
CREDIT NUMBER 7050-NP

Financing Agreement

(Second Finance for Growth Development Policy Financing)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7050-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 one hundred seven million eight hundred thousand Special Drawing Rights (SDR 107,800,000) (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 The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.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:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

NEPAL

By



Authorized Representative


Name: **Madhu Kumar Marasini**

Title: **Finance Secretary, Ministry of Finance**

Date: **May 4, 2022**

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: **Faris Hadad-Zervos**

Title: **Country Director for Maldives, Nepal and Sri Lanka**

Date: **May 4, 2022**

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:

1. The Nepal Rastra Bank, to strengthen the effectiveness of supervision towards a risk-based approach, has: (i) adopted a new Offsite Supervision Manual; (ii) operationalized the mandatory Supervisory Information System through which banks and financial institutions submit their regulatory returns; and (iii) endorsed a report by the Bank Supervision Department, building on the AML/CFT institutional risk profile of all Class A Banks and presenting the findings from resultant onsite supervision inspections for at least two banks identified as higher risk.
2. The Nepal Rastra Bank has approved an updated Guideline on ESRM which requires banks and financial institutions to identify, assess, manage, and report on the major climate risks to which their commercial clients are exposed.
3. The Executive Committee has approved the implementation plan for market-based financial instruments under the DRF Strategy, based on a cost-benefit analysis of financial instrument options.
4. The Council of Ministers of the Recipient has approved an amendment to the Securities Registration and Issue Regulation pertaining to mandatory listed issuers' disclosure on climate change and ESG.
5. The Beema Samiti has issued the Directive on Risk-Based Capital and Solvency Framework and the Directive on Climate-Related Risk Disclosures to strengthen its risk-based approach to assess and monitor all risks including climate related risks.
6. The Nepal Rastra Bank has amended its Foreign Investment and Foreign Loan Management Bylaws and Unified Circular to reflect an improved interest rate regime conducive to international borrowing.
7. The Nepal Rastra Bank has: (i) approved new regulations on interoperability of payment transactions; (ii) adopted the Guideline on Nepal QR Standardization; and (iii) amended Directive No. 5/078 and Directive No. 8/078 to increase accessibility to, and competitiveness of, the digital finance market.
8. The Nepal Rastra Bank has issued Directive No. 6/078 directing banks and financial institutions to deploy Corporate Social Responsibility funding for

financial literacy programs and to provide financial literacy training with targeted interventions to women towards addressing the gender gap.

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	107,800,000
TOTAL AMOUNT	107,800,000

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 Nepalese 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 June 30, 2023.

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, 2028 to and including February 1, 2060	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. “AML/CFT” means Anti-Money Laundering and Combating the Financing of Terrorism.
2. “Bank Supervision Department” means the Bank Supervision Department within the NRB, responsible for supervising commercial banks, by conducting on-site inspection and off-site surveillance.
3. “Beema Samiti” means the Beema Samiti or Insurance Regulatory Authority of Nepal, established pursuant to the Recipient’s Insurance Act of 1992, responsible for developing, regulating, and supervising insurance business of the Recipient, or any successor thereto.
4. “Class A Bank” means a bank or financial institution licensed as a Class A Bank by the Nepal Rastra Bank in accordance with Nepal’s Bank and Financial Institution Act of 2073 (2016).
5. “Directive No. 6/078” means the directive issued by the NRB, containing provisions relating to institutional governance, bearing no. 6/078.
6. “Corporate Social Responsibility” means the responsibility of banks and financial institutions to use their funds for social and/or environmental activities, in accordance with the regulations of the NRB.
7. “Directive on Climate-Related Risk Disclosures” means the directive titled “Directive on Climate Related Risks Disclosures, 2078 (2022)” approved by the Beema Samiti on January 19, 2022, in order to address the impact of climate change to the insurance sector.
8. “Directive on Risk-Based Capital and Solvency Framework” means the directive titled “Risk Based Capital and Solvency Directive, 2078 (2022)”, approved by the Beema Samiti on January 26, 2022, in order to ensure that insurers maintain a capital adequacy level commensurate with their risk profiles.
9. “Directive No. 5/078” means the directives titled “Provisions Relating to Limits and Charges for Transactions through Electronic Instruments”, dated September 14, 2021, issued by the NRB, relating to limits for transactions to be carried out through electronic instruments.
10. “Directive No. 8/078” means the directives titled “Regarding Branchless Banking and Financial Services”, effective from February 4, 2022, issued by the NRB, containing provisions relating to branchless banking for licensed banks and financial institutions.

11. “DRF Strategy” means the Disaster Risk Finance Strategy 2078 (2021), prepared by Nepal’s Ministry of Home Affairs, and approved by the Executive Committee on June 16, 2021, which provides the strategy for utilizing diverse financial instruments for liquidity against disaster and climate related shocks.
12. “ESG” means Environmental, Social and Governance.
13. “Executive Committee” means the committee established under Recipient’s Disaster Risk Reduction and Management Act of 2074 (2017) for the purpose of implementing policies and plans on disaster management.
14. “Foreign Investment and Foreign Loan Management Bylaws” means the NRB Foreign Investment and Foreign Loan Bylaws of 2078 (2021) issued by the NRB, as amended from time to time.
15. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
16. “Guideline on ESRM” means the guideline issued by the NRB in 2017, updated in August 2021, 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.
17. “Guideline on Nepal QR Standardization” means the Nepal QR Standardization Framework and Guidelines, dated February 2021, issued, and adopted by the NRB and brought into effect from March 1, 2021.
18. “Nepal Rastra Bank” or “NRB” means the central bank of the Recipient functioning pursuant to the Nepal Rastra Bank Act of 2058 (2002), as amended.
19. “Offsite Supervision Manual” means the manual adopted by the Nepal Rastra Bank, as approved on January 11, 2022, in accordance with Section 21 of Nepal’s Inspection and Supervision Byelaw 2074 (2018), in order to provide procedural guidance for offsite supervision of commercial banks.
20. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated February 3, 2022 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. "Securities Registration and Issue Regulation" means the Securities Registration and Issue Regulation of 2016, framed by the Recipient's Securities Board of Nepal in accordance with Section 116 of the Recipient's Securities Act of 2006, as approved by the government of Nepal, as amended from time to time.
22. "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.
23. "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.
24. "Supervisory Information System" means the system adopted and made operational in March 2021 by the Nepal Rastra Bank, through which banks and financial institutions are required to mandatorily submit their regulatory returns.
25. "Unified Circular" means the Unified Circular 2078 (2022) issued by the NRB.

