
CREDIT NUMBER 7512-NP

Financing Agreement

(Second Fiscal Policy for Growth, Recovery, and Resilience
Development Policy Credit)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7512- NP

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to seventy-four million six hundred thousand Special Drawing Rights (SDR 74,600,000) (variously, “Credit” and “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

- 2.06. The Payment Currency is Dollar.
- 2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following: the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of (30) thirty days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

- 5.02. The Effectiveness Deadline is the date (90) ninety days after the Signature Date.
- 5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Secretary, Ministry of Finance, or its Joint Secretary of the International Economic Cooperation Coordination Division, Ministry of Finance.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) The Recipient's address is:

Ministry of Finance
Government of Nepal
Singha Durbar
Kathmandu
Nepal; and

(b) the Recipient's Electronic Address is:

Facsimile: E-mail:

(977-1) 4211-164 secretary@mof.gov.np

6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

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

(b) the Association's Electronic Address is:

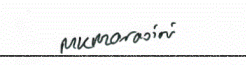
Telex: Facsimile:

248423 (MCI) 1-202-477-6391

AGREED as of the Signature Date.

NEPAL

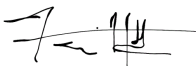
By



Authorized Representative
Name: Madhu Marasini
Title: Secretary
Date: 22-May-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative
Name: Faris H. Hadad-Zervos
Title: Country Director
Date: 08-May-2024

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken under the Program

The actions taken by the Recipient under the Program include the following:

Pillar A: Strengthen the regulatory and institutional framework to build back better and greener

1. To strengthen revenue collection, the Revenue Advisory Board (RAB) has published a review of VAT exemptions (RAB Report), as evidenced by dissemination of the final report on the website of the Ministry of Finance.
2. To reduce fragmentation of debt management and increase debt transparency, the Recipient has enacted the Public Debt Management Act, 2079 (2022), as evidenced by its publication in the Recipient's gazette.
3. To enhance climate-resilient infrastructure spending: (i) the National Planning Commission (NPC) has approved unified National Project Bank guidelines covering urban, energy, transport, irrigation, and agricultural projects and incorporated climate resilience; and (ii) the NPC has approved and issued budget formulation guidelines that makes compliance with the unified National Project Bank guidelines, and entry into the National Project Bank a condition to receive funding through the budget.
4. To promote markets and demand for electric cookstoves, the Recipient has enacted the Finance Act FY22 to reduce import duties on electric cookstoves from 5 percent to 1 percent, as evidenced by its publication in the Recipient's gazette.

Pillar B: Enhance systems and regulations to protect the most vulnerable and support sustainable business growth

5. The Ministry of Home Affairs (MoHA) has approved a framework to establish and operationalize the Integrated Social Registry (ISR) as evidenced by MoHA ministerial approval.
6. To increase subnational spending autonomy in the health sector, the Ministry of Finance provided as part of the budget documents in the Intergovernmental Fiscal Transfer the reduced number of expenditure headings for health-related activities of provincial and local governments for FY2023-24 over the baseline of FY2021-22 in the Line Ministry Budget Information System (LMBIS), following the recommendations issued by the National Natural Resources and Fiscal

Commission dated February 16, 2023, as evidenced by the letter from Ministry of Finance (652-080/81) dated October 18, 2023.

7. The Ministry of Industry, Commerce and Supplies has, by way of a notification in the Recipient's gazette: (i) under section 3 of the Foreign Investment and Technology Transfer Act 2019 reduced the minimum FDI threshold to promote FDI inflows to the Recipient; and (ii) under Section 42 of the Foreign Investment and Technology Transfer Act 2019 granted automatic approval (without prior approval of the Department of Industry) to equity investment in the Recipient for up to NPR 500 million other than in sectors identified in the negative lists under the Foreign Investment and Technology Transfer Act 2019 and the Industrial Enterprises Act 2020.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (Expressed in SDR)
(1) Single Withdrawal Tranche	74,600,000
TOTAL AMOUNT	74,600,000

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposit of Financing Amounts

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Nepali Rupee equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is February 28, 2025.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage) *
On each February 15 and August 15, commencing August 15, 2030, to and including February 15, 2062.	1.5625%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

APPENDIX

Definitions

1. “Department of Industry” means the department set up within the Ministry of Industry, Commerce, and Supplies, or any successor thereto.
2. “FDI” means foreign direct investment.
3. “Finance Act FY 22” means the Finance Act for FY 2021-2022 of the Recipient, as published in the Recipient’s gazette on September 29, 2021.
4. “Fiscal Year” or “FY” means the fiscal year of the Recipient, commencing on or around July 16 of a calendar year and concluding on or around July 15 of the next following calendar year.
5. “Foreign Investment and Technology Transfer Act 2019” means the Recipient’s Foreign Investment and Technology Transfer Act 2019, as published in the Recipient’s gazette on March 27, 2019.
6. “General Conditions” means the “International Development Association General Conditions for IDA Financing: Development Policy Financing”, dated December 15, 2021 (last revised on July 15, 2023).
7. “Industrial Enterprises Act 2020” means the Industrial Enterprises Act 2020 of the Recipient, as published in the Recipient’s gazette on February 11, 2020.
8. “Integrated Social Registry” or “ISR” means the Integrated Social Registry established pursuant to the Framework for Nepal Integrated Social Registry approved by the MoHA on May 23, 2022.
9. “Intergovernmental Fiscal Arrangement Act 2017” means the Intergovernmental Fiscal Arrangement Act of the Recipient, as published in the Recipient’s gazette on October 13, 2017.
10. “Intergovernmental Fiscal Transfer” means a grant made in accordance with the Intergovernmental Fiscal Arrangement Act 2017.
11. “Line Ministry Budget Information System” or “LMBIS” means the software used by the Recipient’s line ministries to prepare the annual budget.
12. “Ministry of Finance” or “MoF” means the Ministry of Finance of the Recipient, or any successor thereto.

13. “Ministry of Home Affairs” or “MoHA” means the Ministry of Home Affairs of the Recipient, or any successor thereto.
14. “Ministry of Industry, Commerce, and Supplies” means the Ministry of Industry, Commerce, and Supplies of the Recipient, or any successor thereto.
15. “National Natural Resources and Fiscal Commission” means the National Natural Resources and Fiscal Commission of the Recipient established pursuant to the National Natural Resources and Fiscal Commission Act 2017, or any successor thereto.
16. “National Planning Commission” or “NPC” means the National Planning Commission of the Recipient established pursuant to the Recipient’s executive order dated March 12, 2018, a specialized and apex advisory body of the Government of Nepal responsible for formulating a national vision, development policy, periodic plans and sectoral policies for overall development of the nation, or any successor thereto.
17. “National Project Bank” means the repository of potential public capital projects of the Recipient selected according to standardized criteria.
18. “Nepali Rupee” or “NPR” means the currency of the Recipient.
19. “Parliament” means the Federal Parliament of the Recipient.
20. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated October 27, 2023, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the Program’s objectives.
21. “Public Debt Management Act, 2079 (2022)” means the Public Debt Management Act, 2079 (2022) of the Recipient, published in the Recipient’s gazette on October 9, 2022.
22. “RAB Report” means the report on revenue policy and tax reform for the fiscal year 2022/23 dated April/May 2022 published by the RAB.
23. “Revenue Advisory Board” or “RAB” means the board established pursuant to the Nepal Revenue Advisory Development Board (Formation) Order, 2020, which was repealed by the Recipient on October 17, 2022, in exercise of the power conferred by Section 8 of the Development Board Act, 1956, dissolving the board.

24. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
25. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
26. “VAT” means value added tax.