



Government of Nepal

Tel. No.: { 4259837
4259804

Foreign Aid Coordination Division

Government of Nepal
Ministry of Finance

MINISTRY OF FINANCE

Singhdurbar

KATHMANDU, NEPAL

F/ADB/ 100/ 514

17 June 2008

Mr. Kunio Senga
Director General
South Asia Department
Asian Development Bank
Manila.

Subject: Conversion of Payment Obligations under Asian Development Fund (ADF) Loans into Special Drawing Rights (SDR)

Dear Sir,

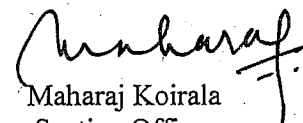
This is with reference to the Letter of Agreement (LoA) dated 6 Mach 2008 regarding the option to convert Nepal's payment obligations to Asian Development Bank under Asian Development Fund (ADF) loans into Special Drawing Rights (SDR).

In this connection Government of Nepal has decided to opt for conversion of its payment obligations into SDR and the currency of payment into United States Dollar for the ADF Loans governed by the Loan Regulations stipulated in paragraph 4 of the LoA.

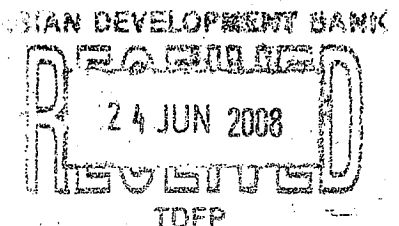
Please find attached a countersigned original copy of LoA.

With best regards,

Yours sincerely,


Maharaj Koirala
Section Officer

cc: Asian Development Bank, Nepal Resident Mission, Kamaladi, Kathmandu.



6 March 2008

LETTER OF AGREEMENT

Mr. Vidyadhar Mallik
Secretary
Ministry of Finance
Singha Durbar
Nepal

Dear Mr. Mallik:

**Re: Conversion of Payment Obligations under Asian Development Fund (ADF) Loans
into Special Drawing Rights (SDR)**

1. Under the Asian Development Fund Currency Management Proposal approved by the Asian Development Bank (ADB) on 28 November 2005, ADB is authorized to value the obligations of its borrowers regarding repayment of principal and payment of interest charge or service charge in respect of loans made from ADB's Asian Development Fund (ADF) in terms of Special Drawing Rights (SDR). ADB has implemented this policy for the new loans made to borrowers since 2006 (loans for which the invitation to negotiate was issued after 1 January 2006).

2. In accordance with the Asian Development Fund Currency Management Proposal, ADB is now offering Nepal (the Borrower) the option to convert into SDR the Borrower's payment obligations for the loans made by ADB to the Borrower listed in paragraph 3 below.

3. This letter applies to the Borrower's loans for which the Loan Agreements incorporate by reference the following ADB's Special Operations Loan Regulations: (a) Special Operations Loan Regulations, dated 6 May 1969 (the "1969 Loan Regulations"), (b) Special Operations Loan Regulations, dated 17 February 1977 (the "1977 Loan Regulations"), (c) Special Operations Loan Regulations, dated 7 December 1982 (the "1982 Loan Regulations"), and (d) Special Operations Loan Regulations, dated 1 May 2004 (the "2004 Loan Regulations"), which are listed below (hereinafter referred to collectively as the "Loans" or each loan individually as the "Loan"):

A. Loan Agreements governed by the 1969 Loan Regulations

- Loan No. 0182-NEP(SF): Second Agricultural Credit Project
- Loan No. 0232-NEP(SF): Jute Development Project - Supplementary
- Loan No. 0233-NEP(SF): Tribhuvan International Airport Project
- Loan No. 0249-NEP(SF): Gandak-Hetauda Power Project - Supplementary
- Loan No. 0250-NEP(SF): Second Power Project
- Loan No. 0274-NEP(SF): Road Project - Supplementary

- Loan No. 0284-NEP(SF): Hetauda Cement Project
- Loan No. 0295-NEP(SF): Third Agricultural Credit Project

B. Loan Agreements governed by the 1977 Loan Regulations

- Loan No. 0309-NEP(SF): Kankai Irrigation Project - Supplementary
- Loan No. 0310-NEP(SF): Chitwan Valley Development Project - Supplementary
- Loan No. 0315-NEP(SF): Vocational Education Project
- Loan No. 0334-NEP(SF): Sagarnath Forestry Development Project
- Loan No. 0387-NEP(SF): Integrated Rural Development Project
- Loan No. 0388-NEP(SF): Second Tribhuvan International Airport Project
- Loan No. 0445-NEP(SF): Livestock Development Project
- Loan No. 0447-NEP(SF): Third Power Project
- Loan No. 0462-NEP(SF): Aquaculture Development Project
- Loan No. 0489-NEP(SF): Fourth Agricultural Credit Project
- Loan No. 0490-NEP(SF): Hill Irrigation Project
- Loan No. 0512-NEP(SF): Mini-Hydropower Project
- Loan No. 0533-NEP(SF): Fourth Power Project
- Loan No. 0560-NEP(SF): Command Area Development Project
- Loan No. 0596-NEP(SF): Second Hill Irrigation Project
- Loan No. 0599-NEP(SF): Science Education Project

C. Loan Agreements governed by the 1982 Loan Regulations

- Loan No. 0633-NEP(SF): Hill Forest Development Project
- Loan No. 0651-NEP(SF): Feeder Roads Project
- Loan No. 0655-NEP(SF): Hetauda Cement Project - Supplementary
- Loan No. 0659-NEP(SF): Kankai Diversion Structure Remedial Project
- Loan No. 0669-NEP(SF): Second Crop Intensification Program
- Loan No. 0670-NEP(SF): Fifth Power Project
- Loan No. 0694-NEP(SF): Chitwan Valley Development Project - Second Supplementary
- Loan No. 0708-NEP(SF): Sixth Power Project
- Loan No. 0719-NEP(SF): Rural Water Supply Sector Project
- Loan No. 0721-NEP(SF): Hill Agriculture Development Project
- Loan No. 0744-NEP(SF): Cotton Development Project
- Loan No. 0745-NEP(SF): Second Livestock Development Project
- Loan No. 0748-NEP(SF): Seti Zone Rural Development Project
- Loan No. 0749-NEP(SF): Third Forestry Development Project
- Loan No. 0783-NEP(SF): Second Tribhuvan International Airport - Including Extension
- Loan No. 0792-NEP(SF): Second Aquaculture Development Project
- Loan No. 0806-NEP(SF): Road Improvement Project
- Loan No. 0831-NEP(SF): Fifth Agricultural Credit Project
- Loan No. 0859-NEP(SF): Hill Fruit Development Project
- Loan No. 0867-NEP(SF): East Rapti Irrigation Project
- Loan No. 0923-NEP(SF): Irrigation Sector Project

- Loan No. 0924-NEP(SF): Agriculture Program Loan
- Loan No. 0936-NEP(SF): Second Tribhuvan International Airport - Including Extension (Second Supplementary)
- Loan No. 0949-NEP(SF): Second Water Supply Sector Project
- Loan No. 0964-NEP(SF): Secondary Crops Development Project
- Loan No. 0974-NEP(SF): Technical Education and Vocational Training Development Project
- Loan No. 0982-NEP(SF): Second Road Improvement Project
- Loan No. 0987-NEP(SF): Special Assistance for Oil Supply
- Loan No. 1011-NEP(SF): Seventh Power Project
- Loan No. 1037-NEP(SF): Third Small Farmers Development Project
- Loan No. 1040-NEP(SF): Forestry Sector Program
- Loan No. 1112-NEP(SF): Sixth Agricultural Credit Project
- Loan No. 1113-NEP(SF): Rajapur Irrigation Rehabilitation Project
- Loan No. 1114-NEP(SF): Upper Sagarmatha Agricultural Development Project
- Loan No. 1141-NEP(SF): Primary Education Development Project
- Loan No. 1156-NEP(SF): Tourism Infrastructure Development Project
- Loan No. 1165-NEP(SF): Third Water Supply and Sanitation (Sector) Project
- Loan No. 1196-NEP(SF): Secondary Education Development Project
- Loan No. 1229-NEP(SF): Industrial Sector Program
- Loan No. 1237-NEP(SF): Microcredit Project for Women
- Loan No. 1240-NEP(SF): Kathmandu Urban Development Project
- Loan No. 1311-NEP(SF): Irrigation Management Transfer Project
- Loan No. 1377-NEP(SF): Third Road Improvement Project
- Loan No. 1437-NEP(SF): Second Irrigation Sector Project
- Loan No. 1450-NEP(SF): Rural Infrastructure Development Project
- Loan No. 1451-NEP(SF): Second Tourism Infrastructure Development Project
- Loan No. 1452-NEP(SF): Kali Gandaki "A" Hydroelectric Project
- Loan No. 1461-NEP(SF): Third Livestock Development Project
- Loan No. 1464-NEP(SF): Fourth Rural Water Supply
- Loan No. 1512-NEP(SF): Tribhuvan International Airport Improvement Project
- Loan No. 1604-NEP(SF): Second Agriculture Program
- Loan No. 1609-NEP(SF): Community Groundwater Irrigation Sector Project
- Loan No. 1640-NEP(SF): Melamchi Water Supply (Engineering) Project
- Loan No. 1650-NEP(SF): Rural Microfinance Project
- Loan No. 1732-NEP(SF): Rural Electrification, Distribution and Transmission Project
- Loan No. 1755-NEP(SF): Small Towns Water Supply and Sanitation Sector Project
- Loan No. 1778-NEP(SF): Crop Diversification Project
- Loan No. 1811-NEP(SF): Corporate and Financial Governance Project
- Loan No. 1820-NEP(SF): Melamchi Water Supply Project
- Loan No. 1840-NEP(SF): Teacher Education Project
- Loan No. 1861-NEP(SF): Governance Reform Program
- Loan No. 1876-NEP(SF): Road Network Development Project

- Loan No. 1917-NEP(SF): Secondary Education Support Project
- Loan No. 1966-NEP(SF): Urban and Environmental Improvement Project
- Loan No. 2002-NEP(SF): Public Sector Management Program
- Loan No. 2008-NEP(SF): Community-Based Water Supply and Sanitation Project
- Loan No. 2058-NEP(SF): Kathmandu Valley Water Services Sector Development Program
- Loan No. 2059-NEP(SF): Kathmandu Valley Water Services Sector Development Project
- Loan No. 2071-NEP(SF): Community Livestock Development Project
- Loan No. 2092-NEP(SF): Decentralized Rural Infrastructure and Livelihood Project
- Loan No. 2143-NEP(SF): Gender Equality and Empowerment of Women Project

D. Loan Agreements governed by the 2004 Loan Regulations

- Loan No. 2097-NEP(SF): Subregional Transport Facilitation Project
- Loan No. 2102-NEP(SF): Community-Managed Irrigated Agriculture Sector Project
- Loan No. 2111-NEP(SF): Skills for Employment Project

4. For each Loan, the Borrower's obligation to repay the principal and to pay the interest, service fee, service charge, or interest charge (as the case may be) in the several currencies withdrawn from the Loan Account will be converted into SDR at the exchange rate between each currency concerned and the SDR, as determined by ADB on the Conversion Date. The Conversion Date for each Loan will be the first date on which the principal, interest, service fee, service charge, or interest charge (as the case may be) is due under the relevant Loan, falling at least one month after the date when ADB will have received a counterpart of this letter of agreement duly signed by the Borrower.

5. For the purpose of the conversion referred to in paragraph 4 above, each Loan Agreement (Special Operations) between the Borrower and ADB in relation to a Loan

- (a) which is listed under paragraph 3A above (governed by the 1969 Loan Regulations), is amended in accordance with the provisions of Appendix 1 attached hereto;
- (b) which is listed under paragraph 3B above (governed by the 1977 Loan Regulations) is amended in accordance with the provisions of Appendix 2 attached hereto;
- (c) which is listed under paragraph 3C above (governed by the 1982 Loan Regulations) is amended in accordance with the provisions of Appendix 3 attached hereto; and
- (d) which is listed under paragraph 3D above (governed by the 2004 Loan Regulations) is amended in accordance with the provisions of Appendix 4 attached hereto.

6. For the avoidance of doubt, the conversion will not affect the undisbursed amount of each Loan, which will be equal to the difference between (a) the principal amount of the Loan

specified in Section 2.01^a of the Loan Agreement (Special Operations) for such Loan less any amount that has been cancelled, and (b) the equivalent in SDR of the amounts in various currencies withdrawn from the Loan Account based on the value of such currencies expressed in SDR as of the respective dates of withdrawal.

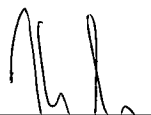
7. Promptly after the Conversion Date of each Loan, ADB will provide the Borrower with a new amortization schedule for such Loan revised in accordance with the provisions of paragraph 4 above. For each Loan, the revised amortization schedule will replace, as of the Conversion Date, the amortization schedule included in the relevant Loan Agreement.

8. For the purposes of (i) Section 3.02 (a) of the 1969 Loan Regulations, and (ii) Section 4.03 (a) of the 1977 Loan Regulations, 1982 Loan Regulations and 2004 Loan Regulations, the currency of payment of principal of a Loan shall be the currency indicated below by the Borrower.

9. Please contact Ms. Im-em Unkavanich, Senior Treasury Specialist, Treasury Department of Asian Development Bank (Tel:+632 632 4704 or +632 632 5160; email: iunkavanich@adb.org) should you have any questions in relation to this letter of agreement or in relation to the proposed conversion of the Loans into SDR. A workshop for Nepal to present the SDR conversion option and its implications was held in Kathmandu on 25 February 2008.

10. Please indicate your agreement to this letter by countersigning the two (2) original counterparts of this letter in the space indicated below, and returning one signed counterpart to the undersigned at ADB. The other signed counterpart may be retained by you for your records. For each Loan, the amendments to the Loan Agreement will be effective on the Conversion Date as defined in paragraph 4 above.

Very truly yours,



Kunio Senga
Director General
South Asia Department

^a In the unlikely case where the principal amount of the Loan is not specified in section 2.01 of the Loan Agreement but in another section of the Loan Agreement, this sentence should be read as referring to the correct section of the Loan Agreement.

Confirmed and Agreed:

The currency of payment referred to in paragraph 8 of this letter of agreement shall be:*

- ☐ Euro
- ☐ Japanese Yen
- ☐ Pound Sterling
- ☒ United States Dollar

NEPAL



By: Rameshorek.
Name: RAMESHORE PRASAD KHANAL
Title: SECRETARY, MINISTRY OF FINANCE
Date: 17 JUNE, 2008

cc: Paul Heytens, Country Director, NRM

*

The Borrower may only choose one currency.

Appendix 3

Amendments to Loan Agreements
Incorporating the 1982 Loan Regulations

1. Each Loan Agreement (Special Operations) entered into between the Borrower and ADB and which incorporates by reference the 1982 Loan Regulations is amended as follows:

(a) Section 1.01^f of the Loan Agreement is amended by making or adding, as the case may be, the following modifications to the Loan Regulations as such term is defined in the Loan Agreement:

“(i) Section 2.01 of the Loan Regulations is amended by adding the following definition:

The term “Conversion Date” shall have the meaning given to such term in the letter of agreement between ADB and the Borrower dated 6 March 2008.”

(ii) Section 4.02 of the Loan Regulations is deleted and the following is substituted therefor:

“Section 4.02. **Currency of Withdrawal.** Withdrawals from the Loan Account shall be made in one or more of the currencies which constitute the SDR, as ADB may from time to time select. The amount of each withdrawal from the Loan Account shall be calculated as the SDR equivalent (determined as of the date of withdrawal) of the currency or currencies withdrawn from the Loan Account.”

(iii) Section 4.03 of the Loan Regulations is deleted and the following is substituted therefor:

“Section 4.03. **Currency of Payment of Principal.** (a) The principal of the Loan shall be expressed in SDR and shall be repayable in one of the currencies which constitute the SDR as shall be specified in the Loan Agreement. The Borrower may at any time request that the principal of the Loan shall be repayable in any other of the currencies which constitute the SDR. Each such request shall be made in writing in such form and by giving such notice as ADB shall from time to time determine. Upon acceptance by ADB of such request, ADB shall notify the Borrower and the Guarantor of the modified provision providing for the currency of repayment.

(b) The Borrower shall repay the equivalent in SDR of the amount or the amounts withdrawn from the Loan Account determined as of the date, or the respective dates, of repayment. For amounts withdrawn from the Loan Account prior to the Conversion Date, such equivalent shall be calculated based on the value of the currency or currencies withdrawn from the Loan Account expressed in SDR as of the Conversion

^f In the unlikely case where the incorporation of the Loan Regulations is specified in another section of the Loan Agreement, this sentence should be read as referring to the correct section of the Loan Agreement.

Date; and for amounts withdrawn from the Loan Account on or after the Conversion Date, such equivalent shall be calculated based on the value of the currency or currencies withdrawn from the Loan Account expressed in SDR as of the respective date or dates of withdrawal."

(b) The following Section 2.05⁹ is added to Article II of the Loan Agreement:

"Section 2.05. The currency of payment of the principal of the Loan for the purposes of Section 4.03 (a) of the Loan Regulations shall be the currency as specified by the Borrower in the letter of agreement between ADB and the Borrower dated 6 March 2008."

⁹ In the unlikely case where Article II of the Loan Agreement does not include 4 sections, the section number indicated herein should be modified accordingly.