Financing Agreement

(Additional Financing for School Sector Reform Program)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 8, 2013
FINANCING AGREEMENT

AGREEMENT dated 2013, entered into between NEPAL ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, capitalized terms used in this Agreement:

(a) have the meanings ascribed to them in the General Conditions; or

(b) have the meanings ascribed to them in the Appendix to this Agreement; or

(c) with respect to capitalized terms used but not defined in either the General Conditions or this Agreement and incorporated by reference from the provisions of the Original Financing Agreement under Sections I.A and III of Schedule 2 to this Agreement, have the meanings ascribed to them in Original Financing Agreement or the Appendix to that 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 grant and a credit (collectively, "Financing") in the following amounts to assist in financing the project described in Schedule I to this Agreement ("Project"):

(a) an amount equivalent to thirty million sixty thousand Special Drawing Rights (SDR 30,060,000) ("Grant"); and

(b) an amount equivalent to thirty six million seven hundred forty thousand Special Drawing Rights (SDR 36,740,000) ("Credit").
2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 1 and November 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 3 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MOE in accordance with the provisions of Article IV of the General Conditions and the Joint Financing Arrangement; provided however that in the event of conflict between the provisions of said Joint Financing Agreement, on the one hand, and those of this Agreement and/or the General Conditions, on the other hand, the provisions of the latter shall prevail.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following:

(a) A situation has arisen which shall make it improbable that the SSR Program, or a significant part thereof, will be carried out.

(b) the Recipient has taken any action that would have the effect of materially reversing the objectives of the Program, or materially
reversing any action specified in the Attachment to Schedule 2 to this Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of any credit, loan or grant made to the Recipient for the financing of the SSR Program has been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such credit or loan has become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or maturing early was not caused by the failure of the Recipient to perform any of its obligations under such agreement; and

(B) adequate funds for the SSR Program are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE V — TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.02. 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 Secretary, Ministry of Finance.
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

Facsimile:

1-202-477-6391
AGREED at Kathmandu, Nepal, as of the day and year first above written.

NEPAL

By

Authorized Representative
Name: Shantiz Raj Subedi
Title: Finance Secretary

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
Name: Theodore Frye
Title: Country Manager, Nepal
SCHEDULE 1

Project Description

The objective of the Project is to increase access to and improve quality of school education, particularly basic education (Grades 1-8), especially for children from marginalized groups.

The Project, which is an integral part of the SSR Program, consists of the components described in the Original Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The implementation arrangements described in Schedule 2, Section I Parts A to E, and Schedule 4 to the Original Financing Agreement constitute an integral part of this Agreement and are hereby incorporated by reference herein.

2. Without limitation on the foregoing paragraph 1, the Recipient shall ensure that the Project (including Subprojects) is implemented in accordance with the provisions of the Program Implementation Guidelines.

3. The Recipient shall: (a) hire a third-party verifier with qualifications and terms of reference agreed to between the Recipient and the Association by no later than December 31 of each year, starting December 31, 2013 to undertake verification of the achievement of the indicators set out in the Attachment to this Schedule 2 and report on the progress of the Project at least once in each year of the Project implementation; and (b) provide to the Association in a timely manner all such reports.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the GAAP.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) Fiscal Year trimester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Reports not later than forty-five (45) days after the end of each Fiscal Year trimester, interim unaudited financial reports for the Project covering the Fiscal Year trimester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

1. Section III of Schedule 2 to the Original Financing Agreement shall apply to this Agreement; provided however that: (a) all goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with Procurement Guidelines (as defined in the Appendix to this Agreement); (b) all consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the Consultant Guidelines (as defined in the Appendix to this Agreement); and (c) the Procurement Plan applicable to the Project shall be such plan as defined in the Appendix to this Agreement.

2. The Recipient shall, by no later than May 31, 2013, establish a dedicated procurement unit at DOE, with terms of reference and staffing in such numbers and with such qualifications as shall be agreed to between the Recipient and the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the
amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Expenditures under AWPBs</td>
<td>36,740,000</td>
<td>30,060,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for any Fiscal Year based on the progress in the SSR Program including the indicators set out in the Attachment to Schedule 2 to this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>36,740,000</td>
<td>30,060,000</td>
<td></td>
</tr>
</tbody>
</table>

3. For the purposes of this Section:

(a) “Eligible Expenditures” means the Eligible Expenditures as defined in the General Conditions and includes development costs and recurrent costs incurred under the SSR Program acceptable to the Association; and

(b) “Relevant AWPB” means the Annual Work Plan and Budget for the Fiscal Year, as provided for in paragraph B.2 of Section I of Schedule 2 to the Original Financing Agreement incorporated by reference pursuant to Section I.A of this Schedule, provided that such plan has been endorsed by the Association.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section:

(a) no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $20,000,000 equivalent may be made for payments made prior to this date but on or after July 16, 2013, for Eligible Expenditures under
the AWPB applicable to the period between the date of this Agreement and such date; and

(b) no withdrawal shall be made for payments made for expenditures for goods, works or consultants' services supplied under a contract which the Association or any national or international agency or organization, other than the Pooling Donors, shall have financed or agreed to finance under any other credit, loan or grant.

2. Notwithstanding the foregoing,

(a) the Association shall, on or before August 31 in each year, send a notice to the Recipient informing the Recipient of: (i) the percentage of the Total Amount less the Disbursed Amount committed to be disbursed to the Recipient in the following Fiscal Year, subject to the provisions of this Part B; and (ii) the percentage of such amount which is subject to the achievement of the indicators set out in the Attachment to this Schedule 2 (the indicator-linked percentage). No withdrawal application shall be made by the Recipient before receipt of this notice from the Association;

(b) except as the Association may otherwise agree in writing, 25% of the amount notified to the Recipient by the Association pursuant to subparagraph 2(a) above as committed to be disbursed in Fiscal Year 2014/15 and each Fiscal Year thereafter shall be indicator-linked and shall be available for withdrawal by the Recipient subject to: (i) the Recipient having met in full the target for each of the indicators for the relevant Fiscal Year set out in the Attachment to this Schedule 2, in each case in a manner satisfactory to the Association; and (ii) the Association having received a satisfactory report of the third-party verifier, referred to in paragraph 3 of Section L.A of this Schedule 2, for such year. The Association may withhold the amount allocated to any target set out in the Attachment to this Schedule 2 if the Association determines that such target has not been fully achieved by its due date; and

(c) in the event that the Recipient does not meet one or more of the targets for the indicators set out in the Attachment to this Schedule 2 for any of the listed Fiscal Years, if (i) the Association is satisfied that the unmet portion of a target has been met in a subsequent Fiscal Year during Project implementation, and (ii) the target for such subsequent year has also been fully achieved, then the Association may authorize the withdrawal of such portion of the withheld amount of the Financing.

3. The Closing Date is July 15, 2016.
<table>
<thead>
<tr>
<th>Program Area</th>
<th>Indicator</th>
<th>Weight</th>
<th>Yearly Targets for IDA commitments</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Baseline</strong></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Remarks</td>
<td></td>
</tr>
<tr>
<td>**Payment of permanent and rahat teachers' salary through individual bank</td>
<td><strong>INDICATOR 1</strong>: Percentage of total permanent and rahat teachers receiving salaries through</td>
<td>30%</td>
<td></td>
<td><strong>Verification:</strong> Review of MOE records and reports; Survey of head teachers and teachers</td>
</tr>
<tr>
<td>accounts**</td>
<td>bank accounts</td>
<td></td>
<td><strong>Baseline</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Database of individual students receiving scholarships and delivery of</td>
<td><strong>INDICATOR 2 (a)</strong> Database of individual students (Grades 9-12) receiving scholarships</td>
<td>20%</td>
<td><strong>Baseline</strong></td>
<td><strong>Verification:</strong> Review of MOE records and reports; Survey of parents and students</td>
</tr>
<tr>
<td>scholarship through financial institutions**</td>
<td>established.</td>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
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<tr>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
</tr>
<tr>
<td>**Database of individual students receiving scholarships and delivery of</td>
<td><strong>INDICATOR 2(b)</strong> Scholarships delivered through financial institutions to beneficiary</td>
<td>10%</td>
<td><strong>Baseline</strong></td>
<td><strong>Verification:</strong> Survey of parents and students; Survey of parents and students</td>
</tr>
<tr>
<td>scholarship through financial institutions**</td>
<td>students in grades 11-12</td>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
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<tr>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Timely receipt of textbooks by students</strong></td>
<td><strong>INDICATOR 3</strong> Percentage of students in basic education (Grades 1-8) receiving full set</td>
<td>30%</td>
<td><strong>Baseline</strong></td>
<td><strong>Verification:</strong> Review of MOE records and reports; Survey of head teacher, teachers, parents, and students</td>
</tr>
<tr>
<td></td>
<td>of textbooks within two weeks of start of classes</td>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Completion of national assessments of student</strong></td>
<td><strong>INDICATOR 4 (a)</strong> Presentation of NASA findings in the JMC forum</td>
<td>5%</td>
<td><strong>Baseline</strong></td>
<td><strong>Verification:</strong> Review of MOE records and reports</td>
</tr>
<tr>
<td></td>
<td><strong>Targets for Year 2014/5</strong></td>
<td></td>
<td><strong>Targets for Year 2015/2016</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Remarks</strong></td>
<td></td>
<td><strong>Remarks</strong></td>
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<tr>
<td>Program Area</td>
<td>Indicator</td>
<td>Weight</td>
<td>Yearly Targets for IDA commitments</td>
<td></td>
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<tr>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
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<td>--------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>achievement (NASA) for grades 3, 5 and 8</td>
<td>INDIATOR 4 (b) Publication of final report NASA</td>
<td>3%</td>
<td>Baseline: 2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NASA Grade 8 round 1 final report is published</td>
<td></td>
<td>Targets for Year 2014/5: NASA grades 3 &amp; 5 round 1 final report published</td>
<td></td>
</tr>
<tr>
<td>Completion of national assessments of student</td>
<td>NASA grade 8 round 2 final report published</td>
<td></td>
<td>Targets for Year 2015/2016: NASA grade 8 round 2 final report published</td>
<td></td>
</tr>
<tr>
<td>achievement (NASA) rounds for grades 3, 5 and 8</td>
<td>**Verification:**Review of MOE records and reports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completion of national assessments of student</td>
<td>INDIATOR 4 (c) Action Plan for implementation of NASA report recommendations prepared</td>
<td>2%</td>
<td>Action Plan not delivered</td>
<td></td>
</tr>
<tr>
<td>achievement (NASA) rounds for grades 3, 5 and 8</td>
<td></td>
<td></td>
<td>an Action Plan for reform interventions based on NASA findings prepared in 2014</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>**Verification:**Review of MOE records and reports</td>
<td></td>
</tr>
</tbody>
</table>

Note: NASA = National Assessment System for Achievement.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 1 and November 1:</td>
<td></td>
</tr>
<tr>
<td>commencing November 1, 2023 to and including May 1, 2033</td>
<td>1%</td>
</tr>
<tr>
<td>commencing November 1, 2033 to and including May 1, 2053</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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. "Action Plan" means a time bound plan of action for implementing reform interventions based on the findings of NASA (as hereinafter defined).

2. "Annual Strategic Implementation Plan" or "ASIP" means an Annual Strategic Implementation Plan, an implementation plan to be prepared for each Fiscal Year under the SSR Program setting out key strategies and procedures for implementing the AWPB for such Fiscal Year.

3. "AWPB" and "Annual Work Plan and Budget" mean the operational plan to be prepared by the Recipient for each Fiscal Year under the SSR Program in accordance with Section I of Schedule 2 to the Original Financing Agreement, incorporated by reference pursuant to Section I.A of Schedule 2 to this Agreement.


5. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


7. "District HQ" means District Head Quarters.

8. "DOE" means the Department of Education within the Recipient's Ministry of Education, or any successor thereto.

9. "EFA Program" means the Recipient's Education for All Program referred to in the Development Credit Agreement for the Education for All Project between the Recipient and the Association dated August 12, 2004, as amended to the date of this Agreement (Credit No. 3956-NEP).

10. "Fiscal Year" or "FY" means the Recipient's fiscal year which commences on July 16 of each calendar year.


13. “Joint Financing Arrangement” means the arrangement entered into by the Pooling Donors and the Recipient, providing for common procedures on monitoring, procurement, financial management, disbursement, cooperation and exchange of information for the SSR Program.


15. “MOE” means the Recipient Ministry of Education, or any successor thereto.

16. “NASA” means national assessments of student achievement undertaken or to be undertaken by the Recipient each year during Project implementation.

17. “Original Financing Agreement” means the financing agreement for a School Sector Reform Program between the Recipient and the Association, dated November 27, 2009 as amended to the date of this Agreement (Credit No. 4652-NP, Grant No. H518-NP).

18. “Original Project” means the Project described in the Original Financing Agreement.

19. “Pooling Donors” means the Association and any other national or international agencies, or organization which may join the Joint Financing Agreement in accordance with its terms, in order to pool their funds for the financing of the SSR Program.


21. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April, 2013 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

22. “Program Implementation Guidelines” means the Program Implementation Guidelines prepared in 2007 for the EFA Program, which shall also be used for the SSR Program, as revised through 2011 setting out, inter alia, details of principles, procedures, criteria, guidelines and timetables required for the implementation of the SSR Program, including the administrative, operational (including Subprojects criteria, terms and conditions), procurement, financial management, monitoring and evaluation, and project and financial reporting arrangements, and including the criteria for the selection of Subprojects and the
mandatory terms and conditions of Subgrant Agreements as the same may be amended from time to time with the agreement of the Association.

23. "SMC" means School Management Committee.