CREDIT NUMBER 5246-NP

Project Agreement

(Kali Gandaki A Hydropower Plant Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NEPAL ELECTRICITY AUTHORITY

Dated September 11, 2013
PROJECT AGREEMENT

AGREEMENT dated September 11, 2013, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and NEPAL ELECTRICITY AUTHORITY ("NEA" or "Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between NEPAL ("Recipient") and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out 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 the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is its Managing Director.
4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Facsimile:
1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Nepal Electricity Authority
Durbar Marg
Kathmandu, Nepal

Facsimile:
+977-1-4153009

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By Tahseen Sayed
Authorized Representative
Name: Tahseen Sayed
Title: Country Manager

NEPAL ELECTRICITY AUTHORITY

By
Authorized Representative
Name: Lara R. Ghimire
Title: Deputy Managing Director
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall maintain at all times during Project implementation:

(a) a Project Steering Committee chaired by the Managing Director of the Project Implementing Entity for the purposes of providing management guidance and inter-agency coordination during the implementation of the Project;

(b) a Project Coordination Committee headed by a coordinator and staffed with the key professionals described in the Project Implementation Plan, each with experience, qualifications, functions, terms of reference and resources agreed to between the Project Implementing Entity and the Association including specialists in: (i) Project administration and financial management; (ii) engineering; and (iii) procurement, contract management and reporting, to coordinate Project implementation and to liaise among the Project Implementation Unit, relevant agencies of the government of the Recipient and the Association;

(c) a Project Implementation Unit headed by a Project Manager and staffed with the key professionals described in the Project Implementation Plan, each with experience, qualifications, functions, terms of reference and resources agreed to between the Project Implementing Entity and the Association including specialists in: (i) environmental and social safeguards management and monitoring; (ii) communications and public relations; (iii) engineering; and (iv) Project monitoring and evaluation; and

(d) an Environmental and Social Management Unit having staffing satisfactory to the Association and located on the site of the Kali Gandaki A Hydropower Plant, to carry out regular day-to-day monitoring and data recording and to prepare monthly briefs for review with the Director of Projects and other key staff and contractors.

2. The Project Implementing Entity shall ensure that, except in case of unsatisfactory performance, or as required by law, the key staff referred to in (b) and (c) above shall not be transferred to other positions until completion of the Project, and, in the case of finance management specialists, no such transfer shall
occur until at least six (6) months after the Closing Date or submission by NEA of the final audited Financial Statements, whichever occurs later; and (c) ensure that all staff and employees, who have participated in an international training course or a study visit under the Project, shall remain in post for a minimum period as specified by the applicable law.

B. Anti-Corruption

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

C. Safeguards (including Dam Safety) and GAAP

1. The Project Implementing Entity shall:

   (a) carry out the Project and operate and maintain the Kali Gandaki A Hydropower Plant in accordance with: (i) sound administrative, technical, operations and maintenance and environmental and social standards and practices, including, without limitation, during the period in which the Dam Safety Plan is under preparation in accordance with paragraph 2 of this Section I.C; (ii) the provisions of the Safeguards Instruments; and (iii) the provisions of the Governance and Accountability Action Plan, and in each case shall ensure that no action is taken which would prevent or interfere with such implementation;

   (b) in particular, and without limitation, take all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to productive assets, income or means of livelihood, temporarily or permanently; and

   (c) not amend, revise or waive, nor allow to be amended, revised or waived, the provisions of the Safeguards Instruments or GAAP without the prior written agreement of the Association.

2. The Project Implementing Entity shall:

   (a) by December 1, 2013, hire an independent geo-technical expert, acceptable to the Association, to review the investigation of stability of the slope in the headworks area of the Kali Gandaki A Dam, and to supervise the design and construction of any required remedial works;

   (b) (i) by March 31, 2014, hire an independent consulting firm in accordance with Section III of the Schedule to the Project Agreement; (ii) cause such firm to prepare a Dam Safety Plan for the Kali Gandaki A Dam acceptable to the Association including: (A) an operation and
maintenance manual for the headworks area; (B) an emergency preparedness plan; and (C) an instrumentation plan; and (iii) provide such Dam Safety Plan to the Association for its review and no-objection prior to implementing the provisions of such plan;

(c) if the consulting firm referred to in paragraph (b) above establishes that the Kali Gandaki A Dam requires significant and complex remedial works: (i) appoint an independent panel of experts, satisfactory to the Association, with expertise in the various technical fields relevant to the safety aspects of the dam to review and advise the Project Implementing Entity on matters relative to dam safety and other critical aspects of the dam, its appurtenant structures, the catchment area, the area surrounding the reservoir, and downstream areas; and (ii) promptly provide to the Association a copy of each report prepared by the Panel of Experts, and shall make such reports publicly available; and

(d) hire an independent evaluation agent to carry out each of the reviews referred to in Section II, Paragraph A.4(b)(iii) and (c) not later than April 30, 2014 before the date on which such review is due.

D. Project Implementation Plan, Annual Work Plans and Annual Reviews

1. The Project Implementing Entity shall carry out the Project in accordance with the Project Implementation Plan, satisfactory to the Association, consisting in various schedules setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:

(a) a detailed description of the implementation activities under the Project, their sequencing and the prospective timetable and benchmarks in relation thereto;

(b) the administrative, accounting, auditing, reporting, financial, procurement and disbursement procedures, including all pertinent standard documents and model contracts in relation thereto, for the procurement methods set forth in the Procurement Plan and the final form of the interim unaudited financial reports and Financial Statements for the Project and the terms of reference for the financial audits of the Project;

(c) the Safeguards Instruments and all plans required thereunder, including provisions to guide works under the Project, address dam safety and protection of cultural property;

(d) the plan for monitoring and supervision of the Project, including all environmental, economic and social aspects in relation thereto; and
(e) the performance indicators for the Project.

2. The Project Implementing Entity shall no later than July 1 in each year, commencing 2013, furnish to the Association and the Recipient for approval, the Annual Work Plan for implementation, an updated disbursement profile, planned actions for mitigating negative effects during construction, and target indicators for the coming year.

3. In the event of any conflict between the provisions of any of the Safeguards Instruments, the Project Implementation Plan or any Annual Work Plan, and those of this Agreement or the Financing Agreement, the latter shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall 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 agreed with the Association and set out in the Project Implementation Plan.

2. For the purposes of the preceding paragraph, and without limitation thereto, the Project Implementing Entity shall maintain policies and procedures adequate to enable it, the Recipient and the Association to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of the Safeguards Instruments and GAAP, and the achievement of the objectives thereof.

3. Each such Project Report referred to in Paragraph 1 above shall cover the period of three (3) months, and shall be furnished to the Recipient not later than two weeks 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.

4. The Project Implementing Entity shall:

   (a) no later than August 16 in each year, commencing 2014, furnish to the Association and the Recipient an annual report summarizing the status of Project implementation and covering: (i) the progress achieved in each Part of the Project; (ii) a report of implementation of key features of the Safeguards Instruments and the GAAP and (iii) a report on the operation of the Kali Gandaki A Dam; and

   (b) no later than August 31, 2015, or such other date as the Association shall communicate in writing to the Recipient, carry out a midterm review of the implementation of the Project. To that end, the Project Implementing
Entity shall, at least one (1) month prior to the date of the midterm review, prepare and furnish to the Association, for its review and comments, a report including, *inter alia:* (i) a review of the Project’s progress to date against performance indicators agreed with the Association; (ii) a review of the Project Implementing Entity’s fulfillment of the financial management, disbursement, and procurement requirements under this Agreement; (iii) a review carried out by an independent evaluation agent having qualifications and terms of reference acceptable to the Association, of the implementation of the Social Action Plan; (iv) a review of the technical assistance provided under the Project; (v) lessons learned and obstacles encountered in the implementation of the Project; and (vi) recommendations for the strategic directions and expenditures priorities for the remainder of Project implementation; and

(c) no later than March 31, 2017, provide to the Recipient for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section, including a review carried out by an independent evaluation agent having qualifications and terms of reference acceptable to the Association, of the implementation of the Social Action Plan.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare Project 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 the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association, not later than forty-five (45) days after the end of each trimester, interim unaudited financial reports for the Project covering the trimester, in form and substance satisfactory to the Association.

3. The Project Implementing Entity 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 Fiscal Year. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than six (6) months after the end of the period; and
(b) made publicly available in a timely fashion and in a manner acceptable to the Association.

Section III. **Procurement**

A. **General**

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods, Works and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional provisions set out in the Attachment to this Schedule 2; (b) Shopping; (c) Direct Contracting; and (d) Force Account.

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.

2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality and Cost-based Selection, may be used for
procurement of consultants' services for those contracts which are specified in the Procurement Plan: a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.
Attachment - National Competitive Bidding

The following additional procedures shall apply to goods and works procured on the basis of National Competitive Bidding:

1. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

2. Bids shall be opened in public in one place, immediately after the deadline for submission of bids.

3. Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the association and contracts shall be awarded to the lowest evaluated bidders.

4. Extension of bid validity shall not be allowed without the prior concurrence of the association (a) for the first request for extension if it is longer than four (4) weeks and (b) for all subsequent requests for extension irrespective of the period.

5. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders.

6. Qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance.

7. Rebilling shall not be carried out without the prior concurrence of the association.

8. There shall not be any restrictions on the means of delivery of the bids.