfactory to the Association:

1. The Investment Enterprise or Beneficiary Community shall be required to carry out and operate the Investment Subproject and Community Subproject, respectively, with due diligence and efficiency, and in accordance with sound technical, administrative and financial practices, and with due regard to appropriate environmental and social considerations.
2. The Investment Enterprise or Beneficiary Community shall have the obligation to ensure at all times that: (a) goods, works and consultants' services to be financed out of the proceeds of the Credit and of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; (b) such goods, works and consultants' services shall be used exclusively for implementing the Investment Subproject or Community Subproject, and achieving the objectives of, respectively, Parts A and B of the Project; and (c) upon completion of the Investment Subproject or Community Subproject, such Investment Subproject or Community Subproject shall be operated and maintained in accordance with the operation and maintenance plan agreed upon with the Investment Enterprise or Beneficiary Community.
3. The Borrower shall have the right to inspect, by itself or jointly with representatives of the Association, if the Association shall so request, the goods, works and services included in the Investment Subproject or Community Subproject, the operation thereof and any relevant records and documents, and obtain any report in connection therewith, of such scope and in such detail as the Association shall reasonably request.
4. The Investment Enterprise or Beneficiary Community shall take out and maintain with responsible insurers, or make other satisfactory provision for, insurance against such risks and in such amounts as shall be consistent with sound business practice; such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit and of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise or Beneficiary Community to replace or repair such goods.
5. The Borrower shall have the right to obtain all such information as the Borrower and the Association shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise or Beneficiary Community and to the benefits to be derived from the Investment Subproject or Community Subproject.

6. The right of any Investment Enterprise or Beneficiary Community to the use of the proceeds of the Credit and the Grant, or any part thereof, shall be promptly suspended upon failure by such Investment Enterprise or Beneficiary Community to perform any of its respective obligations under the Investment Sub-loan Agreement or Beneficiary Subproject Grant Agreement.

## **SCHEDULE 6**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category 1 set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Part A of the Project, Category 2 set forth in said table in respect of Part B of the Project and Category 3 set forth in said table in respect of Part C of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Financing allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to:

- (i) \$2,000,000 in respect of the PDF Special Account for Part A of the Project to be withdrawn from the Credit Account or the Grant Account and deposited into the PDF Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account or the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part A of the Project shall be equal to or exceed the equivalent of SDR 1,830,000;
- (ii) \$750,000 in respect of the AEPC Special Account for Part B of the Project to be withdrawn from the Grant Account and deposited into the AEPC Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part B of the Project shall be equal to or exceed the equivalent of SDR 730,000; and
- (iii) \$1,500,000 in respect of the NEA Special Account for Part C of the Project, to be withdrawn from the Credit Account or the

Grant Account and deposited into the NEA Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$ 600,000, until the aggregate amount of withdrawals from the Credit Account or the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part C of the Project shall be equal to or exceed the equivalent of SDR 1,460,000.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Grant Account under the respective eligible Categories, and in

the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account or the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit or the Grant allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request,



refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## **SCHEDULE 7**

### **Modifications to the General Conditions**

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.”;

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”;

17. “Financing” means, collectively, the Credit and the Grant.

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”