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CREDIT NUMBER 4637-NP
GRANT NUMBER H506-NP

Project Agreement

(Additional Financing For Power Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NEPAL ELECTRICITY AUTHORITY

Dated August 21, 2009

PROJECT AGREEMENT

AGREEMENT dated _____, 2009, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and NEPAL ELECTRICITY AUTHORITY (NEA) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between Nepal (“Recipient”) and the Association. The Association and NEA hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITION

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

ARTICLE II — PROJECT

- 2.01. NEA declares its commitment to the objectives of the Project as set forth in Schedule 1 to the Financing Agreement, and, to this end, shall carry out Part 2 of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for Part 2 of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the NEA shall otherwise agree, the NEA shall carry out Part 2 of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The NEA’s Representative is its Managing Director.
- 3.02. 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

3.03. NEA's address is:

Nepal Electricity Authority
Durbar Marg
Kathmandu, Nepal

Cable address:

VIDYUT
Kathmandu

Facsimile:

977-1-4266673

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan G. Goldmark

Authorized Representative

NEPAL ELECTRICITY AUTHORITY

By /s/ Jivendra Jha

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Original Project Agreement

Article III and Schedule 2 to the Original Project Agreement are incorporated by reference in this Agreement, and the provisions thereof shall apply *mutatis mutandis* to this Agreement.

B. Anti-Corruption

NEA shall ensure that Part 2 of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

NEA shall carry out Part 2 of the Project in accordance with the Operational Manual of Environmental/Social Impact Assessment for Sub-Projects, in a manner and in form and substance acceptable to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

NEA shall monitor and evaluate the progress of Part 2 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 such Project Report shall cover the period of a fiscal year trimester, and shall be furnished to the Recipient not later than forty-five (45) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

B. Financial Management, Financial Reports and Audits

1. NEA shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of NEA, including the operations, resources and expenditures related to Part 2 of the Project.
2. NEA shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied

auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of NEA. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for Part 2 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 2 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/licensing 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, works, and supplies, 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.

E. Other Undertaking

1. NEA shall, no later than July 30, 2009, appoint a senior procurement expert with demonstrated experience in international procurement, with the terms of reference acceptable to the Association, to assist in the management of procurement under Part 2 of the Project.