Financing Agreement

(Second Development Policy Credit)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 13, 2012
FINANCING AGREEMENT

AGREEMENT dated , 2012, entered into 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: (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 twenty-three million nine hundred thousand Special Drawing Rights (SDR 23,900,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are April 1 and October 1 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(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 IV — REMEDIES OF THE ASSOCIATION

4.01. 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.

4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event shall have been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. 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.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister of Finance.

6.02. The Recipient’s Address is:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan

Facsimile:
00975-2-323154

6.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.
AGREED at Tokyo, Japan, as of the day and year first above written.

KINGDOM OF BHUTAN

By

Authorized Representative

Name: Jigme Wangdi Norbu
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Isabel Cooper
Title: Vice President
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. To improve government efficiency and effectiveness, the Recipient has:
   
   (a) through the AASBB, and pursuant to pertinent authorization granted by MoF, through Executive Order ASBB/01/2011-2012/100 dated February 16, 2012, adopted, through Circular AASBB/01/2011-2012/130 dated April 6, 2012, phase I of the Bhutanese Accounting Standards and established appropriate criteria for its ensuing implementation by Bhutanese companies;
   
   (b) enacted, through its legislative branch, the Anti-Corruption Act of Bhutan 2011 in accordance with accepted international standards and caused the Anti-Corruption Commission to issue the Assets Declaration Rules on the basis thereof;
   
   (c) through the PPPD, in furtherance of increased transparency in public procurement: (i) issued Procurement Guidelines; (ii) strengthened the PPPD by expanding its human resource base with the addition of competent staff; and (iii) put in place a suitable PPPD website;
   
   (d) amended, through Notification MoF/PPPD-08/2010/2011/646 dated June 15, 2012, the Procurement Rules and Regulations 2009 to include provisions allowing: (i) requirements to publish contract awards within fifteen (15) days of the date on which the award was made; and (ii) revisions to the Recipient’s standard bidding documents for goods and works; and
   
   (e) established through Notification MoF/PPPD-08/2010/2011/467 dated June 15, 2012, an independent review body for procurement grievances.
   
2. To promote private sector development and employment generation, the Recipient has:

   (a) adopted, through the Minister of Economic Affairs, Foreign Direct Investment Rules and Regulations 2012; and
(b) issued, through the Minister of Labor and Human Resources, suitable
(i) Regulations on Occupational Health, Safety and Welfare for the
Construction Industry, and (ii) Regulations on Occupational Health,
Safety and Welfare applicable to all other sectors of the Recipient’s
economy.

3. To expand access to infrastructure in a sustainable manner, the Recipient has:

   (a) following endorsement by its Cabinet, caused a Road Bill to be
       submitted to Parliament for approval;

   (b) following endorsement by its Cabinet, caused a Disaster Management
       Bill to be submitted to Parliament for approval; and

   (c) endorsed through the Minister of Works and Human Settlement, the
       Thromde Finance Policy.

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

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>23,900,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>23,900,000</td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Condition.** 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:

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(a) 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

(b) 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 July 31, 2013.
## SCHEDULE 2

### 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 April 1 and October 1:</td>
<td></td>
</tr>
<tr>
<td>commencing April 1, 2018 to and including October 1, 2027</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing April 1, 2028 to and including October 1, 2037</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid.
APPENDIX

Section I. Definitions

1. “AASBB” means the Accounting and Auditing Standard Board of Bhutan, established under MoF’s Office order MOF/DPA/AASBB9619 of May 25, 2010, or any successor thereto.


3. “Anti-Corruption Commission” means the Recipient’s Anti-Corruption Commission established pursuant to Article 27 of the Constitution of the Kingdom of Bhutan, or any successor thereto.

4. “Assets Declaration Rules” means the rules issued by the Anti-Corruption Commission to provide for the effective and efficient administration of assets declarations.

5. “Bhutanese Accounting Standards” means those accounting standards modeled, on international financial reporting standards issued by AASBB, to be implemented by companies incorporated under the Companies Act of the Kingdom of Bhutan 2000.

6. “Cabinet” means the Recipient’s council of ministers, making up its executive branch, or part thereof, as further set forth in the Recipient’s constitution.


9. “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:

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

(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;
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

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.


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.


13. “MoF” means the Recipient’s Ministry of Finance, or any successor thereto.

14. “Minister of Economic Affairs” means the Recipient’s Minister of Economic Affairs, or any successor thereto.

15. “Minister of Labor and Human Resources” means the Recipient’s Minister of Labor and Human Resources, or any successor thereto.

16. “Minister of Works and Human Settlement” means the Recipient’s Minister of Works and Human Settlement, or any successor thereto.

17. “Parliament” means the Recipient’s legislature.

18. “PPPD” means the Recipient’s Public Procurement Policy Division under the MoF’s Department of National Properties, or any successor thereto.


21. "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 August 22, 2012, 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.

22. “Regulation on Occupational Health and Safety for the Construction Industry” means the regulation prescribing the requirements that must be met by all workplaces engaged in construction industry within the coverage of the Labour and Employment Act 2007.

23. “Regulation on Occupational Health, Safety and Welfare” means the set of regulations setting out occupational health, safety and welfare requirements that employers, other than those engaged in the construction industry, shall meet under Labour and Employment Act 2007.

24. “Road Bill” means the Recipient’s draft road legislation.

25. “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.


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

The modifications to the General Conditions are 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 remaining Sections in Article II are renumbered accordingly.

3. “Section 3.02. Service Charge and Interest Charge

   (a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on
which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) **Interest Charge.** The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. 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.

5. 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.

6. 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 (2) years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. 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 (6) 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.”

8. 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 “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(d) A new term called “Interest Charge” is added to read as follows:

“‘Interest Charge’ means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

(e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(f) 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”.

(g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02(a).