Financing Agreement

(Additional Financing For Health Sector Program)

between

NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 26, 2008
FINANCING AGREEMENT

AGREEMENT dated August 26, 2008, 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, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, in the Appendix to this Agreement, or in the Original Financing Agreement (as defined 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 grant in an amount equivalent to thirty-one million three hundred thousand Special Drawing Rights (SDR 31,300,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

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 Payment Dates are January 15 and July 15 in each year.

2.05. 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 the Ministry of Health and Population (MOHP) 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 Project is carried out in accordance with the provisions of the Joint Financing Arrangement, the Procurement Plan, the Implementation Plan, the Health Care Waste Management Plan, the Vulnerable Community Development Plan, and Schedule 2 to this Agreement.

3.03. The Recipient shall ensure that the annual budget allocated to MOHP is not less than seven percent (7%) of the total of the Recipient’s national budget for each Fiscal Year.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

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

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

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

(A) the right of the Recipient to withdraw the proceeds of any grant or credit made to the Recipient for the financing of the Health Sector 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 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 prematuring was not caused by the failure of the Recipient to perform any of its obligations under such agreement; and

(B) adequate funds for the Health Sector 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 the 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

    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 /s/ Rameshore Khanal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Susan Goldmark

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project, which is an integral part of the Health Sector Program, is to expand access to, and increase the use of, essential health care services, especially by underserved populations.

The Project consists of the Original Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Overall Project Implementation and Coordination

The provisions of Paragraph 1 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, mutatis mutandis.

B. Annual Work Plan and Budget (AWPB)

The provisions of Paragraphs 2 and 3 of Schedule 4 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, mutatis mutandis.

C. Anti-Corruption

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

D. Performance Audit

The Recipient shall: (i) by June 30, 2009, submit to the Association terms of reference, satisfactory to the Association, for a performance audit of the health sector program implementation; (ii) arrange for the Recipient’s Office of the Auditor General to carry out such performance audit in accordance with such terms of reference and with a timetable satisfactory to the Association; and (iii) thereafter implement the recommendations resulting from such performance audit in a manner and with a timetable satisfactory to the Association.

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 Report 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

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. 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 requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. National Competitive Bidding. Except as otherwise provided in paragraph 3 below, goods and works estimated to cost less than $500,000 equivalent per
contract may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of the Public Procurement Act (and regulations made thereunder), subject to the following:

(i) Only the bidding documents approved by the Association shall be used.

(ii) No preference shall be given to any bidder.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)  Shopping</td>
</tr>
<tr>
<td>(b)  Direct Contracting</td>
</tr>
<tr>
<td>(c)  Community Participation procedures acceptable to the Association</td>
</tr>
</tbody>
</table>

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection in accordance with the provisions of the Public Procurement Act (and regulations made thereunder) and using only the request for proposal (RFP) documents approved by the Association.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)  Quality-Based Selection</td>
</tr>
<tr>
<td>(b)  Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c)  Least-Cost Selection</td>
</tr>
</tbody>
</table>
(d) Selection Based on Consultants’ Qualifications

(e) Single-Source Selection

(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

(g) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and works estimated to cost the equivalent of $500,000 or more; (b) each contract for consultants’ services provided by a firm and estimated to cost the equivalent of $250,000 or more; and (c) each contract for consultants’ services provided by individuals and estimated to cost the equivalent of $50,000 or more.

2. All other contracts shall be subject to Post Review by 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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (Expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (Inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Expenditures under each AWPB</td>
<td>31,300,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each Fiscal Year from time to time</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>31,300,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3. For the purposes of this Section, the term “Eligible Expenditures” means the Eligible Expenditures as defined in the General Conditions and includes all expenditures for goods, works and consultants’ services provided under the Health Sector Program, and all recurrent costs incurred under the Health Sector Program.

### B. Withdrawal Conditions; Withdrawal Period

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

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 6,260,000 equivalent may be made for payments made prior to this date but on or after July 16, 2008, for Eligible Expenditures;

   (b) for payments made for Eligible Expenditures under any AWPB until the annual allocation and disbursement targets for such AWPB shall have been agreed with the Association during annual reviews; and

   (c) for payments made for expenditures for goods, works or consultants’ services supplied under a contract which the Association or any national or international financing institution or agency, other than the Pooling Donors, shall have financed or agreed to finance under any other credit, loan or grant.

2. The Closing Date is July 15, 2010.
APPENDIX

Definitions


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


4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).


6. “Original Financing Agreement” means the development financing agreement for the Health Sector Program between the Recipient and the Association, dated November 29, 2004, as amended to the date of this Agreement (Credit No. 3980-NEP; Grant No. H125-NEP).

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

8. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.

9. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 26, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
