Financing Agreement

(Grid Solar and Energy Efficiency Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 20, 2015
AGREEMENT dated February 20, 2015, entered into between NEPAL ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighty eight million Special Drawing Rights (SDR 88,000,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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: June 15 and December 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 Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Nepal Electricity Authority ("NEA") to carry out the Project in accordance with the provisions of Article IV of the General Conditions and the 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 the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that NEA's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NEA to perform any of its obligations under the Project Agreement.

4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

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

5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or executed by the Recipient and NEA and is legally binding upon the Recipient and NEA, in accordance with its terms.

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

5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu
Nepal

Facsimile:

(977-1) 4211-164

6.03. The Association's Address is:

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

Cable: Telex: Facsimile:

INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at Kathmandu, Nepal, as of the day and year first above written.

By

Authorized Representative

Name: Madhu Kumar Maradini
Title: Joint Secretary

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Takuya Kamata
Title: Country Manager
SCHEDULE 1

Project Description

The objectives of the Project are to: (i) increase the solar photovoltaic generated electricity to supply to the NEA grid; and (ii) reduce NEA’s distribution losses in selected distribution centers.

The Project consists of the following parts:

Part 1: Grid-connected Solar Photovoltaic Farms Development

(a) Design, supply, construction, commissioning, and operation and maintenance of grid connected solar farms to supply electricity directly to NEA’s distribution network.

(b) Provision of technical advisory services to assist NEA with, *inter alia*, the procurement and supervision of the engineering, procurement, and construction contract for the solar farms.

(c) Provision of capacity building activities to assist NEA with, *inter alia*, independent bid evaluation, Project management, contract execution, and operation and maintenance of the solar farms.

Part 2: Distribution System Planning and Loss Reduction

(a) Preparation of a distribution master plan.

(b) Preparation of a system loss reduction master plan.

(c) Carrying out a set of activities in system loss reduction in selected NEA’s distribution centers, including: (i) replacing conductors of distribution feeders or building distribution lines to reduce line losses; (ii) adding or replacing distribution transformers to maintain voltage levels and reduce transformer losses; and (iii) adding capacitor banks to compensate reactive power to manage voltage levels.

(d) Building the capacity of NEA in distribution system planning and management, including: (i) provision of equipment, software, and training for distribution system loss identification and reduction planning; and (ii) development of a geographic information system database.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to NEA under a subsidiary agreement between the Recipient and NEA ("Subsidiary Agreement"), under terms and conditions approved by the Association, which shall, inter alia, include the following:

   (a) an amount equivalent to SDR 88,000,000 shall be provided as a subsidiary credit (the "Subsidiary Financing") for the purpose of financing Eligible Expenditures under the Project;

   (b) the financial terms of the Subsidiary Financing shall be the same as the ones applicable to the Financing, including the financial terms referred to in Section 2.03 and Section 2.04 of this Agreement; in addition to these terms, a maximum of one percent (1%) service charge per annum shall also apply;

   (c) the Subsidiary Financing shall be repayable, in Dollars, over a period not exceeding thirty eight (38) years from the date of the Subsidiary Agreement, inclusive of a grace period not exceeding six (6) years; and

   (d) the foreign exchange risk shall be borne by NEA.

2. The Recipient shall exercise its rights under the Subsidiary Agreement 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 or any of its provisions.

B. Anti-Corruption

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

C. Safeguards

The Recipient shall, and shall cause NEA to, ensure that the Project is carried out in accordance with Section I, Part C (Safeguards) of the Schedule to the Project Agreement. In the event of any conflict between the provisions of any of the
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall cause NEA to monitor and evaluate the progress 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 set forth in the Results Framework. Each Project Report shall cover the period of one (1) fiscal trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain 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 of the provisions of Part A of this Section, the Recipient shall cause NEA to prepare and furnish to the Association not later than forty-five (45) days after the end of each fiscal trimester, interim unaudited financial reports for the Project covering the trimester, in form and substance satisfactory to the Association.

3. The Recipient shall cause NEA to 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. 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:

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of the Schedule to the Project Agreement.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as
revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and works</td>
<td>83,550,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services and In-Country Training</td>
<td>4,100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Incremental Operating Costs</td>
<td>350,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>88,000,000</td>
<td></td>
</tr>
</tbody>
</table>

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.

2. The Closing Date is December 31, 2020.
SCHEDULE 3
Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15, commencing June 15, 2021 to and including December 15, 2052.</td>
<td>1.5625%</td>
</tr>
</tbody>
</table>

* 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

1. "Affected Persons" means persons who, on account of implementation of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person.


3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. "Environmental and Social Management Framework" or "ESMF" means NEA's framework, dated June 13, 2014, acceptable to the Association, for undertaking environmental and social analysis and developing mitigation measures for all Project activities, including an Indigenous People and Vulnerable Community Planning Framework and a Resettlement Policy Framework and providing, among other things, for: (i) the institutional arrangements for implementation of environmental safeguards in the carrying out of the Project; (b) details of potential environmental issues that may arise under the proposed Project activities and the necessary background for environmental considerations to be built into the design of such activities; (c) detailed guidelines on when and how to prepare environmental impact assessments, initial environment examinations, Environmental Management Plans or codes of conduct; (d) guidelines and procedures for social safeguard screening and impact assessment, including guidelines and procedures for stakeholder consultation and participation; (e) land acquisition and resettlement principles and objectives, and design criteria to be applied to any resettlement required under any Project activity; (f) an indigenous peoples and vulnerable community development framework having the objective of avoiding potential adverse effects on the indigenous peoples and vulnerable communities, including socially marginalized groups and, when avoidance is not feasible, minimizing, mitigating, or compensating for such effects to ensure that the indigenous peoples and vulnerable communities receive social and economic
benefits that are culturally appropriate and gender and intergenerationally inclusive; (g) detailed guidelines on when and how to prepare specific Indigenous Peoples and Vulnerable Community Development Plans; (h) a compensation/entitlement matrix developed to compensate any Affected Persons; (i) detailed guidelines on when and how to prepare Resettlement Action Plans; (j) measures to monitor and report upon activities for environmental and social impacts, and, if necessary, to assist in mitigation of such impacts; and (k) a grievance redress mechanism; as such framework may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.

6. “Environmental Management Plan” or “EMP” means each plan for one or more Project activities, acceptable to the Association, to be prepared by NEA, in accordance with the requirements of the ESMF, setting out activity-specific mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to eliminate any adverse environmental impacts of activities to be implemented under the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such plan.

7. “Fiscal Year” or “FY” means the fiscal year of the Recipient and NEA beginning on 16 July in one calendar year and ending on 15 July in the following calendar year;

8. “FM Improvement Action Plan” means the NEA’s “Short Term Action Plan for Financial Management Improvement in NEA”, dated September 18, 2014, acceptable to the Association, as said plan may be revised from time to time with the prior written agreement of the Association.


10. “In-Country Training” means reasonable and necessary costs of in-country training as required for the implementation of the Project, including the fees and other reasonable costs owed to educational and other institutions that provide training, costs related to attendance and organization of conferences, seminars, and workshops, and the trainees’ cost of travel, boarding, lodging and per diem allowances.

11. “Incremental Operating Costs” means Project-related incremental operating costs incurred on account of implementation, management and monitoring, dissemination of Project-related information, including office equipment, equipment maintenance and repair, consumables, maintenance and repair of vehicles, vehicle rental/leasing, travel, including travel to Project sites,
communication, commercial bank charges, and advertising, but excluding the salaries and benefits of the Recipient's civil servants and NEA's employees.

12. "Indigenous Peoples and Vulnerable Community Development Plan" or "IP-VCDP" means each plan for one or more Project activities, acceptable to the Association, to be prepared by NEA, in accordance with the requirements of the IP-VCPF and ESMF, setting out a program of actions, policies and strategies designed to protect indigenous peoples and vulnerable communities affected by Project activities and to maximize the benefits accruing to such peoples and communities under the Project, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such plan.

13. "Indigenous People and Vulnerable Community Planning Framework" or "IP-VCPF" means the framework, satisfactory to the Association and incorporated into, and publically disclosed with, the Environmental and Social Management Framework, setting out the mitigation, enhancement, monitoring, and institutional measures to ensure meaningful consultation with, and the informed participation of, indigenous peoples and vulnerable communities within the Project area who are affected by the Project, and guidelines and procedures for the preparation of Indigenous Peoples and Vulnerable Communities Development Plans, as such framework may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.

14. "NEA" means the Nepal Electricity Authority, a vertically-integrated government-owned utility established under the Nepal Electricity Authority Act, 1984 and responsible for, among other things, generation, transmission and distribution of electricity in Nepal; and any successor thereto; and the Project Implementing Entity for the purposes of the General Conditions.


16. "Procurement Evaluation Panel" means the panel of experts to be established and maintained by NEA pursuant to Part E.1 of Section III to the Schedule of the Project Agreement.


18. "Procurement Plan" means the NEA's procurement plan for the Project, dated November 19, 2014 and referred to in paragraph 1.18 of the Procurement
Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

19. "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.

20. "Project Coordination Committee" or "PCC" means the steering committee to be established and maintained by NEA to specifically provide oversight and coordination, and referred to in Part A.1 of Section I of the Schedule to the Project Agreement.

21. "Project Management Unit" or "PMU" means the management unit established by NEA on May 31, 2014, to specifically manage the Project, and referred to in Part A.2 of Section I of the Schedule to the Project Agreement.


23. "Resettlement Action Plan" or "RAP" means each resettlement plan for one or more Project activities, acceptable to the Association, to be prepared by NEA, in accordance with the requirements of the RPF and ESMF, setting out principles and procedures governing the acquisition of land and related assets, and the compensation, resettlement, and rehabilitation of Affected Persons in accordance with the guidelines and procedures set forth in the RPF and ESMF, as said plan may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan.

24. "Resettlement Policy Framework" or "RPF" means the policy framework, satisfactory to the Association and incorporated into, and publically disclosed with, the Environmental and Social Management Framework, for compensation, resettlement, and rehabilitation of Affected Persons and setting forth the guidelines, principles and procedures for mitigating any adverse impact that may arise from resettlement under the Project, as such framework may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such framework.

25. "Results Framework" means the Recipient's framework dated November 19, 2014, and agreed with the Association, setting forth the indicators and targets for purposes of monitoring and evaluation of the progress of the Project, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes, appendices, or schedules to such framework.

27. "Subsidiary Agreement" means the agreement referred to in Schedule 2, Section I, Part A.1 of this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to NEA.