
**CREDIT NUMBER 7391-BT (PORTION A OF CONCESSIONAL CREDIT)
CREDIT NUMBER 7392-BT (PORTION B OF CONCESSIONAL CREDIT)**

Financing Agreement

(Bhutan Second Green and Resilient Growth Development Policy Financing)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

**CREDIT NUMBER 7391-BT (PORTION A OF CONCESSIONAL CREDIT)
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FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between KINGDOM OF BHUTAN (“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, in two portions, which is deemed as Concessional Financing for purposes of the General Conditions (collectively, “Credit” and “Financing”), in the following amount:
 - (a) a first portion of the credit in the amount equivalent to twenty-eight million seven hundred thousand Special Drawing Rights (SDR 28,700,000) (“Portion A”); and
 - (b) a second portion of the credit in the amount equivalent to nine million one hundred thousand Special Drawing Rights (SDR 9,100,000) (“Portion B”).

ARTICLE III — TERMS FOR PORTION A OF CONCESSIONAL FINANCING

- 3.01. The Maximum Commitment Charge Rate for Portion A of the Credit is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance of the Portion A of the Credit.

- 3.02. The Service Charge on Portion A of the Credit is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance of Portion A of the Credit.
- 3.03. The Payment Dates of Portion A of the Credit are January 15 and July 15 in each year.
- 3.04. The principal amount of Portion A of the Credit shall be repaid in accordance with the repayment schedule set forth in Section A of Schedule 2 to this Agreement.
- 3.05. The Payment Currency of Portion A of the Credit is Dollar.
- 3.06. 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 IV — TERMS FOR PORTION B OF CONCESSIONAL FINANCING

- 4.01. The Maximum Commitment Charge Rate for Portion B of the Credit is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance of the Portion B of the Credit.
- 4.02. The principal amount of Portion B of the Credit shall be repaid in accordance with the repayment schedule set forth in Section B of Schedule 2 to this Agreement.
- 4.03. The Payment Dates of Portion B of the Credit are January 15 and July 15 in each year.
- 4.04. The Payment Currency of Portion B of the Credit is Dollar.
- 4.05. 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 III as the Association may, from time to time, reasonably request.

ARTICLE V — PROGRAM

- 5.01. 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.

ARTICLE VI — REMEDIES OF THE ASSOCIATION

- 6.01. 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 VII — EFFECTIVENESS; TERMINATION

- 7.01. 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.
- 7.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 7.03. 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 VIII — REPRESENTATIVE; ADDRESSES

- 8.01. The Recipient's Representative is its Ministry of Finance.
- 8.02. For purposes of Section 11.01 of the General Conditions:
 - (a) the Recipient's address is:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan; and
 - (b) the Recipient's Electronic Address is:

Facsimile:
00975-2-323154

8.03. 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:

Facsimile:

1-202-477-6391

AGREED as of the Signature Date.

KINGDOM OF BHUTAN

By



Authorized Representative

Name: Lyonpo Namgay Tshering

Title: Minister

Date: 22-Aug-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Abdoulaye Seck

Title: Country Director

Date: 22-Aug-2023

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Pillar 1: Strengthen resilient and private sector-led growth through fiscal sustainability and enhanced access to finance and markets

1. To foster international commercial borrowing, the Ministry of Finance has approved the 2023 External Commercial Borrowing Guidelines.
2. To strengthen risk assessment and monitoring of public debt and SOE oversight, the Ministry of Finance has mandated: (a) the annual publication of the SOE report, which includes all SOEs under the Ministry of Finance and Druk Holding and Investments; and (b) the inclusion of guaranteed and nonguaranteed debt of non-financial SOEs under Druk Holding and Investments in the Debt Sustainability Analysis.
3. To support the digital economy and e-trade, the RMA has amended the 2018 Payment and Settlement Systems Rules and Regulations.
4. To streamline customs procedures and facilitate cross-border trade, the Ministry of Finance has approved the 2023 Customs Rules and Regulations: Revised Edition.

Pillar 2: Foster green growth focused on renewable natural resources

5. To increase the economic benefits of agri-food production and enhance the security and sustainability of the food and nutrition system, the Cabinet has approved the National Food and Nutrition Security Policy.
6. To increase the country's attractiveness for biotechnology development and investment, while strengthening biodiversity conservation and benefit sharing from genetic resources: (i) the Parliament has adopted the Biodiversity Act; and (ii) the competent national authority has approved the Biodiversity Rules and Regulations.
7. To monetize emission offsets from hydropower and other renewable natural resources, the National Environmental Commission has adopted rules for Article 6 of the Paris Agreement, which includes the framework for the national monitoring, reporting and verification (MRV) system and the emissions reduction credit registry.

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	Portion A of the Amount of the Financing Allocated (expressed in SDR)	Portion B of the Amount of the Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	28,700,000	9,100,000
TOTAL AMOUNT	28,700,000	9,100,000

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.

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:
 - (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following dedicated account on terms and conditions satisfactory to the Association: a dedicated account in USD (“Foreign Currency Dedicated Account”); and
 - (b) all withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Dedicated Account. Upon each deposit of an amount of the Financing into the Foreign Currency Dedicated Account, the Recipient shall deposit an equivalent amount into the local currency Government Budget Fund Account.
2. 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 Foreign Currency Dedicated Account; (b) the details of the account to which the BTN 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 Foreign Currency Dedicated Account.

E. Audit.

The Recipient shall:

1. have the account referred to in Section 2.03(a) of the General Conditions audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case, not later than six (6) months after the end of the Recipient's fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available immediately and in a manner acceptable to the Association; and
3. furnish to the Association such other information concerning the account referred to in Section 2.03(a) of the General Conditions and its audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is June 30, 2024.

SCHEDULE 2

Repayment Schedule

A. Repayment Schedule for Portion A of the Credit

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing January 15, 2034, to and including July 15, 2043	1%
commencing January 15, 2044, to and including July 15, 2063	2%

* 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.

B. Repayment Schedule for Portion B of the Credit

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing January 15, 2030, to and including January 15, 2035_____	8.33334%
On July 15, 2035	8.33326%

* 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. “2018 Payment and Settlement Systems Rules and Regulations” means the Recipient’s rules and regulations, effective as of February 1, 2018, as amended on March 30, 2023, regulating payment and settlement systems.
2. “2023 Customs Rules and Regulations” means the Recipient’s rules and regulations, as revised on March 31, 2023, regulating customs.
3. “2023 External Commercial Borrowing Guidelines” means the Recipient’s guidelines for external and commercial borrowing issued through the Ministry of Finance Notification No. MoF/DMDf-ICGD/2023/32/2060 dated March 29, 2023.
4. “Article 6 of the Paris Agreement” means the article governing carbon markets, which allows countries to voluntarily cooperate with each other to achieve emission reduction targets, approved in the 2021 United Nations Climate Change Conference (COP26) in Glasgow.
5. “Biodiversity Act” means the Recipient’s biodiversity act, effective as of July 15, 2022.
6. “Biodiversity Rules and Regulations” means the Recipient’s biodiversity rules and regulations, effective as of February 16, 2023.
7. “BTN” means Bhutanese Ngultrum.
8. “Cabinet” means the Recipient’s council of ministers, as set forth in the Recipient’s constitution, or any successor thereto.
9. “Competent National Authority” means the Recipient’s authority established and operational pursuant to Article 13 of the Biodiversity Act, or any successor thereto.
10. “Debt Sustainability Analysis” means the analysis prepared and published by the Ministry of Finance to assess the sustainability of public debt.
11. “Druk Holding and Investments” means the Recipient’s holding company, established pursuant to the Recipient’s 2007 Royal Charter, or any successor thereto.
12. “Foreign Currency Dedicated Account” means the amount referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.

13. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
14. “Government Budget Fund Account” means an account denominated in BTN, held at the Bank of Bhutan and that is part of the consolidated fund account of the Royal Government of Bhutan.
15. “Ministry of Finance” means the Recipient’s ministry responsible for finance, or any successor thereto.
16. “National Environmental Commission” means the Recipient’s commission, established pursuant to the Recipient’s 2007 National Environment Protection Act and responsible for the decision-making and coordination of all matters relating to the protection, conservation and improvement of the natural environment, or any successor thereto.
17. “National Food and Nutrition Security Policy” means the Recipient’s national food and nutrition security policy approved on March 29, 2023.
18. “Paris Agreement” means the international treaty on climate change adopted by its parties in 2015 at the United Nations Climate Change Conference (COP21).
19. “Parliament” means the legislative branch of the Recipient.
20. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated June 29, 2023 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.
21. “RMA” or “Royal Monetary Authority” means the Recipient’s central bank, or any successor thereto.
22. “Royal Government of Bhutan” means the executive branch of the Recipient.
23. “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.
24. “Single Withdrawal Tranche” means the amount of the Financing under Portion A and Portion B of the Credit 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.

25. “SOE” means state-owned enterprise, and “SOEs” means, collectively, all such enterprises.