
CREDIT NUMBER 7539-NP

Financing Agreement

(Third Finance for Growth Development Policy Credit)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7539-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 sixty million five hundred thousand Special Drawing Rights (SDR 60,500,000) (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 The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.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 1 and August 1 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 thirty (30) 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: 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 ninety (90) 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:

Facsimile: E-mail:

1-202-477-6391 sacsnmucdoffice@worldbank.org

AGREED as of the Signature Date.

NEPAL

By



Authorized Representative

Name: Shreekrishna Nepal

Title: Joint secretary

Date: 24-Jun-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Faris H. Hadad-Zervos

Title: Country Director

Date: 24-Jun-2024

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

1. To strengthen financial sector stability, the Council of Ministers has approved for the submission to the Parliament, bills to amend: (i) the Bank and Financial Institution Act (BAFIA) to enable the Nepal Rastra Bank (NRB) to better identify and mitigate related party lending; and (ii) the Asset (Money) Laundering Prevention Act (ALPA) to introduce mechanisms for the declaration of identity of the ultimate beneficial owners for legal persons and to facilitate effective access to such information by relevant Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) authorities.
2. To increase public accountability for climate-related risks, NRB has published data on the progress of the Guideline on Environmental and Social Risk Management (ESRM) implementation by banks and financial institutions (including data on value of loans subject to environmental, climate, and social risk due diligence).
3. To strengthen its risk-informed approach to the management of climate risk, the Nepal Insurance Authority (NIA) has issued a Property Insurance Directive to introduce risk-based pricing of insurance products for commercial, industrial, and public assets.
4. To establish a regulatory framework for green and other labelled bonds and debentures, the Council of Ministers has approved the Seventh Amendment to the Securities Registration and Issue Regulations, 2016 (2073).
5. To strengthen its risk-based supervision, the NIA has issued an Own Risk Solvency Assessment Directive requiring insurers to assess all risks including climate-related risks.
6. To enable small merchants to accept electronic payments, whether online (e-commerce) or at the physical point of sale, the NRB has issued an amendment to the Directive No. 14/079 on tiered Know-Your-Customer (KYC).
7. To increase Micro, Small, and Medium-Sized Enterprises' (MSME) access to finance through movable collateral, the Council of Ministers has approved, for submission to Parliament, a bill to amend the Secured Transaction Act, 2006 (2063).

8. To enable improved policy making that addresses gender gaps, the NRB has issued a notice to implement the Financial Literacy Guideline that allocates responsibility for monitoring financial literacy initiatives that enables impact assessments on women and women-headed enterprises' access to financial services to a newly formed specialized NRB division.
9. To improve the governance of the Deposit and Credit Guarantee Fund (DCGF), the Council of Ministers has approved an amendment to the Credit Guarantee Regulation, to mandate the DCGF to implement a risk-management framework, supplemental financial disclosures for credit guarantee operations, and the integration of climate related mitigation and adaptation commitments into credit guarantee products.

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	60,500,000
TOTAL AMOUNT	60,500,000

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 April 25, 2025.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage) *
On each February 1 and August 1, commencing August 1, 2030, to and including February 1, 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

Section I. Definitions

1. “AML/CFT” means Anti-Money Laundering and Combating the Financing of Terrorism.
2. “Asset (Money) Laundering Prevention Act” or “ALPA” means the Asset (Money) Laundering Prevention Act, 2008 (2064) of the Recipient.
3. “Bank and Financial Institution Act” or “BAFIA” means the Bank and Financial Institution Act, 2017 (2073) of the Recipient.
4. “Council of Ministers” means the Council of Ministers of the Recipient.
5. “Credit Guarantee Regulation” means the Credit Guarantee Regulation, 2018, (2075) of the Recipient.
6. “Deposit and Credit Guarantee Fund” or “DCGF” means the Deposit and Credit Guarantee Fund of the Recipient.
7. “Directive No. 14/079” means the directive of the Recipient, as amended, issued by the NRB, in relation to money laundering and terrorist financing.
8. “Financial Literacy Guideline” means the amendment to the Financial Literacy Guideline (2079), dated March 31, 2023, as issued by the NRB.
9. “General Conditions” means the “International Development Association General Conditions for IDA Financing: Development Policy Financing”, dated December 14, 2018 (last revised on July 15, 2023).
10. “Guideline on Environmental and Social Risk Management” means the guideline issued by the NRB in 2018, updated in August 2022, as made mandatory via circular No. BFIRD/Policy/Circular/ABC/3-077/78 dated September 13, 2020 issued under the NRB Unified Directive 2077 (2020), which guideline requires banks and financial institutions to conduct risk-appropriate climate-related risk due diligence on new projects and rate projects on their level of compliance with climate and wider environmental and social requirements.
11. “Nepal Insurance Authority” or “NIA” means the Nepal Insurance Authority of the Recipient.
12. “Nepal Rastra Bank” or “NRB” means the central bank of the Recipient functioning pursuant to the Nepal Rastra Bank Act of 2002 (2058), as amended.

13. “Own Risk Solvency Assessment Directives” means the Own Risk Solvency Assessment Directives, 2023 (2079) of the Recipient, as issued by the NIA on March 16, 2023.
14. “Parliament” means the Federal Parliament of the Recipient.
15. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated March 28, 2024 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.
16. “Property Insurance Directive” means the Property Insurance Directive, 2023 (2080) of the Recipient.
17. “Securities Board of Nepal” or “SEBON” means the Securities Board of the Recipient.
18. “Secured Transactions Act” means the Secured Transactions Act, 2006 (2063) of the Recipient.
19. “Securities Registration and Issue Regulations” means the Securities Registration and Issue Regulation, 2016, as amended, of the Recipient.
20. “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.
21. “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.