Financing Agreement

(Bridges Improvement and Maintenance Program)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 13, 2012
FINANCING AGREEMENT

AGREEMENT dated July 13, 2012, entered into 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) 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 thirty eight million and seven hundred thousand Special Drawing Rights (SDR 38,700,000) (variously, “Credit” or “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 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 Dollars.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the objective of the Program. To this end, the Recipient shall carry out the Program through DOR under MOPPWTM in accordance with the provisions of Article IV of the General Conditions.

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 Program is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following: namely that, the Program has been modified or suspended so as to affect materially and adversely the ability of the Recipient to achieve the objective of the Program.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Recipient, through MOF, has created separate budget heads which will provide for the expenditures under the Program.

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.

6.02. The Recipient’s Address is:
6.03. The Association’s Address is:

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

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

Washington, D.C.

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

NEPAL

By
Authorized Representative

Name: L.S. Chhimire
Title: Joint Secretary

INTERNATIONAL DEVELOPMENT ASSOCIATION

By
Authorized Representative

Name: Bigyan Budhan
Title: Acting Country Manager
The objective of the Program is to provide safe, reliable and cost effective bridges on the Recipient’s Strategic Roads Network.

The Program is a part of DOR’s overall road and bridge infrastructure program set forth in the Recipient’s Bridge Policy and Strategy, consisting of the following activities related to the bridges described in the MOPPWTM’s document No. 068/069/74 (dated May 15, 2012): planning, technical design and quality control of bridge construction and maintenance; major and minor maintenance of existing bridges; construction of new bridges; and related capacity building and operating support activities, including, but not limited to, monitoring and evaluation, collection of bridge condition data, auditing, verification of DLRs, and training.
SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

1. Without limitation on the provisions of Article IV of the General Conditions, the Recipient shall carry out the Program, or cause the Program to be carried out, 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 or 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.

B. Anti-Corruption

The Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Program Institutional and Implementation Arrangements

Program Institutions

1. Without limitation on the generality of Part A of this Section I, the Recipient shall maintain the offices, units, and branches within or under DOR and/or under other relevant ministries, each assigned with technical, social and environmental safeguards, fiduciary and other Program related responsibilities for implementing the Program, all with powers, functions, capacity, staffing, and resources appropriate to fulfill their respective functions under the Program.

Additional Program Implementation Arrangements

2. Without limitation on the generality of Part A of this Section I, the Recipient shall carry out the Action Plan in accordance with the schedule set out in the said Action Plan in a manner satisfactory to the Association.
Section II. Excluded Activities

The Recipient shall ensure that the Program shall include no activities which:
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 involve procurement of: (1) works, estimated to cost $50 million
equivalent or more per contract; (2) goods, estimated to cost $30 million
equivalent or more per contract; (3) non-consulting services, estimated to cost
$20 million equivalent or more per contract; and (4) consultants’ services,
estimated to cost $15 million equivalent or more per contract.

Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

1. The Recipient shall monitor and evaluate the progress of the Program and
prepare Program Reports in accordance with the provisions of Section 4.08 of the
General Conditions. Each Program Report shall cover the period of one calendar
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.

2. Notwithstanding the foregoing, the Recipient shall through NPC with support of
an independent consulting firm or an independent third party, all with terms of
reference and qualifications acceptable to the Association, undertake verification
process for the fulfillment of DLRs set out in the table in paragraph A.2
Section IV of Schedule 2 to this Agreement and provide corresponding
verification reports to the Association in connection with each withdrawal
application submitted to the Association.

B. Program Financial Audits

Without limitation on the generality of Section I.A of this Schedule 2 and Section
4.09 of the General Conditions, the Recipient shall have the 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 IV. Withdrawal of Financing Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Financing: (a) in accordance
with the provisions of Article II of the General Conditions, this Section, and such
additional instructions as t'he Association may specify from time to time by
notice to the Recipient; and (b) 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; in order to finance the Program Expenditures.

2. The following table specifies: (a) each category ("Category") setting forth a
particular DLI; (b) each DLR to be achieved on the basis of said DLI; and (c) the
amount of the Financing allocated to said DLR, which may be withdrawn upon
achievement of said DLR (up to a specified aggregate amount), subject to the
provisions of Part B of this Section:
<table>
<thead>
<tr>
<th>Disbursement Linked Indicator</th>
<th>Disbursement Linked Result (units)</th>
<th>Disbursement Linked Result (amounts expressed in Dollars/unit)</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) DLI #1: Number of meters of bridge for which major repairs have been completed under the Program</td>
<td>Each meter</td>
<td>$1,751 per meter</td>
<td>19,360,000</td>
</tr>
<tr>
<td>(2) DLI #2: Number of meters for which minor repairs have been completed under the Program</td>
<td>Each meter</td>
<td>$857 per meter</td>
<td>1,930,000</td>
</tr>
<tr>
<td>(3) DLI #3: Number of meters of new bridges constructed or improved under the Program</td>
<td>Each meter</td>
<td>$3,000 per meter</td>
<td>11,620,000</td>
</tr>
<tr>
<td>(4) DLI #4: Percentage of bridge works contracts under the Program completed based on schedules of said contracts (over a baseline of 10% of bridge works contracts under the Program completed on contract schedule for the first year Program implementation)</td>
<td>Each 1%</td>
<td>$75,000 for each 1%</td>
<td>1,930,000</td>
</tr>
<tr>
<td>(5) DLI #5: (a) Number of regional/divisional offices of DOR that have fully adopted and operationalized a suitable bridge asset management system (BMS)</td>
<td>Each office</td>
<td>$40,000 for each office upon achievement of DLR #5(a)</td>
<td>1,930,000</td>
</tr>
</tbody>
</table>
(b) Number of percent of bridges under the Program that DOR has undertaken a condition survey and has updated its BMS accordingly

| Each 1% | $30,000 for each percentage upon achievement of DLR# 5(b) |

(6) DLI #6:

(a) Increase in DOR’s institutional effectiveness in bridge asset management during the first year of Program implementation

| (a) Adoption and implementation by DOR of an appropriate grievance handling mechanism to track and address complaints related to procurement of goods, works and services required for management of its bridge assets; and public disclosure of a detailed report on the status of resolution of said complaints and actions taken in respect of allegations of fraud and corruption or of social and environmental issues raised under said complaints. | $1,000,000 upon achievement of DLR #6(a), and 1,930,000 |

(b) Continued institutional effectiveness of DOR in bridge asset management during each subsequent year of Program implementation

| (b) Continued implementation by DOR of the grievance handling mechanism established under DLR #(6)(a); and public disclosure of a detailed report on the status of resolution of complaints filed or outstanding during the year concerned and actions taken in respect of allegations of fraud and corruption or of social and environmental issues raised under said complaints. | $500,000 upon achievement in a given year of DLR #6(b) |

**TOTAL AMOUNT**

| 38,700,000 |
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) for the proceeds of the Financing prior to the date of this Agreement; and

   (b) for any DLR referred to in the table in Part A.2 of this Section until and unless the Association is satisfied, based on evidence satisfactory to the Association provided pursuant to the provisions of Part A.2 of Section III of Schedule 2, that said DLR has been achieved.

2. Notwithstanding the provisions of Part B.1(b) of this Section, the Recipient may withdraw: (i) an amount not to exceed the equivalent of $15,000,000 as an advance; provided, however, if any DLR set forth in the table in Part A.2 of this Section, in the opinion of the Association is not achieved (or only partially achieved), by the Closing Date, the Recipient shall refund such advance (or portion of such advance as determined by the Association) to the Association promptly upon notice thereof by the Association. Except as otherwise agreed with the Recipient, the Association shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Association shall specify by notice to the Recipient.

3. Notwithstanding the provisions of Part B.1(b) of this Section, if the Association is not satisfied that any DLR set forth in the table in Part A.2 of this Section has been achieved, or if the Association determines that any DLR set forth in Categories (1) to (5) has been only partially achieved, the Association may at any time, by notice to the Recipient, decide to: (a) reallocate all or a portion of the unwithdrawn proceeds of the Financing then allocated to said DLR to any other DLR; or (b) cancel all or a portion of the unwithdrawn proceeds of the Financing then allocated to said DLR.

4. The Closing Date is July 15, 2017.

5. Notwithstanding the foregoing provisions of this Section IV, if the Association establishes after the Closing Date that the Withdrawn Financing Balance exceeds the total amount of Program Expenditures paid by the Recipient, exclusive of any such expenditures financed by any other financier or by the Association or the Association under any other credit or grant, the Recipient shall, promptly upon notice from the Association, refund to the Association such excess amount of the Withdrawn Financing Balance. The Association shall cancel the refunded amount of the Withdrawn Financing Balance.
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 June 15 and December 15:</td>
<td></td>
</tr>
<tr>
<td>Commencing December 15, 2022 to and including June 15, 2032</td>
<td>1%</td>
</tr>
<tr>
<td>Commencing December 15, 2032 to and including June 15, 2052</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 the Recipient’s plan dated May 23, 2012 and referred to in Part C.2 of Section I of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the Association.


3. “Bridge Policy and Strategy” means the Recipient’s bridge policy and strategy of 2004, which sets out the overall framework and vision for the bridge infrastructure program in the Recipient’s territory.

4. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

5. “Disbursement Linked Indicator” or “DLI” means an indicator set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement on the basis of which a DLR is to be measured and “Disbursement Linked Indicators” or “DLRs” means, collectively, more than one, or all said indicators (as the context may require).

6. “Disbursement Linked Result” or “DLR” means a result set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, as further elaborated in Part B.1(b) of Section IV of Schedule 2 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 said Section; and “Disbursement Linked Results” or “DLRs” means, collectively, more than one, or all said results.

7. “DOR” means the Recipient’s Department of Roads under MOPPWIM (as defined hereunder), or any successor thereto.

8. “Fiscal Year” or “FY” means the twelve (12) month period corresponding to any of the Recipient’s fiscal years, which period commences and ends in mid-July of each calendar year.

9. “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.

10. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.
11. "MOPPWTM" means the Recipient’s Ministry of Physical Planning, Works and Transport Management, or any successor thereto.

12. "NPC" means the Recipient’s National Planning Commission, or any successor thereto.

13. “Program Fiduciary and Environmental and Social Systems” means the Recipient’s systems for the Program referred to in Section I.A of Schedule 2 to this Agreement.

14. “Strategic Roads Network” means the Recipient’s roads network comprising national highways, feeder roads, other roads of national importance, and their associated bridges.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Wherever used throughout the General Conditions, the term “the Project” is modified to read “the Program”, the term “Project Report” is modified to read “Program Report”; and the term “Eligible Expenditures” is modified to read “Program Expenditures”.

2. In the Table of Contents, the references to Sections, Section names and Section numbers shall be modified to reflect the substantive amendments set out below.

3. Section 2.02, Special Commitment by the Association, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

4. In Section 2.02 (originally numbered as Section 2.03), the heading “Applications for Withdrawal or for Special Commitment” shall be replaced with “Applications for Withdrawal”, and the phrase “or to request the Association to enter into a Special Commitment” shall be deleted.

5. The section originally numbered as Section 2.05, Designated Accounts is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

6. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), Eligible Expenditures (renamed “Program Expenditures” in accordance with paragraph 1 of this Section II), is modified to read: “(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Financing in accordance with the provisions of the Legal Agreements;”.
7. The last sentence of Section 2.04 (originally numbered as Section 2.06), Financing Taxes, is modified to read: “To that end, if the Association at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Association may, by notice to the Recipient, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Financing specified in the Financing Agreement, as required to ensure consistency with such policy of the Association.”

8. Section 2.06 (originally numbered as Section 2.08), Reallocation, is modified to read: “Notwithstanding any allocation of an amount of the Financing to a withdrawal category under the Financing Agreement, the Association may, by notice to the Recipient, reallocate any other amount of the Financing to such category if the Association reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.

9. Section 6.01, Cancellation by the Recipient, is modified to read: “The Recipient may, by notice to the Association, cancel any amount of the Unwithdrawn Financing Balance.”

10. Paragraph (d) of Section 6.03, Cancellation by the Association, is deleted, and subsequent paragraphs are relettered accordingly.

11. Section 6.04, Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Association, is deleted in its entirety, and subsequent Sections in Article VI and references to such Sections are renumbered accordingly.

12. In the Appendix, Definitions, all references to Section numbers are modified, as necessary, to reflect the modifications set forth above. In addition, paragraph 50 ("Special Commitment") is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.