
CREDIT NUMBER 7303-NP

Financing Agreement

(Nepal Quality Health Systems Program)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7303-NP

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between NEPAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association 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 fifteen million one hundred thousand Special Drawing Rights (SDR 15,100,000) (variously, “Credit” and “Financing”), to assist in financing the program described in Schedule 1 to this Agreement (“Program”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Financing Account shall be deposited by the Association into an account specified by the Recipient and acceptable to the Association.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the objectives of the Program. To this end, the Recipient shall carry out the Program in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date 90 (ninety) days after the Signature Date.
- 4.02. 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 20 (twenty) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

- 5.02. 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) 4211-720	secretary@mof.gov.np

5.03. 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: Krishna Hari Pushkar

Title: FS

Date: 27-Oct-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Faris H. Hadad-Zervos

Title: Country Director

Date: 05-Oct-2023

SCHEDULE 1

Program Description

The objectives of the Program are to improve quality of healthcare, enhance health insurance coverage for poor, and strengthen health emergency preparedness in the Selected Provinces.

The Program consists of the following activities:

Results Area 1: Improving Readiness of Healthcare Delivery System and Quality of Care

- (a) Supporting public sector health facilities to ensure minimum service standards are in place for provision of quality services.
- (b) Establishing biomedical equipment repair and maintenance system and/or laboratories in Selected Provinces.
- (c) Supporting health facilities to establish functional health care waste management system.
- (d) Supporting mechanism for purchase of essential medicines by MoHP from Nepal Drugs Limited.
- (e) Supporting implementation and/or expansion of social audits.
- (f) Designing, developing, and implementing EMR system in public hospitals in Selected Provinces.

Results Area 2: Improving Health Insurance Coverage and Effectiveness

- (a) Supporting policy reforms for increased and sustained identification and enrolment of the poor and vulnerable populations in the health insurance program, including development of health finance strategy and standard framework to be deployed by Local Levels in Selected Provinces.
- (b) Implementing targeting mechanisms, and communication and mobilization strategies to identify and enroll poor and vulnerable households into the health insurance program.
- (c) Building capacity of HIB to enhance its organizational capacity.

- (d) Digitizing health insurance claim management system.
- (e) Strengthening insurance management system and linking it with EMR system.
- (f) Training health insurance staff and mobilizers for effective operations, including enrolment, claim review, data handling and client motivation.
- (g) Supporting advocacy and communication interventions to incentivize beneficiaries to enroll in the health insurance program.

Results Area 3: Enhancing Health Emergency Preparedness and Response Capacity at Province and Local Levels

- (a) Building capacity of Selected Provinces and Selected LLs to develop, implement and monitor health preparedness plans.
- (b) Establishing and expanding integrated climate-sensitive prioritized disease surveillance systems in Selected Provinces and Selected LLs.

SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Institutions

1. The Recipient shall vest the overall responsibility for the implementation of the Program activities in the MoHP, which will implement the Program with assistance from HIB, DoHS, PGs and LLs. To this end:
 - (a) The Recipient shall establish, within two (2) months from the Effective Date, and thereafter maintain throughout the period of implementation of the Program, a Program Management Unit, comprising, *inter alia*, representatives of relevant divisions and centers of MoHP, HIB and Selected Provinces, assisted by competent staff, all with experience, qualification, and terms of reference satisfactory to the Association, for ensuring day-to-day oversight, implementation and monitoring of results.
 - (b) The Recipient shall establish, within two (2) months from the Effective Date, and thereafter maintain throughout the period of implementation of the Program, a Program Steering Committee, chaired by the Secretary of Health and comprising high-level officials from MoHP, including from its Policy, Planning and Monitoring Division, Health Coordination Division, Administration Division and DoHS, and HIB, assisted by competent staff, all with experience, qualification and terms of reference satisfactory to the Association, for supervising and guiding the Program Management Unit in Program implementation.
2. The Recipient, through appropriate procedures and transaction mechanisms with PGs and LLs, shall ensure that the PGs and/or the LLs are responsible for management and basic functions of financial management, procurement and environmental and social management associated with their respective activities under the Program. To that end, the Recipient shall: (a) prepare, adopt and issue the Operating Guidelines within three (3) months from the Effective Date, and include in the Operating Guidelines, appropriate provisions to ensure that the terms of this Agreement are passed down to all PGs and LLs as special conditions for their respective Conditional Grants; (b) ensure that all PGs and LLs receive all relevant documents describing in detail their responsibilities in relation to the implementation of their respective activities under the Program in accordance with this Agreement; and (c) include in the Operating Guidelines the protocol for the application of the Anti-corruption Guidelines and procedures for the collection, storage, usage, and/or processing of Personal Data, in accordance with the provisions set forth in Section V of this Schedule.

B. Program Action Plan

1. The Recipient shall, and shall cause the PGs and LLs to:
 - (a) implement the Program Action Plan agreed with the Association, in a manner and substance satisfactory to the Association; and
 - (b) refrain from amending, revising, waiving, voiding, suspending, or abrogating, any provision of the Program Action Plan, whether in whole or in part, without the prior written concurrence of the Association.
2. In the event of any inconsistency between the provision of the Program Action Plan and those of this Agreement, the provision of this Agreement shall govern.

C. Program Fiduciary, Environmental and Social Systems

Without limitation upon the generality of Part A of this Section I, the Recipient shall carry out the Program in accordance with financial management, procurement, and environmental and social management systems acceptable to the Association (“Program Fiduciary, Environmental and Social Systems”) which are designed to ensure that:

- (a) the Financing proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and
- (b) the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

Section II. Excluded Activities

The Recipient shall ensure that the Program excludes any activities which:

- A. in the opinion of the Association, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or
- B. involve the procurement of: (1) works, estimated to cost USD 75,000,000 equivalent or more per contract; (2) goods, estimated to cost USD 50,000,000 equivalent or more per contract; (3) non-consulting services, estimated to cost USD 50,000,000 equivalent or more per contract; or (4) consulting services, estimated to cost USD 20,000,000 equivalent or more per contract.

Section III. Program Monitoring, Reporting and Evaluation

A. Program Reports

1. The Recipient shall furnish to the Association each Program Report not later than sixty (60) days after the end of each six-month period, covering the six-month period.
2. Except as may otherwise be explicitly required or permitted under this Agreement, or as may be explicitly requested by the Association, in sharing any information, report or document related to the activities described in Schedule 1 to this Agreement, the Recipient shall ensure that such information, report or document does not include Personal Data.

B. Independent Verification Agent

1. The Recipient shall appoint, within six (6) months from the Effective Date, and thereafter maintain, throughout the period of implementation of the Program, the Independent Verification Agent in accordance with the terms of the MoU between the MoHP and the Independent Verification Agent.
2. The Recipient shall furnish to the Independent Verification Agent and the Association any information and/or documentation that the Independent Verification Agent and/or the Association shall reasonably require for the monitoring, audit, analysis and/or verification of the achievement/fulfillment of the DLRs set out in Schedule 4 to this Agreement.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Program Expenditures (inclusive of Taxes), on the basis of the results (“Disbursement Linked Results” or “DLRs”) achieved by the Recipient as measured against specific indicators (“Disbursement Linked Indicators” or “DLIs”); all as set forth in the table in paragraph 2 of this Part A and the table in Schedule 4 to this Agreement.
2. The following table specifies each category of withdrawal of the proceeds of the Financing (including the Disbursement Linked Indicators as applicable) (“Category”), the Disbursement Linked Results for each Category (as applicable), and the allocation of the amounts of the Financing to each Category:

Category (Including Disbursement Linked Indicator as applicable)	Amount of the Financing Allocated (Expressed in SDR)
(1) DLI# 5: Provincial Governments and Local Levels have adequate capacity for health emergency preparedness and response	15,100,000
TOTAL AMOUNT	15,100,000

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) on the basis of DLRs achieved prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 1,510,410 may be made on the basis of DLRs achieved prior to this date but on or after July 16, 2022; or/and
 - (b) for any DLR until and unless the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved.
2. Notwithstanding the provisions of Part B.1(b) of this Section, if any of the DLR(s) under Category (1) has not been achieved by the date by which the said DLR is set to be achieved, the Association may, by notice to the Recipient:
 - (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Financing then allocated to said Category which, in the opinion of the Association, corresponds to the extent of achievement of said scalable DLR, said lesser amount to be calculated in accordance with the formula set out in table in Schedule 4 to this Agreement;
 - (b) reallocate all or a portion of the proceeds of the Financing then allocated to said DLR to any other DLR; and/or
 - (c) cancel all or a portion of the proceeds of the Financing then allocated to said DLR.
3. The Closing Date is July 15, 2028.

Section V. Other Undertakings

The Recipient, through MoHP, shall:

- (a) ensure that the Program activities involving collection, storage, usage, and/or processing (including transfers to third parties) of Personal Data shall be done in accordance with the best international practice, and ensure legitimate, appropriate, and proportionate treatment of such data;
- (b) in the event that, during the implementation of the Program, the approval of any new legislation regarding Personal Data protection may have an impact on the activities financed by the Program, ensure that a technical analysis of said impact is conducted, and that the necessary recommendations and adjustments, are implemented, as appropriate; and
- (c) except as may otherwise be explicitly required or permitted under this Agreement, or as may be explicitly requested by the Association, in sharing any information, report or document related to the activities described in Schedule 1 to this Agreement, ensure that such information, report or document does not include Personal Data.

SCHEDULE 3

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, 2029, to and including February 15, 2061	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.

SCHEDULE 4

Disbursement-Linked Indicators, Disbursement-Linked Results and Allocated Amount(s)*

Disbursement-Linked Indicators (DLIs)	Disbursement-Linked Results (DLRs)					
	Prior Results	Results to be Achieved in FY2023-24 (Year 1)	Results to be Achieved in FY2024-25 (Year 2)	Results to be Achieved in FY2025-26 (Year 3)	Results to be Achieved in FY2026-27 (Year 4)	Results to be Achieved in FY2027-28 (Year 5)
DLI# 5: Provincial Governments and Local Levels have adequate capacity for health emergency preparedness and response	DLR 5.0: Rapid response team guidelines adopted by MoHP		DLR 5.1(a): The Selected Provinces have developed health emergency preparedness and response plans DLR 5.2(a): Functional rapid response teams established in Selected Provinces		DLR 5.1(b): 70 Selected LLs have developed health emergency preparedness and response plans DLR 5.2(b): Functional rapid response teams established by 70 Selected LLs	DLR 5.1(c): 111 (cumulative) Selected LLs have developed health emergency preparedness and response plans DLR 5.2(c): Functional rapid response teams established by 111 (cumulative) Selected LLs
Allocated Amounts (SDR)	DLR 5.0: 1,510,410 Roll-over: No Scalability: No		DLR 5.1(a): 1,506,200 753,100 for each Province that meets the target, up to a total amount of 1,506,200 Roll-over: Yes Scalability: Yes		DLR 5.1(b): 2,860,200 40,860 for each LL that meet the target, up to a total amount of 2,860,200 Roll-over: Yes Scalability: Yes	DLR 5.1(c): 1,675,260 40,860 for each additional LL that meet the target, up to a total amount of 1,675,260 Roll-over: No Scalability: Yes

			<p>DLR 5.2(a): 1,506,200</p> <p>753,100 for each Province that meets the target, up to a total amount of 1,506,200</p> <p>Roll-over: Yes Scalability: Yes</p>		<p>DLR 5.2(b): 3,810,100</p> <p>54,430 for each LL that meets the target, up to a total amount of 3,810,100</p> <p>Roll-over: Yes Scalability: Yes</p>	<p>DLR 5.2(c): 2,231,630</p> <p>54,430 for each additional LL that meets the target, up to a total amount of 2,231,630</p> <p>Roll-over: No Scalability: Yes</p>
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* The periods (Fiscal Years) in which DLRs are expected to be achieved as per this Schedule are for indicative purposes except when Roll-over is expressly indicated as “No”. Achievement of DLRs can be obtained earlier or later than said periods up and until the Closing Date; provided that if any DLR is met prior to the period in which such DLR is indicated for, the Recipient may, with prior agreement of the Association, withdraw the amount corresponding to the extent of achievement of said DLR prior to that period indicated in this Schedule.

APPENDIX

Definitions

1. “Allocated Amount” means the amount allocated to each individual DLR, or determined for each DLR pursuant to the formula detailed in the table in Schedule 4 to this Agreement, as such amount might be increased, reallocated and/or cancelled (whether partially or in its entirety) by the Association, from time to time, as the case may be, in accordance with the provisions of Section IV.B.2 of Schedule 2 to this Agreement.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the Association’s “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing,” dated February 1, 2012, and revised July 10, 2015.
3. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
4. “Conditional Grants” means the fiscal transfers made to PGs and LLs under Section 9 of the Intergovernmental Fiscal Arrangement Act and pursuant to Article 251, Clause 1(c) of the Recipient’s Constitution, which are conditional upon the respective PGs and LLs abiding by certain specified terms and conditions.
5. “Constitution” means the Recipient’s Constitution promulgated on September 20, 2015 (2072.6.3).
6. “Disbursement Linked Indicator” or “DLI” means in respect of a given Category, the indicator related to said Category as set forth in the table in Section IV.A.2 of Schedule 2, and Schedule 4 to this Agreement.
7. “Disbursement Linked Result” or “DLR” means in respect of a given Category, the result under said Category as set forth in the table in Schedule 4 to this Agreement, on the basis of the achievement of which, the amount of the Financing allocated to said result may be withdrawn in accordance with the provisions of Section IV of Schedule 2 to this Agreement.
8. “DoHS” means the Department of Health Services under the MoHP, or any successor thereto.
9. “EMR” means electronic medical record.
10. “Fiscal Year” or “FY” means the Recipient’s fiscal year, which begins on July 16 of each calendar year and ends on July 15 of the next calendar year.

11. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Program-for-Results Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
12. “HIB” means the Health Insurance Board of the government of Nepal, that aims to enable people to access quality health care services.
13. “Independent Verification Agent” means an independent institution which has been selected based on an established criteria set out in the terms of reference acceptable to the Association, and which verifies the achievement of the DLI and DLRs based on a detailed DLI verification protocol jointly endorsed by the MoHP and the Association.
14. “Intergovernmental Fiscal Arrangement Act” means the Recipient’s Intergovernmental Fiscal Arrangement Act (No. 21, dated October 13, 2017), providing the legal framework for resource allocation among the three levels of government.
15. “Local Level” or “LL” means a rural municipal executive or municipal executive, referred to in Article 214 (4) of the Constitution.
16. “MoHP” means the Recipient’s Ministry of Health and Population, or any successor thereto.
17. “MoU” means the memorandum of understanding between the MoHP and the Independent Verification Agent, setting out the terms of reference and operational modality of DLI and DLR verification.
18. “Nepal Drugs Limited” means the Nepal Aushadhi Limited, established under Recipient’s Companies Act of 2006, for production of pharmaceuticals in Nepal.
19. “Operating Guidelines” means the annual budget implementation guidelines issued by the Recipient’s federal government for the implementation of Conditional Grants by the PGs and LLs under this Program, which, *inter alia*, describe the specific obligations applicable to the PGs and LLs participating in the Program in accordance with this Agreement.
20. “Personal Data” means any information relating to an identified or identifiable individual. An identifiable individual is one who can be identified by reasonable means, directly or indirectly, by reference to an attribute or combination of attributes within the data, or combination of the data with other available information. Attributes that can be used to identify an identifiable individual include, but are not limited to, name, identification number, location data, online identifier, biometric data, facial images, metadata, and factors specific to the

physical, physiological, genetic, mental, economic, cultural, or social identity of an individual.

21. “Program Action Plan” means the Recipient’s plan dated March 31, 2023 and referred to in Section I.B of Schedule 2 to this Agreement, as may be amended from time to time with the agreement of the Association.
22. “Program Expenditures” means, for purposes of, *inter alia*, Sections 2.03 and 8.06 of the Program General Conditions, the payment for wages and salaries, capacity building, medicines and supplies, capital goods and maintenance, Conditional Grants and Program activities, made under the following budget items of the MoHP (and/or any other additional budget items for the same expenditures agreed in writing by the Association): 21111, 21112, 21121, 21122, 21131, 21132, 21123, 22511, 22512, 27213, 22213, 31123, 31161, 31134, 22522, 22529, 22611, 22612, 22311, 22313, 22314, 22315, 22411, 22412, 22413, 22111, 22112, 22211, 26332, and 26336.
23. “Program Management Unit” means the unit to be established and maintained in accordance with Section I.A.1(a) of Schedule 2 to this Agreement.
24. “Program Steering Committee” means the committee to be established and maintained in accordance with Section I.A.1(b) of Schedule 2 to this Agreement.
25. “Province” means one of the provinces of government, as described under Article 56 of the Constitution.
26. “Provincial Government” or “PG” means a provincial government referred to in Article 162 (3) read with Annex 6 of the Constitution.
27. “Selected LL” means an LL within any of the Selected Provinces.
28. “Selected Province” means either of the Recipient’s two Provinces of: Koshi and Gandaki.
29. “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.
30. “Year” means any of the Years 1 through 5 of Program implementation, as the context shall determine.
31. “Year 1” means the first year of implementation of Program activities, expected to take place from date of the Agreement to July 15, 2024.

32. “Year 2” means the second year of implementation of Program activities, expected to take place in Fiscal Year 2024-25.
33. “Year 3” means the third year of implementation of Program activities, expected to take place in Fiscal Year 2025-26.
34. “Year 4” means the fourth year of implementation of Program activities, expected to take place in Fiscal Year 2026-27.
35. “Year 5” means the fifth year of implementation of Program activities, expected to take place in Fiscal Year 2027-28.