

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6195-NP

Financing Agreement

(First Programmatic Fiscal and Public Financial Management
Development Policy Credit)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

May 10, 2018

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, deemed by the Association to be on concessional terms, as set forth or referred to in this Agreement, in an amount equivalent to one hundred thirty-seven million three hundred thousand Special Drawing Rights (SDR 137,300,000) (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 The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.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 March 15 and September 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 including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

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 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.
- 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

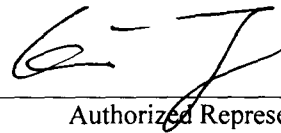
Name: Rajan Khanal

Title: Finance Secretary

Date: May 10, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Qimiao Fan

Title: Country Director

Date: May 10, 2018

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Parliament has approved the Intergovernmental Fiscal Arrangement Act.
2. The Parliament has approved the Local Government Operation Act.
3. The Parliament has approved the National Natural Resources and Fiscal Commission Act.
4. The Recipient, through its National Women Commission, has established an integrated platform for a comprehensive response system to coordinate expansion of access to services for gender-based violence prevention and response.
5. The Recipient, through its Ministry of Finance: (a) integrated all of its public financial management systems into the Public Financial Management Information System; and (b) provided access for all of its federal ministries to the PFMIS.
6. (a) The Recipient has issued guidance to the federal ministries to guide their preparation of the draft three-year MTEFs for the Fiscal Year 2019 budget cycle; and

(b) the National Natural Resource and Fiscal Commission has issued its circulars to local governments to guide their preparation of the annual budgets, to be part of the Local Government Development Plan.
7. The Recipient, through its Ministry of Finance, has implemented measures to improve its budget execution, such as: (a) the issuance of a decree requiring all new externally-funded and national priority projects to have secured project filter clearance to obtain budgetary funds; (b) the adoption of the System for Automatic Spending Authorization and Program Approval; and (c) the adoption of a system of payments by account payee only.
8. The Parliament has approved the Disaster Risk Reduction and Management Act.
9. The Recipient, through its Ministry of Finance, has established the Revenue Management Information System at the federal level.

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 | 137,300,000 |
| TOTAL AMOUNT | 137,300,000 |

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 NPR 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, 2019.

SCHEDULE 2

Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|--|--|
| On each March 15 and September 15, commencing September 15, 2024 to and including March 15, 2056 | 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. “Cabinet” means the Council of Ministers formed pursuant to Article 76 of the Recipient’s Constitution of 2015.
2. “Disaster Risk Reduction and Management Act” means the Recipient’s Disaster Risk Reduction and Management Act (No. 45, dated October 22, 2017), governing coordination and management of all activities pertaining to disaster management, disaster risk reduction, disaster recuperation and disaster response as well as monitoring and mitigation measures on climate change and global warming.
3. “Fiscal Year” 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. In particular, “Fiscal Year 2018/2019” ends in July of 2019.
4. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated July 14, 2017.
5. “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 tiers of government at the federal, state and local level.
6. “Line Ministry Budget Management Information System” means an electronic platform through which line ministries request the budget of the following Fiscal Year to the Ministry of Finance by charts of accounts.
7. “Local Government Development Plan” means the plan to be issued by the local government, setting out its respective annual budget and its spending programs at the local level.
8. “Local Government Operation Act” means the Recipient’s Local Government Operation Act (No. 26, dated October 11, 2017), governing the operation and management of local governments, setting forth their governance structure.
9. “Ministry of Finance” or “MoF” means the Ministry of Finance of the Recipient, or any successor thereto.
10. “MTEF” means the medium-term expenditure framework, a transparent planning and forward looking three-year budget formulation process within which the

Cabinet and central agencies establish credible contracts for allocating public resources to their strategic priorities while ensuring overall fiscal discipline.

11. “National Natural Resource and Fiscal Commission” means the commission formed pursuant to Article 250 of the Recipient’s Constitution of 2015.
12. “National Natural Resources and Fiscal Commission Act” means the Recipient’s National Natural Resources and Fiscal Commission Act (No. 17, dated October 13, 2017), setting forth the indicators to be incorporated in the designs of natural resources mobilization, revenue and grant sharing among the three tiers of government.
13. “National Women Commission” means the commission formed pursuant to Article 252 of the Recipient’s Constitution of 2015.
14. “NPR” means Nepalese Rupees, the currency of the Recipient.
15. “Parliament” means the Recipient’s legislature.
16. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated November 24, 2017 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.
17. “Public Financial Management Information System” or “PFMIS” means the Recipient’s data collection system specifically designed to support its planning, management, and decision making.
18. “Revenue Management Information System” means the electronic revenue data compilation digital platform to provide real time information on revenue collections.
19. “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.
20. “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.

21. "System for Automatic Spending Authorization and Program Approval" means the system to streamline the budget approval and spending approval processes, using the Line Ministry Budget Management Information System.