
LOAN NUMBER 2808-NEP(SF)

GRANT NUMBER 0270-NEP(SF)

FINANCING AGREEMENT
(Special Operations)

(Electricity Transmission Expansion and Supply Improvement Project)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED 23 March 2012

NEP 41155

FINANCING AGREEMENT (Special Operations)

FINANCING AGREEMENT dated 23 March 2012 between NEPAL ("Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement;

(B) the Beneficiary has also applied for a grant financed by the Government of Norway, in an amount equivalent to approximately twenty five million Dollars (\$25,000,000), to be administered by ADB (the "Norway Grant");

(C) the Project will be carried out by the Nepal Electricity Authority ("NEA" as defined below), and for this purpose the Beneficiary will make available to NEA the proceeds of the Loan provided for herein, as well as the proceeds of the Grant and of the Norway Grant, upon terms and conditions satisfactory to ADB; and

(D) ADB has agreed to (i) make a loan to the Beneficiary a grant to the Beneficiary from ADB's Special Funds resources, upon the terms and conditions set forth herein and in the Project Agreement of even date herewith and (ii) to make the Grant available to the Beneficiary from ADB's Special Funds resources, and to administer the Norway Grant, upon the terms and conditions set forth in the Grant Agreement and Norway Grant Agreement (as defined below), respectively.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations") are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(25) is deleted and the following is substituted therefor:

“Project Agreement” means the Project Agreement of even date herewith between ADB and NEA.

(d) The term “Project Executing Agency” appearing in Section 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations shall be substituted by the term “NEA”.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (“Grant Regulations”) are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term “Grant Agreement”, wherever it appears in the Grant Regulations, shall be substituted by the term “Financing Agreement”.

(b) The term “Recipient”, wherever it appears in the Grant Regulations, shall be substituted by the term “Beneficiary” as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(16) is deleted and the following is substituted therefor:

“Project Agreement” means the Project Agreement of even date herewith between ADB and NEA.

(d) The term “Project Executing Agency” appearing in Section 6.01(a), 8.01(c), 8.01(e), 8.01(i), 9.01(b) and 9.02(b) of the Grant Regulations shall be substituted by the term “NEA”.

Section 1.03 Wherever used in this Financing Agreement, the several terms defined in the Loan Regulations and the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Financing Agreement have the following meanings:

(a) “Act” means the Electricity Act, 1992 of the Beneficiary;

(b) “Consulting Guidelines” means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);

(c) “Consulting Services” means the services to be financed out of the proceeds of the Loan as described in paragraph 2 of Schedule 1 to this Financing Agreement;

(d) “DCS” means any distribution and consumer services division of NEA;

(e) “Electricity Retail Tariff Regulator” means the Electricity Tariff Fixation Commission, a public agency of the Beneficiary, established pursuant to Section 17(1) of the Act and any successor agency thereto;

(f) “Environmental Management Plan” or “EMP” means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;

(g) “Environmental Safeguards” means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(h) “Facility Sites” means each and any of the sites for construction, expansion or rehabilitation of generation, transmission and distribution infrastructure of the Beneficiary under Outputs 1, 2, or 3 of the Project;

(i) “Gender and Social Inclusion Plan” or “GESI” means the gender action plan prepared for the Project and approved by the Beneficiary and set out in Linked Document12 of the RRP;

(j) “Goods” means equipment and materials to be financed out of the proceeds of the Loan or the Grant; and including related services such as installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(k) “IEE” means the initial environmental examinations for the Project, including any update thereto, prepared and submitted by the Beneficiary and cleared by ADB, and each and any further initial environmental examination prepared for specific Facility Sites during the Project Implementation Period, in each case cleared by ADB;

(l) “Indigenous Peoples Plan” or “IPP” means the indigenous peoples plan for the Project, including any update thereto, to be prepared and submitted by the Beneficiary and cleared by ADB, in the circumstances specified in Paragraph 21 of Schedule 5 to this Financing Agreement;

(m) “Indigenous Peoples Safeguards” means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(n) “Involuntary Resettlement Safeguards” means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(o) “Key Features” means components to be included in the NEA Financial Restructuring Plan as described in Paragraph 8 of Schedule 5 to this Financing Agreement;

(p) “kV” means kilovolt;

(q) “Linked Document” means each and any of the web-linked documents associated with and supporting the RRP, as identified in Appendix 2 of the RRP;

(r) “load center” means a geographical area of highly concentrated demand for electricity, usually coincident with population centers and industrial installations;

(s) “Loan Disbursement Handbook” means ADB's Loan Disbursement Handbook (2007, as amended from time to time);

(t) “Ministry of Energy” means the Ministry of Energy of the Beneficiary;

(u) “Ministry of Environment” means the Ministry of Environment of the Beneficiary;

- (v) "MW" means megawatt;
- (w) "NEA Act" means the Nepal Electricity Authority Act, 1984;
- (x) "NEA Business Group" means each of the generation, transmission, and distribution business groups of NEA headed by a general manager;
- (y) "NEA Financial Restructuring Plan" means the financial restructuring plan for NEA, which incorporates links to NEA operational performance improvement targets, to ensure NEA improves its financial and operational performance to levels acceptable to ADB;
- (z) "NEA Transmission Master Plan" means the national transmission master plan to be prepared by NEA pursuant to paragraph 12 of Schedule 5 to this Financing Agreement;
- (aa) "Norway Grant Agreement" means the grant agreement to be entered into by and between the Beneficiary and ADB for provision of the Norway Grant to the Beneficiary for the purposes of the Project;
- (bb) "Outputs" means each and any of Outputs 1 through 3, as described in paragraph 2 of Schedule 1 to this Financing Agreement;
- (cc) "PAM" means the project administration manual for the Project initially dated 11 October 2011 and agreed among the Beneficiary, NEA and ADB, as updated from time to time in accordance with the respective administrative procedures of the Beneficiary and ADB;
- (dd) "PMU" has the meaning given in paragraph 2 of Schedule 5 to this Financing Agreement;
- (ee) "Procurement Guidelines" means ADB's Procurement Guidelines (2010, as amended from time to time);
- (ff) "Procurement Plan" means the procurement plan for the Project dated 11 October 2011 and agreed among the Beneficiary, NEA and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;
- (gg) "Project Agreement" means the Project Agreement of even date herewith among ADB and NEA;
- (hh) "Project Executing Agency" means for the purposes of, and within the meaning of, the Loan Regulations, NEA which is responsible for the carrying out of the Project, and any successors thereto acceptable to ADB;
- (ii) "Project facilities" means the equipment, material and any other facilities provided for and relating to the Project;
- (jj) "Project Implementation Period" means the period commencing on 1 March 2012 and terminating on 30 June 2017 or such other date as may be agreed by ADB;

(kk) “Resettlement Plan” or “RP” means the resettlement plan for the Project, including any update thereto, to be prepared and submitted by the Beneficiary and cleared by ADB;

(ll) “Restructuring Target” means the restructuring target of the NEA as described in paragraph 10 of Schedule 5 to this Financing Agreement;

(mm) “RRP” means ADB's Report and Recommendation of the President to the Board of Directors for the Project;

(nn) “Safeguard Policy Statement” or “SPS” means ADB’s Safeguard Policy Statement (2009);

(oo) “Safeguards Monitoring Report” means each report prepared and submitted by the Beneficiary to ADB that describes progress with implementation of and compliance with the EMP, including any corrective and preventative actions;

(pp) “Subproject” means each subproject referred to in Outputs 1 through 3 as described in Schedule 1 to this Financing Agreement;

(qq) “Subsidiary Equity Investment Agreement” means the agreement between the Beneficiary and NEA referred to in Section 3.01 of this Financing Agreement;

(rr) “Subsidiary Loan Agreement” means the agreement between the Beneficiary and NEA referred to in Section 3.01 of this Financing Agreement;

(ss) “Tamakoshi (Khimti)-Kathmandu Line” means the transmission line from the Khimti substation in the Tamakoshi Valley to Kathmandu to be constructed under Output 1 of the Project; and

(tt) “Works” means construction or civil works to be financed out of the proceeds of the Loan or the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

(a) a loan in various currencies equivalent to thirty five million five hundred fifty thousand Special Drawing Rights (SDR35,550,000) (“Loan”); and

(b) a grant in the amount of nineteen million Dollars (\$19,000,000) (“Grant”).

Section 2.02. (a) The Beneficiary shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. (a) The Beneficiary shall relend the proceeds of the Loan together with other funds required for the Project, to NEA under the Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB. Except as ADB shall otherwise agree, the terms for relending the proceeds of the Loan shall include interest at the rate of 5% per annum inclusive of foreign exchange risk and a repayment period of 32 years including a grace period of 8 years.

(b) The Beneficiary shall make the proceeds of the Grant available to the NEA under the Subsidiary Equity Investment Agreement upon terms and conditions satisfactory to ADB.

(c) The Beneficiary shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement, the Subsidiary Loan Agreement, the Subsidiary Equity Investment Agreement, and the Project Agreement.

Section 3.02. The proceeds of the Loan and the Grant shall be allocated and withdrawn in accordance with the provisions of Schedules 3A and 3B to this Financing Agreement, as such Schedule may be amended from time to time as agreed between the Beneficiary and ADB.

Section 3.03. Except as ADB may otherwise agree, the Beneficiary shall procure, or cause to be procured, the items of expenditure to be financed out of

proceeds of the Loan and the Grant in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of Goods, Works and Consulting Services shall be made only on account of expenditures relating to:

(a) Goods which are produced in and supplied from and Works and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and

(b) Goods, Works and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2017, and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2017 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement and the Project Agreement.

Section 4.02. (a) The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Beneficiary shall enable ADB, upon ADB's request, to discuss the Beneficiary's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Beneficiary pursuant to subparagraph (a) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Beneficiary unless the Beneficiary shall otherwise agree.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.04. The Beneficiary shall take all actions which shall be necessary on its part to enable NEA to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Beneficiary to make withdrawals from (a) the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations, and (b) the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations, respectively:

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

(b) NEA shall have failed to perform any of its obligations under the Subsidiary Equity Agreement;

(c) the Norway Grant shall have become liable for suspension or cancellation; or

(d) Substantial progress, satisfactory to ADB, is not being made towards the goal of achieving the Restructuring Target (including average upward tariff revision) by 15 July 2015; as evaluated on (i) 15 July 2013, (ii) 15 July 2014, and (iii) 15 July 2015.

Section 5.02. The following is specified as an additional event for acceleration of maturity of the loan for the purposes of Section 8.07(d) of the Loan Regulations: any of the events specified in Section 5.01 of this Financing Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01(e) of the Grant Regulations, respectively:

(a) the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Beneficiary and the NEA and shall have become fully effective and binding upon the Beneficiary and the NEA in accordance with its terms, subject only to effectiveness of this Financing Agreement; and

(b) the Subsidiary Equity Investment Agreement for contribution of the proceeds of the Grant and Norway Grant to NEA, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Beneficiary and the NEA and shall have become fully effective and binding upon the Beneficiary and the NEA in accordance with its terms, subject only to effectiveness of this Financing Agreement.

Section 6.02. The following are specified as additional matters, for the purposes of Section 9.02(d) of the Loan Regulations and Section 9.02(c) of the Grant Regulations, respectively, to be included in the opinion or opinions to be furnished to ADB:

(a) that the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Beneficiary and NEA and shall have become fully effective and binding upon the Beneficiary and NEA in accordance with its terms, subject only to effectiveness of this Financing Agreement; and

(b) that the Subsidiary Equity Investment Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Beneficiary and NEA and shall have become fully effective and binding upon the Beneficiary and NEA in accordance with its terms, subject only to effectiveness of this Financing Agreement.

Section 6.03. A date 90 days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Beneficiary hereby designates NEA as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Financing Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations, and Sections 5.01, 5.02, 5.03 and 5.04 of the Grant Regulations.

Section 7.02. Any action taken or any agreement entered into by NEA pursuant to the authority conferred under Section 7.01 of this Financing Agreement shall be fully binding on the Beneficiary and shall have the same force and effect as if taken by the Beneficiary.

Section 7.03. The authority conferred on NEA under Section 7.01 of this Financing Agreement may be revoked or modified by agreement between the Beneficiary and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Joint Secretary, Foreign Aid Coordination Division, Ministry of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

The Joint Secretary
Foreign Aid Coordination Division
Ministry of Finance
Singhadurbar, Kathmandu
Nepal

Facsimile Number:

(977-1) 4211165.

For ADB

Asian Development Bank
6, ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444

(632) 636-2338.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

NEPAL

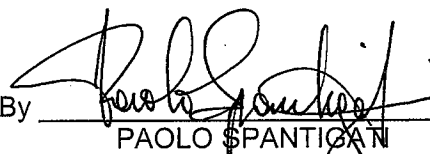
By



LAL SHANKER GHIMIRE
Joint Secretary and Chief of the
Foreign Aid Coordination Division
Ministry of Finance

ASIAN DEVELOPMENT BANK

By



PAOLO SPANTIGAN
Officer-in-Charge
Nepal Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is to improve the electricity supply capability of NEA networks to improve through improved connectivity between generation and load centers, distribution strengthening and enhanced small hydropower capacity.

2. The Project shall comprise three Outputs:

Output 1: Increased Electricity Transmission – This Output will include the following three Subprojects:

- (a) 2nd circuit stringing of the Kohalpur-Mahendranagar 132kV transmission line;
- (b) construction of the 220kV/400kV Tamakoshi (Khimti) -Kathmandu transmission line and associated facilities; and
- (c) expansion of the Chapali grid substation.

Output 2: Expanded Electricity Distribution – This Output includes up to 12 Subprojects for rehabilitation of distribution systems in DCS East and DCS West as set out below:

- (a) DCS East Subprojects: (1) Gaur, Rautahat; (2) Nijgarh, Bara; (3) Chandragadhi, Jhapa; (4) Jare, Dhading; and (5) Belbari, Morang;
- (b) DCS West Subprojects: (1) Parasi, Nawalparasi; (2) Krishnanaga, Kapilbastu; (3) Taulihawa, Kapilbastu; (4) Amuwa, Rupendehi; (5) Mirmi, Syangja; and (6) Gorkha, Gorkha; and
- (c) Subproject for expansion of distribution systems along the proposed Tamakoshi (Khimti)-Kathmandu transmission line (Output 1 (b) above).

Output 3: Enhanced Electricity Generation – This Output includes the Subprojects for rehabilitation of Tinau (1MW) and Sundarijal (640kW) small hydropower power plants.

The Project will finance Consulting Services relating to Outputs 1(b) and 3.

3. The Project is expected to be completed by 30 June 2017.

SCHEDULE 2**Amortization Schedule****(Electricity Transmission Expansion and Supply Improvement Project)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-May-2020	740,625.00
15-Nov-2020	740,625.00
15-May-2021	740,625.00
15-Nov-2021	740,625.00
15-May-2022	740,625.00
15-Nov-2022	740,625.00
15-May-2023	740,625.00
15-Nov-2023	740,625.00
15-May-2024	740,625.00
15-Nov-2024	740,625.00
15-May-2025	740,625.00
15-Nov-2025	740,625.00
15-May-2026	740,625.00
15-Nov-2026	740,625.00
15-May-2027	740,625.00
15-Nov-2027	740,625.00
15-May-2028	740,625.00
15-Nov-2028	740,625.00
15-May-2029	740,625.00
15-Nov-2029	740,625.00
15-May-2030	740,625.00
15-Nov-2030	740,625.00
15-May-2031	740,625.00
15-Nov-2031	740,625.00
15-May-2032	740,625.00
15-Nov-2032	740,625.00
15-May-2033	740,625.00
15-Nov-2033	740,625.00
15-May-2034	740,625.00
15-Nov-2034	740,625.00
15-May-2035	740,625.00
15-Nov-2035	740,625.00
15-May-2036	740,625.00
15-Nov-2036	740,625.00
15-May-2037	740,625.00
15-Nov-2037	740,625.00
15-May-2038	740,625.00
15-Nov-2038	740,625.00
15-May-2039	740,625.00
15-Nov-2039	740,625.00
15-May-2040	740,625.00

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-Nov-2040	740,625.00
15-May-2041	740,625.00
15-Nov-2041	740,625.00
15-May-2042	740,625.00
15-Nov-2042	740,625.00
15-May-2043	740,625.00
15-Nov-2043	740,625.00
TOTAL	35,550,000.00

* The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3A**Allocation and Withdrawal of Loan Proceeds**General

1. The tables attached to this Schedule set forth the Categories of items of expenditure to be financed out of the proceeds of the Loan. Table 1 sets forth the allocation of the Loan proceeds to each such Category. (Reference to "Category" in this Schedule is to a Category or Subcategory of Table 1.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of expenditure shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in Table 1.

Interest Charge

3. The amount allocated to Category 4 of Table 1 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of the Loan proceeds and the withdrawal percentages set forth in Table 1,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed in accordance with the Loan Disbursement Handbook.

Statement of Expenditures

6. The statement of expenditures procedure may be used for reimbursement of eligible expenditures in accordance with Loan Disbursement Handbook and detailed

arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed the equivalent of \$100,000.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Loan Account until such time as (i) the Council of Ministers of the Beneficiary shall have resolved to adopt the NEA Financial Restructuring Plan, containing the Key Features, and (ii) until the Electricity Retail Tariff Regulator shall have determined an average upward revision in tariffs, and it shall have entered into force in accordance with the Electricity Tariff Fixation Rules, 2049 (1993).
8. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Loan Account until such time as the Norway Grant Agreement, pursuant to which ADB shall make available the Government of Norway grant cofinancing, shall have been executed and entered into effect in form and substance satisfactory to ADB.

TABLE 1

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Nepal Electricity Transmission Expansion and Supply Project)				
CATEGORY				ADB FINANCING
Number	Item	Total Amount Allocated for ADB Financing (SDR)		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Equipment	29,976,000		
1A	Part A-1**		8,741,000	100% of total expenditure claimed*
1B	Part A-2***		9,218,000	43% of total expenditure claimed*
1C	Part A-3, B & C		12,017,000	100% of total expenditure claimed*
2	Implementation Consulting Services	1,111,000		100% of total expenditure claimed*
3	Project Workshops/ Capacity Development of EA	318,000		100 % of total expenditure claimed*
4	Financing Charges	457,000		100 % of total amount due
5	Unallocated	3,688,000		
	Total	35,550,000		

* Exclusive of taxes and duties imposed within the territory of the Beneficiary.

**Equipment (Part A-1) is financed by the Loan and Norway Grant, with front-loading of the Norway Grant until fully disbursed. The remaining cost of Part A-1 will be financed 100% from proceeds of the Loan.

***Equipment (Part A-2) is financed by the Loan, Grant and Norway Grant, with front-loading of the Norway Grant hereunder until fully disbursed. The remaining cost of Part A-2 will be financed 43% from proceeds of the Loan and 57% from proceeds of the Grant.

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The tables attached to this Schedule set forth the Categories of items of expenditure to be financed out of the proceeds of the Grant. Table 2 sets out the allocation of the Grant proceeds to each such Category. (Reference to "Category" in this Schedule is to a Category or Subcategory of Table 2).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of expenditure shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in Table 2.

Reallocation

3. Notwithstanding the allocation of the Grant proceeds and the withdrawal percentages set forth in Table 2,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed in accordance with the Loan Disbursement Handbook.

Statement of Expenditures

5. The statement of expenditures procedure may be used for reimbursement of eligible expenditures in accordance with Loan Disbursement Handbook and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed the equivalent of \$100,000.

Condition for Withdrawals from Grant Account

6. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Grant Account until such time as (i) the Council of Ministers of the Beneficiary shall have resolved to adopt the NEA Financial Restructuring Plan, containing the Key Features, and (ii) until the Electricity Retail Tariff Regulator shall have determined an average upward revision in tariffs, and it shall have entered into force in accordance with the Electricity Tariff Fixation Rules, 2049 (1993).

7. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Grant Account until such time as the Norway Grant Agreement, pursuant to which ADB shall make available the Government of Norway grant cofinancing, shall have been executed and entered into effect in form and substance satisfactory to ADB.

TABLE 2

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Nepal Electricity Transmission Expansion and Supply Improvement Project)			
CATEGORY			ADB FINANCING
Number	Item	Total Amount Allocated for ADB Financing \$US million Category	Percentage and Basis for Withdrawal from the Grant Account
1	Equipment (Part A-2)**	19.00	57% of total expenditure claimed*
	Total	19.00	

* Exclusive of taxes and duties imposed within the territory of the Beneficiary.

**Equipment (Part A-2) is financed by the Loan, Grant and Norway Grant, with front-loading of the Norway Grant until fully disbursed. The remaining cost of Part A-2 will be financed 43% from proceeds of the Loan and 57% from proceeds of the Grant

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Beneficiary may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Domestic Preference

5. The Beneficiary may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

National Competitive Bidding

6. The Beneficiary and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Beneficiary's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Beneficiary and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Beneficiary and ADB.

Conditions for Award of Contract

7. The Beneficiary shall not award, and shall ensure that the NEA shall not award, any Works contract which involves environmental impacts until:

(a) The Ministry of Energy has granted the final approval of the IEE updated for the relevant Facility Site, (or, if applicable, the Ministry of Environment has granted the final approval of any environmental impact assessment); and

(b) the Beneficiary acting through the NEA has incorporated the relevant provisions from the relevant EMP into the Works contract.

8. The Beneficiary shall not award, and shall ensure that the NEA shall not award, any Works contract which involves involuntary resettlement impacts; provided however that in the event that Works in respect of any Facility Site are later determined to potentially involve any involuntary resettlement impacts, as determined under the Safeguard Policy Statement, no Works contract shall be awarded until the Beneficiary has prepared and submitted to ADB a final RP based on the Project's detailed design for such Works and obtained ADB's clearance of such RP.

9. The Beneficiary shall not award, and shall ensure that the NEA shall not award, any Works contract which involves impacts on indigenous peoples; provided however that in the event that Works in respect of any Facility Site are later determined to potentially involve any impacts on indigenous peoples, as determined under the Safeguard Policy Statement, no Works contract shall be awarded until the Beneficiary has prepared and submitted to ADB a final IPP and obtained ADB's clearance of such IPP.

Consulting Services

10. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Beneficiary shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

11. The Beneficiary shall recruit the individual Consultants for Output 3 in accordance with the Procurement Plan and procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

12. (a) The Beneficiary shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

13. The Beneficiary shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

14. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Beneficiary and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. The Beneficiary and NEA shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Beneficiary and ADB. In the event of any discrepancy between the PAM and this Financing Agreement, the provisions of this Financing Agreement shall prevail.
2. The Beneficiary shall ensure that (i) the PMU is managed and operated by a full-time project director reporting to the managing director of NEA, acceptable to ADB; and (ii) the project director is supported by competent full-time senior officers of the NEA and other personnel.
3. The NEA shall appoint a separate project manager for each Output, to be appointed from the relevant NEA Business Group. The Beneficiary shall cause NEA to ensure that all Project activities, including procurement and accounting, are conducted by persons within the relevant NEA Business Group with the relevant technical skills and experience.

Counterpart Support: Financing and Sustainability

4. The Beneficiary shall provide all counterpart funds, land and facilities required for timely and effective implementation of the Project, including, without limitation, any funds required (a) to meet any shortfall between cost and revenues for the operation and maintenance of the facilities created or rehabilitated under the Project, (b) to mitigate unforeseen environmental and social impacts, and (c) to meet additional costs arising from design changes, price escalation in construction costs and/or unforeseen circumstances. The Beneficiary shall make the resources thus required available on an annual basis for each fiscal year.
5. The Beneficiary shall exempt the NEA from all taxes and duties on project-related procurement, except for 1% customs levy on imported equipment and prevailing value added tax on construction.

Institutional and Electricity Sector Reforms and Sustainability

6. The Beneficiary shall maintain in place the recently applied policy of appointing a competitively selected managing director of NEA and of promoting a commercial and autonomous orientation in the operations of NEA, including the use of performance based contracts for selected managers, for the duration of the Project.
7. The Beneficiary shall ensure that the Electricity Retail Tariff Regulator remains in operation. The Beneficiary shall use reasonable endeavours to ensure that the Electricity Retail Tariff Regulator takes the following factors, aimed at recovery of operational costs, into

consideration in making determinations of tariff levels: (i) NEA's debt service obligations, (ii) a rate of return to equity to be agreed upon between the Electricity Regulator and the NEA, and (iii) a lifeline tariff to protect poor consumers.

8. The Beneficiary will implement and continue implementation of the NEA Financial Restructuring Plan, incorporating the Key Features, throughout the Project Implementation Period. For the purposes of this Financing Agreement, the Key Features shall constitute: (i) a mechanism for tariff revision; and (ii) a range of measures for substantially reducing NEA's indebtedness such as (a) conversion of debt to equity, (b) limiting the interest rate payable by NEA to the Beneficiary to 5%, and (c) arrangements for the Beneficiary to facilitate the collection and settlement of street light bills owing to NEA.

9. The Beneficiary shall ensure that NEA submits regular petitions for increases in tariffs to the Electricity Retail Tariff Regulator and the Beneficiary shall deploy all legitimate measures to mandate the performance by the Electricity Retail Tariff Regulator of its obligation to rule on such petitions within 60 days. The Beneficiary shall ensure that, no later than (i) 3 months following the Effective Date, or, if later, (ii) the earliest date permitted by applicable regulations, a petition is submitted by NEA to the Electricity Retail Tariff Regulator requesting approval of a program for automatic tariff adjustments on a periodic basis to cover annual cost increases.

10. The Beneficiary shall take all permissible steps to implement, in full, the NEA Financial Restructuring Plan (including tariff revisions or adjustments) and in particular shall cause NEA's operating revenues to exceed the total of (i) its operating expenses (ii) interest on indebtedness, and (iii) provision for employee benefits (the "Restructuring Target"), by no later than 15 July 2015; the Restructuring Target may be achieved in part by implementation of a tariff adjustment or revision by 15 July 2013. At the outset of each calendar quarter following the Effective Date, NEA shall (i) prepare and (ii) forward to the relevant divisions of the Ministry of Finance (Foreign Aid Coordination Division, Economic Affairs and Policy Analysis Division, Corporation Coordination Division) a status report to be sent to ADB, setting out the current action plan for tariff increase petitions, the specific actions relating thereto taken in the previous quarter, and the estimated timeframe for achieving the Restructuring Target by 15 July 2015 (the "status report"). The Beneficiary shall forward each status report to ADB. NEA and ADB shall consult to review the status of progress after each quarterly update.

11. The NEA shall have a financial accounting system, satisfactory to ADB, in place by 15 July 2012 that ensures that each of the NEA Business Groups prepares separate accounts, and shall continue the operation of such system throughout the Project Implementation Period.

12. No later than 30 June 2013, NEA shall have adopted and commenced implementation of a fully developed NEA National Transmission Master Plan based on best international practices for accommodating projected medium term and long term demand, and with provision for maintenance and updating of such plan on a periodic rolling basis (such plan does not embrace all privately funded or managed generation and transmission facilities). The Beneficiary and NEA shall ensure that the NEA National Transmission Master Plan shall include (i) the transmission lines to be developed or strengthened under the Project; and (ii) connecting transmission line or lines for export of excess power, if any, delivered via the Tamakoshi (Khimti)-Kathmandu line.

13. The Beneficiary shall ensure that NEA shall continue the use of, and update as needed, its operations and maintenance plan for all electricity generation assets, including provision for training the relevant NEA staff. The Beneficiary shall ensure that NEA shall make available adequate budget allocation on an annual basis for the operation and maintenance of all electricity generation, transmission, and distribution facilities.

14. The Beneficiary shall cause all government institutions, subdivisions, agencies and state owned enterprises to ensure payment of their electricity bills and dues for street lighting to the NEA within 90 days following the finalization of the amounts due initially and for subsequent periods. The Beneficiary shall cause the NEA to maintain in place throughout the Project Implementation Period a national arrears collection program envisaging appropriate remedies for non payers including suspension of service, and measures to investigate and terminate meter tampering or fraudulent connections.

15. The Beneficiary shall ensure that NEA shall adopt, no later than 30 days following the Effective Date, and maintain throughout the Project Implementation Period an adequate systems loss reduction plan satisfactory to ADB. NEA shall use its best efforts to reduce overall transmission and distribution losses to the level of 22% by 15 July 2013 and further reduce transmission and distribution losses thereafter.

16. The Beneficiary and NEA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of the Act, the NEA Act, or regulations in force concerning NEA or the Electricity Retail Tariff Regulator, and afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon. The Beneficiary shall keep ADB informed on a periodic basis of developments and proposed changes in the legislation concerning electricity sector reforms. Without limiting the generality of the foregoing, the Beneficiary and NEA shall promptly notify ADB of any effect that establishment of a rural electrification agency or other entity, to the extent envisioned under the NEA Financial Restructuring Plan, could have on (i) the ownership and management of assets of NEA which are involved in the Project; and (ii) the implementation of the Project and obligations of NEA with regard to the Project under the Project Agreement and this Schedule 5 to the Financing Agreement. The Beneficiary shall afford ADB an adequate opportunity to comment on such proposals prior to taking any action thereon.

Environment

17. The Beneficiary shall ensure and shall cause NEA to ensure that preparation, design, construction, implementation, operation and decommissioning of the Project, the Subprojects and all Project facilities comply with (a) all applicable laws and regulations of the Beneficiary relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

18. The Beneficiary's environmental laws, regulations, and procedures shall apply in addition to the Safeguard Policy Statement. The Beneficiary shall ensure through NEA that no construction work of any kind under the Project (including any Subproject) shall be commenced until all applicable environmental clearances have been obtained and that all the above requirements are incorporated in the bidding documents and civil works contracts to ensure compliance.

Land Acquisition and Involuntary Resettlement

19. The Beneficiary shall ensure or cause NEA to ensure that all land and all rights-of-way required for a Subproject are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Beneficiary relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the relevant RP, and any corrective or preventative measures set forth in a Safeguards Monitoring Report.

20. Without limiting the application of the Involuntary Resettlement Safeguards or the relevant RP, the Beneficiary shall ensure or cause NEA to ensure that no physical or economic displacement takes place in connection with the Subprojects until:

(a) compensation and other entitlements have been provided to affected people in accordance with the RP; and

(b) a comprehensive income and livelihood restoration program has been established, where relevant, commensurate with the size, scale and significance of Project impacts, in accordance with the RP.

Indigenous Peoples

21. The Beneficiary shall ensure that the Project does not have any impact on indigenous peoples within the meaning of the Safeguard Policy Statement. In the event that the Project does have any such impact, the Beneficiary shall ensure or cause NEA to ensure that the preparation, design, construction, implementation and operation of the relevant Subproject(s) comply with (a) all applicable laws and regulations of the Beneficiary relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; and (c) any corrective or preventative actions set forth in a Safeguards Monitoring Report. Where impacts on IP groups are identified or foreseen during the planning, preparation or construction phases of project development, an IPP will be prepared, implemented and monitored in alignment with the SPS and the requirements set forth in the PAM.

Human and Financial Resources to Implement Safeguards Requirements

22. The Government shall make available or cause NEA to make available necessary budgetary and human resources to fully implement the EMPs and the RPs.

Labor Law, Health, Social Protection

23. The Beneficiary and NEA shall ensure that Works contracts and bidding documents under the Project include specific provisions requiring contractors to comply with all (a) applicable labor laws and core labor standards on (i) prohibition of child labor as defined in national legislation for construction and maintenance activities, (ii) equal pay for equal work of equal value regardless of gender, ethnicity or caste, and (iii) elimination of forced labor; and (b) the requirement to disseminate information on sexually transmitted diseases including HIV/AIDS to employees and local communities surrounding the Facility

Sites. Such contracts shall also include clauses for termination by NEA in case of any breach of the stated provisions by the contractors.

Gender and Development

24. The Beneficiary shall ensure that NEA implements the GESI in a timely manner over the entire Project Implementation Period, and that adequate resources are allocated for this purpose. In particular, the Beneficiary and NEA shall ensure that the targets stated in the GESI are achieved. NEA shall conduct training on GESI implementation for all staff involved in the Project. The Beneficiary and NEA shall ensure that implementation of the GESI is closely monitored, and progress is reported to ADB in accordance with the GESI and the PAM.

Governance and Anticorruption

25. The Beneficiary, NEA, and the PMU shall (i) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

26. The Beneficiary, NEA and the PMU shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to investigate (with any audit through the Beneficiary's authorized auditor) and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Development Coordination

27. The Beneficiary and NEA shall keep ADB informed of discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Project. The Beneficiary and NEA shall provide ADB with an opportunity to comment on any resulting policy reforms which could affect the Project, and shall take into account ADB's views before finalizing and implementing any such proposals.

Project Website

28. No later than 3 months after the Effective Date, NEA shall ensure that the PMU has established a dedicated website for the Project, within the existing NEA website (Project website). NEA shall announce the Project and business opportunities associated with the Project on the Project website. In addition, the website shall disclose, at a minimum, the following information in relation to goods and services procured for the Project: (i) the list of participating bidders; (ii) the name of the winning bidder; (iii) the amount of the contracts awarded; and (iv) the goods and services procured.