Global Partnership on Output-based Aid
Grant Agreement

(Biogas Support Program IV Project)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Global Partnership on Output-based Aid)

Dated October 4, 2007
GLOBAL PARTNERSHIP ON OUTPUT-BASED AID
GRANT AGREEMENT

AGREEMENT dated October 4, 2007, entered into between: NEPAL ("Recipient"); and INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the Global Partnership on Output-based Aid ("GPOBA").

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 ("Standard Conditions"), 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 Standard Conditions or in this Agreement, including the Appendix hereto.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to five million United States Dollars ($5,000,000) ("Grant") to assist in financing the Project. The Grant consists of funds contributed by the Government of the
United Kingdom of Great Britain and Northern Ireland through the Department for International Development through TF058031-DPMD.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

Article IV
Additional Remedies

4.01. The Additional Events of Suspension referred to in Section 4.02(i) of the Standard Conditions consist of the following:

(a) The Formation Order, 2053 (1996) under the Development Board Act, 2013 (1956) of Nepal, pursuant to which AEPC was established and is operating, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AEPC to perform any of its obligations arising under the Implementation Agreement or this Agreement.

(b) The Implementation Agreement has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AEPC or BSP-Nepal to perform any of its obligations arising under the Implementation Agreement or this Agreement.

(c) The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental and corporate action.

5.02. As part of the evidence to be furnished pursuant to Section 5.01, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing, on behalf of the Recipient, that this Agreement has been duly
authorized or ratified by, and executed and delivered on behalf of, the Recipient and is legally binding upon it in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient's Representative; Addresses

6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Secretary, Ministry of Finance.

6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu
Nepal

Facsimile:
(977-1) 4259-891
6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391
Washington, D.C.

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

NEPAL

[Signature]
By
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as administrator of the Global Partnership on Output-based Aid)

[Signature]
By
Country Director
Nepal
SCHEDULE 1

Project Description

The objective of the Project is to further develop and disseminate biogas plants as a mainstream renewable energy solution in rural Nepal by increasing the number of households sustainably using biogas plants, while better addressing poverty, social inclusion and regional balance issues and at the same time ensuring enhanced commercialization and sustainability of the sector.

The Project consists of the following part:

Installation of Household Biogas Plants

Installation and operation of about 37,300 household size biogas plants in Eligible Households in the rural areas of Nepal.
SCHEDULE 2
Project Execution

Section I. Institutional and Other Arrangements

1. The Recipient shall ensure that: (i) the Project is implemented in accordance with the provisions of the Operational Manual and the Environmental Management and Mitigation Plan; and (ii) no action is taken which would prevent or interfere with such implementation.

2. The Recipient shall ensure that AEPC maintains the staffing and resources satisfactory to the World Bank, and is responsible for overall Project implementation and coordination, including: (i) payments to Biogas Companies for biogas plant installations made under the Project; and (ii) the submission to the World Bank of Annual GPOBA Output Reports, annual biogas plant user survey reports, and annual estimates of biogas plant installations under the Project.

3. The Recipient shall ensure that the Project is implemented in accordance with the provisions of the Implementation Agreement. Without limiting the generality of the foregoing, the Recipient shall ensure that AEPC: (i) performs all of its obligations under the Implementation Agreement; and (ii) exercises its rights under the Implementation Agreement in such manner as to protect the interests of the Recipient, AEPC and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall ensure that the Implementation Agreement or any of its provisions is not assigned, amended, abrogated or waived.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report; Post Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and ensure that Project Reports are prepared, which may consist of Annual GPOBA Output Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover the period of one calendar year, and shall be furnished to the World Bank not later than two (2) months after the end of the period covered by such report.

2. The Recipient shall ensure that the Completion Report is prepared in accordance with the provisions of Section 2.06 of the Standard Conditions and furnished to the World Bank not later than six (6) months after the Closing Date. In addition, the Recipient shall ensure that two additional reports ("Post Project Reports") are
prepared, each of such scope and in such detail as the World Bank shall reasonably request, on the execution of the plan set out in the Completion Report, and setting out measures designed to ensure the continued efficient and effective achievement of the Project’s objectives. The Recipient shall ensure that the Post Project Reports are furnished to the World Bank not later than two (2) months after the first and second anniversaries of the Closing Date, respectively. The Completion Report and the Post Project Reports: (i) may consist of BSP-Nepal Yearbooks setting forth the types of data and information contained in the BSP-Nepal Yearbook in effect as of the date of this Agreement; and (ii) shall also include BSP-Nepal’s annual progress report and annual user survey report if they have been prepared for the relevant year.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that the Financial Statements of AEPC and BSP-Nepal for the Project are audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one calendar year. The Recipient shall ensure that the audited Financial Statements for each such period are furnished to the World Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

   (a) Section I (excluding paragraph 1.16) of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”); and

   (b) the provisions of this Section III.

2. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines.
B. Particular Methods of Procurement of Goods and Works

The following methods may be used for procurement of goods and works under the Project: community participation procedures and other established practices which have been found acceptable to the World Bank.

C. Review by the World Bank of Procurement Decisions

All contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

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

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Payments for goods and works for installation and operation of biogas plants under the Project as described in Schedule 1 to this Agreement</td>
<td>5,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>5,000,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments for biogas plant installations made prior to the date of this Agreement.

2. Applications for withdrawals shall be submitted to the World Bank on an annual basis, and each such application shall set forth the amounts of payments made by AEPC to the Biogas Companies during the immediately preceding calendar year for the biogas plant installations made under the Project.

3. Each application for withdrawal shall be accompanied by the following annual reports: (i) the Annual GPOBA Output Report for the immediately preceding calendar year; (ii) the annual biogas plant user survey report for the immediately preceding calendar year; and (iii) the annual estimate of biogas plant installations under the Project for the following calendar year; all in form and substance satisfactory to the World Bank.

4. No withdrawal shall be made with respect to any annual application for withdrawal until and unless the World Bank has received, from an independent technical expert retained by the World Bank, a report in form and substance satisfactory to the World Bank, verifying, inter alia: (i) the biogas plant installations and payments therefor by AEPC as indicated in each such annual application for withdrawal; and (ii) the continued operation of those biogas plants.

5. For purposes of enabling the independent technical expert to prepare its reports referred to in Paragraph 4 above, the Recipient shall ensure that any and all information requested by such expert concerning the biogas plant installations under the Project is promptly made available to it.

6. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is June 30, 2010.
APPENDIX

Definitions


2. “Annual GPOBA Output Report” means an annual report to be prepared by BSP-Nepal and submitted by AEPC to the World Bank, setting out information on, *inter alia*: (i) the number of Eligible Households with new biogas plants installed during the immediately preceding calendar year; (ii) the capacity of each such new biogas plant; (iii) the districts in which those Eligible Households are located; and (iv) the results of the annual biogas plant user survey for the immediately preceding calendar year.

3. “Biogas Company” means any local private sector biogas company approved by BSP-Nepal to manufacture and install household biogas plants under the Project.

4. “BSP-Nepal” means Biogas Sector Partnership Nepal, a non-governmental organization established and operating under the Institutions Registrations Act, 2034 (1977/78) of Nepal and responsible for, *inter alia*, providing support to AEPC, Biogas Companies and Eligible Households for the implementation of the Project.

5. “Eligible Household” means any individual household selected to receive a subsidized biogas plant installation under the Project in accordance with the eligibility criteria and procedures set forth in the Operational Manual.

6. “Environmental Management and Mitigation Plan” means the “Biogas Support Programme - Environmental Management and Mitigation Plan – Revised February 2007” prepared by BSP-Nepal and approved by the World Bank, setting out, *inter alia*, the assessment of environmental, health and social impacts of household biogas plant installations under the Project and measures to mitigate adverse impacts identified in the assessment, as the same may be amended from time to time with the agreement of the World Bank.

7. “Implementation Agreement” means the Addendum to Implementation Agreement for CDM executed by AEPC and BSP-Nepal on June 7, 2007, setting out their respective roles and responsibilities for the implementation of the Project.
8. “Operational Manual” means the Operational Manual for the Project dated June 2007, and approved by the World Bank, setting out, *inter alia*: (i) the procedures and timetables for the implementation of the Project; (ii) the institutional arrangements and respective roles and responsibilities of AEPC and BSP-Nepal; (iii) the eligibility criteria for Eligible Households; (iv) financial management and disbursement arrangements; (v) procurement arrangements; (vi) environmental and social safeguards analyses; and (vii) monitoring and evaluation procedures for the Project; as the same may be amended from time to time with the agreement of the World Bank.