

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4637-NP
GRANT NUMBER H506-NP

Financing Agreement

(Additional Financing For Power Development Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 21, 2009

FINANCING AGREEMENT

AGREEMENT dated August 21, 2009, entered into between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing (Additional Financing) for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit and a grant (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to forty nine million six hundred thousand Special Drawing Rights (SDR 49,600,000) (“Credit”); and
 - (b) an amount equivalent to ten million five hundred thousand Special Drawing Rights (SDR 10,500,000) (“Grant”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Part 1 of the Project, and cause NEA to carry out Part 2 of the Project in accordance with the provisions of Article IV of the General Conditions and the Additional Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that Part 1 of the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement for Additional Financing has been executed on behalf of the Recipient and the NEA.
- 4.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement for Additional Financing has been duly authorized by the Recipient and the NEA and is legally binding upon the Recipient and the NEA in accordance with its terms.
- 4.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

5.02. The Recipient's Address is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu
Nepal

Facsimile:

(977-1) 4211-164

5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

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

NEPAL

By /s/ Rameshore Prasad Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) increase access to electricity in rural areas; and (b) improve the quantum and efficiency of electricity supply.

The Project consists of the following:

1. Part B of the Original Project, expanded to include a number of micro-hydro schemes in non-grid rural areas.
2. Part C of the Original Project, expanded to include rehabilitation work so as to increase the Recipient's electricity generation capacity, through rehabilitation of existing generation assets.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements**

A. The provisions of Paragraphs B.1, C and E of Schedule 4, and Paragraphs 1 through 6 of Schedule 5 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

B. Subsidiary Agreement for Additional Financing

1. To facilitate the carrying out of Part 2 of the Project, the Recipient shall make part of the proceeds of this Additional Financing available to NEA under a subsidiary agreement between the Recipient and the NEA, under terms and conditions approved by the Association, which shall include: (i) repayment of principal in twenty-five (25) years with a grace period of five (5) years; (ii) interest at a rate of six percent (6%) per annum, or such other rate as may be agreed by the Recipient and NEA; and (iii) the bearing by the Recipient of any foreign exchange risks (“Subsidiary Agreement for Additional Financing”).

2. The Recipient shall exercise its rights under the Subsidiary Agreement for Additional Financing in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement for Additional Financing or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that Part 1 of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

The Recipient shall ensure that Part 1 of the Project is carried out in accordance with the AEPC Environmental Guidelines and the AEPC Environmental Management Plans, in a manner and in form and substance acceptable to the Association.

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

1. The Recipient shall monitor and evaluate the progress of Part 1 of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of a fiscal year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of Part 1 of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than June 30, 2013.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each fiscal year trimester, interim unaudited financial reports for Part 1 of the Project covering the fiscal year trimester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement**A. General**

1. **Goods and Works.** All goods and works required for Part 1 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for Part 1 of the Project and to be financed out of the proceeds of the Financing shall be procured

in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the following additional procedures:

- (a) Preference for domestically manufactured goods and domestic contractors:

The provisions of paragraphs 2.55 and 2.56 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

- (b) Notification and Advertising:

The invitation to bid for each contract estimated to cost \$100,000 equivalent or more shall be advertised in accordance with the procedures described under paragraph 2.8 of the Guidelines.

2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding (NCB), subject to the following additional procedures:

- (i) only the model bidding documents for NCB agreed with the Association (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) there shall not be any restrictions such as registration/licencing requirements etc. for purchase of bid documents and bidding by foreign bidders, 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) bids shall be opened in public in one location, immediately after the deadline of the submission of bids;
- (vii) contracts shall be awarded to the lowest evaluated responsive bidder;
- (viii) rebidding shall not be carried out without the prior concurrence of the Association;
- (ix) evaluation of bids shall be made in strict adherence to the criteria stipulated in the bidding documents;
- (x) 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: (a) for the first request of extension if it is longer than four (4) weeks; and (b) for all subsequent requests for extension irrespective of the period.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	Limited International Bidding
(b)	Shopping
(c)	Direct Contracting
(d)	Community Participation procedures acceptable to the Association

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection in accordance with the Consultant Guidelines, and using only the request for proposal (RFP) documents approved by the Association.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-Based Selection
(b)	Selection under a Fixed Budget
(c)	Least-Cost Selection
(d)	Selection Based on Consultants’ Qualifications
(e)	Single-Source Selection
(f)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and works awarded on the basis of International Competitive Bidding method; (b) each first contract for goods and works, regardless of value; (c) each contract for consultants’ services provided by a firm and estimated to cost the equivalent of \$100,000 or more; (d) each contract for the employment of individual consultants or firms to be selected on a sole source basis regardless of value; and (e) each contract for consultants’ services provided by individuals and estimated to cost the equivalent of \$25,000 or more.

2. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed (inclusive of Taxes)
(1) for Part 1 of the Project (AEPC)			
(a) Community Subproject Grants	0	7,350,000	100%
(b) Goods, Services, Training, and Promotional Activities	0	580,000	100%
(c) Incremental Operating Costs	0	220,000	45%
(2) for Part 2 of the Project (NEA)			
(a) Goods and Works	48,270,000	0	100%
(b) Consultants’ Services	0	2,350,000	100%

(c) Service Costs for Soil, Rock and Concrete Laboratory	340,000	0	100%
(3) Unallocated	990,000	0	
Total	49,600,000	10,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement; except that withdrawals:

(a) up to an aggregate amount not to exceed SDR 5,380,000 equivalent under the Credit, and SDR 1,340,000 equivalent under the Grant, may be made for payments made prior to this date but on or after June 1, 2009, for Eligible Expenditures under Categories (1) and (2); and

(b) under Category 2, unless NEA has updated the revised Operational Manual of Environmental/Social Impact Assessment for Sub-Projects, in form and substance satisfactory to the Association.

2. The Closing Date is December 31, 2012.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2019 to and including May 15, 2029	1%
commencing November 15, 2029 to and including May 15, 2049	2%

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

APPENDIX

Section I. Definitions

All definitions contained in the Original Financing Agreement in Article I, Section 1.02 are incorporated by reference in this Additional Financing Agreement, and shall apply *mutatis mutandis* to this Additional Financing Agreement and the Additional Project Agreement.

Section II. Other Definitions

1. “Additional Project Agreement” means the Project Agreement between the Association and the NEA, of even date herewith, for the carrying out of the Project financed by this Additional Financing.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
6. “Incremental Operating Costs” means costs on account of the administration of Part 1 of the Project, including the maintenance of office equipment, costs of consumables, fuel, office rentals, incremental salaries, office utilities and supplies, but excluding the salaries of the Recipient’s civil service.
7. “NEA” means the Nepal Electricity Authority, established under the Nepal Electricity Authority Act, 2041 (1984), and any successor thereto; provided that for the purpose of the General Conditions, all references to “Project Implementing Entity” shall be deemed to be references to NEA.
8. “Operational Manual of Environmental/Social Impact Assessment for Sub-Projects” means the Operational Manual of Environmental/Social Impact

Assessment for Sub-Projects Financed Under the Additional Financing of the Power Development Project, adopted by NEA in April 2009, setting out the policies and procedures concerning environmental and social safeguards applicable to the activities carried out under Part 2 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 Operational Manual of Environmental/Social Impact Assessment for Sub-Projects.

9. “Original Financing Agreement” means the development financing agreement for a Power Development Project between the Recipient and the Association, dated July 9, 2003, as amended to the date of this Agreement (Credit No 3766 – NEP & Grant No. H039-NEP).
10. “Original Project” means the Project described in the Original Financing Agreement.
11. “Original Project Agreement” means the Project Agreement for a Power Development Project between the Association and the NEA, dated July 9, 2003, as amended to the date of this Agreement.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 8, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Subsidiary Agreement for Additional Financing” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to NEA.

Section III. The modification to the General Conditions shall be as follows:

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The term “Credit” in paragraph 15 of the Appendix shall be deemed to also include this Additional Financing, and all references to “Financing”, throughout

the General Conditions, shall be deemed to be references to this Additional Financing.

2. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

3. Paragraph (1) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

4. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”