

Public Disclosure Authorized

# OFFICIAL DOCUMENTS

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CREDIT NUMBER 5875-NP

## Financing Agreement

(Third Financial Sector Stability Development Policy Financing)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated APRIL 11, 2017

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## FINANCING AGREEMENT

AGREEMENT dated April 11, 2017, entered into 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 (a) 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 (b) 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to seventy million six hundred thousand Special Drawing Rights (SDR 70,600,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 1 and July 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.
- 2.08. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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 4.08 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: that 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: that the event specified in Section 4.01 of this Agreement occurs.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following: 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 date of this Agreement.
- 5.03. For purposes of Section 8.05 (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 date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Recipient's Representative is the Secretary, Ministry of Finance of the Recipient.

6.02. The Recipient's Address is:

Ministry of Finance  
Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile

(977-1) 4211-164

6.03. The Association's Address is:

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

Telex:

Facsimile:

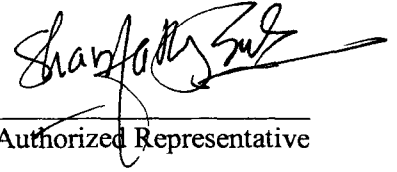
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AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL

By



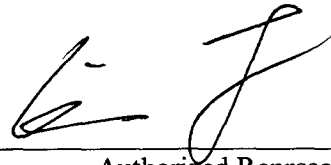
Authorized Representative

Name: Shanta Raj Subedi

Title: Finance Secretary

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Qimiao Fan

Title: Country Director

## 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 Ministry of Finance has endorsed the NBL Strategic Divestiture Plan and submitted it to the Secretariat of the Privatization Committee.
2. NRB has completed the implementation of the second phase of a diagnostic of the banking system and has approved: (a) Special Inspection Reports for 27 financial institutions; and (b) Prompt Corrective Action Programs for all financial institutions found to be undercapitalized.
3. NRB has completed a diagnostic of the impact of the Earthquake on BFIs in Earthquake-affected Districts.
4. NRB has issued a directive on the increase of minimum paid-up capital of BFIs.
5. The NRB Act Amendments Bill has been approved by Parliament.
6. The Bill on Deposit and Credit Guarantee Fund has been approved by Parliament.
7. DCGC and NRB have executed a memorandum of understanding governing cooperation and exchange of information.
8. NRB has implemented the following three actions to reduce payments system risks: (a) alignment of the operating hours of NRB's banking department with the operating hours of SWIFT; (b) implementation of online transfers of funds between NRB branches; and (c) implementation of a pre-settlement file system.
9. The Bill on Banks and Financial Institutions has been approved by Parliament.
10. The Recipient's Cabinet has approved the Asset (Money) Laundering & Prevention Regulations.

#### 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. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>
(1) Single Withdrawal Tranche	70,600,000
<b>TOTAL AMOUNT</b>	<b>70,600,000</b>

**C. Withdrawal Tranche Release Conditions**

1. 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. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association

- E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

- F. Closing Date.** The Closing Date is March 31, 2018.

**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each January 1 and July 1, commencing July 1, 2023 to and including January 1, 2055	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 3.03 (b) of the General Conditions.



## APPENDIX

### Section I. Definitions

1. “Asset (Money) Laundering & Prevention Regulations” means the regulations implementing the Recipient’s Asset (Money) Laundering & Prevention Act, 2064 (2008).
2. “BAFIA” means the Recipient’s Bank and Financial Institutions Act, 2063 (2006), as amended from time to time.
3. “BFIs” means banks and financial institutions.
4. “Bill on Banks and Financial Institutions” means the draft bill replacing the BAFIA and providing for strengthened fit and proper requirements for bank directors and executives, including all government-appointed directors and chief executive officers of state-controlled banks.
5. “Bill on the Deposit and Credit Guarantee Fund” means the draft bill providing for the establishment and operation of a deposit and credit guarantee fund for the protection of rights and interests of depositors and creditors.
6. “Cabinet” means the Council of Ministers formed pursuant to Article 76 of the Recipient’s Constitution of 2015.
7. “DCGC” means Deposit and Credit Guarantee Corporation, the corporation established pursuant to the Recipient’s Company Act 2063 (2006), and responsible for performing deposit guarantee and credit guarantee functions to protect depositors against the loss of their guaranteed deposits.
8. “Districts” means two or more administrative sub-divisions of the Recipient.
9. “Earthquake” means the earthquake which occurred on the Recipient’s territory on April 25, 2015, and its aftershocks, resulting in, among others, devastating loss of life, livelihoods, social services, and infrastructure, impacting financial institutions’ physical and financial assets, and potentially impairing their solvency and liquidity.
10. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

- (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
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- 11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
  - 12. “NBL” means the Recipient’s Nepal Bank Limited, or any successor thereto.
  - 13. “NBL Strategic Divestiture Plan” means the Recipient’s plan setting forth the details of the divestiture of the Recipient’s stake in NBL.
  - 14. “NRB” means the Recipient’s Nepal Rastra Bank, or any successor thereto.
  - 15. “NRB Act” means the Recipient’s Nepal Rastra Bank Act, 2058 (2002) providing for the establishment of Nepal Rastra Bank to carry out the functions of central bank, as amended to the date hereof.
  - 16. “NRB Act Amendments Bill” means the draft bill providing NRB with modernized tools for bank resolution.
  - 17. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 2, 2016, 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.
  - 18. “Prompt Corrective Action Programs” means the programs setting forth the prompt corrective actions, including resolution programs, set forth in Section 86 of the NRB Act.
  - 19. “Secretariat of the Privatization Committee” means the privatization unit of the Ministry of Finance which acts as secretariat of the privatization committee constituted pursuant to Section 3 of the Recipient’s Privatization Act, 2050 (1994).

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. “Special Inspection Report” means a report prepared in accordance with Section 84 of the NRB Act and describing the process and outcome of the inspection and supervision undertaken by NRB of licensed BFIs.
22. “SWIFT” means Society for Worldwide Interbank Financial Telecommunication, the limited liability cooperative company established under the laws of Belgium.

## **Section II. Modifications to the General Conditions**

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

““Eligible Expenditure” means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

““Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.