Financing Agreement

(Second Rural Access Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 23, 2007
FINANCING AGREEMENT

AGREEMENT dated April 23, 2007, between KINGDOM OF BHUTAN ("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 the 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 grant in an amount equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000) ("Grant") 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 March 1 and October 1 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 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 Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

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

4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of this Agreement shall terminate is 15 years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is Minister of Finance.

5.02. The Recipient’s Address is:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan

Cable address: Telex: Facsimile:
MINISTRY OF FINANCE 890-201 009752323154
THIMPHU, BHUTAN

5.03. The Association’s Address is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)
AGREED at District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF BHUTAN

By / s/ Daw Penjo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By / s / Alastair J. McKechnie

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is for residents of beneficiary Dzongkhags to utilize improved rural transport infrastructure and services.

The Project consists of the following parts:

Part 1: Road Construction, Rehabilitation and Maintenance

(a) Carrying out a program of construction and rehabilitation of about 90 km of feeder roads; (b) piloting low-cost sealing of feeder roads and performance-based maintenance; and (c) constructing and upgrading approximately 8 bridges.

Part 2: Institutional Capacity Strengthening

Strengthening the institutional capacity of DOR through the provision of: (a) human resource development and training; (b) performance-based maintenance mechanisms and piloting assistance; (c) project implementation support for the PCU and PMUs; and d) socio-economic impact monitoring.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Project Coordinating Unit and Project Management Units

1. The Recipient shall maintain the existing PCU within DOR with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a Senior Executive Engineer as Project Coordinator; (ii) an Assistant Project Coordinator; (iii) two Junior Engineers; (iv) an Environmental Coordinator; and (v) a full-time Accounts Officer.

2. The Recipient shall establish by June 30, 2008, and thereafter maintain in each Project site a PMU with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a Project Manager (Executive Engineer or Senior Assistant Executive Engineer level); and (ii) a Junior Engineer.


The Recipient shall: (i) implement the Project in accordance with the provisions of the EMF, EAs, EMPs, SDRR and SAF and in a manner satisfactory to the Association; and (ii) not revise, amend, or abrogate the EMF, EAs, EMPs, SDRR or the SAF unless in a manner satisfactory to the Association.

C. Mid-Term Review

1. (a) The report which the Recipient shall furnish to the Association, on or about December 31, 2009, in accordance with the provisions of Section 4.08 of the General Conditions (for the purposes of this Section “the Mid-Term Review Report”), shall: (i) integrate the results of the monitoring and evaluation activities performed pursuant to Paragraph A.1 of Section II, on the progress achieved since commencement of Project implementation in carrying out of the Project; and (ii) set forth the measures recommended to ensure satisfactory Project implementation and achievement of the Project objectives for the remainder of Project implementation; and

(b) the Recipient shall review with the Association, by March 31, 2010, or such later date as the Recipient and the Association shall agree, the Mid-Term Review Report, and, thereafter, take all measures required to
ensure the satisfactory completion of the Project and the achievement of the Project objectives, based on the conclusions and recommendations of the Mid-Term Review Report and the Association’s views on the matter.

2. The Mid-Term Review Report shall cover, \textit{inter alia}: (i) Project scope, design and implementation arrangements; (ii) implementation progress against agreed indicators; (iii) procurement performance; (iv) performance of consultants, (v) fund flows; (vi) the progress of implementation of the EMF, EAs, EMPs, SDRR and SAF; and (vii) any other issue agreed between the Recipient and the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. 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, for all components, detailing: (a) the progress with project implementation including: (i) unaudited financial statements, (ii) physical progress, (iii) procurement management, and (iv) safeguard management including implementation of the EMF, EAs, EMPs, SDRR and SAF; (b) achievement of output indicators; and (c) proposed action plans for project implementation for the following two quarters. Each Project Report shall cover the period of a Fiscal Year quarter, 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. The Recipient shall monitor and evaluate the socio-economic impact of the Project, on a regular basis, and prepare a socio-economic impact monitoring study by September 30, 2009, and another such study three (3) months prior to the Closing Date.

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 quarter, interim un-audited financial reports for the Project covering the Fiscal Year quarter, 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 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 estimated to cost above $50,000 and works estimated to cost less than $1,500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following additional procedures:

   a. Only the bidding documents for NCB satisfactory to the Association shall be used for bidding.

   b. Invitations to bid shall be advertised in at least one widely circulated national newspaper, at least thirty (30) days prior to the deadline for the submission of bids.

   c. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to any bidders either for
price or for other terms and conditions when competing with foreign bidders, state owned enterprises, or small-scale enterprises.

d. Except with the prior concurrence of the Association, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder.

e. Re-bidding shall not be carried out without the prior concurrence of the Association. The system of rejecting bids outside a predetermined margin or bracket of prices shall not be used.

f. Extension of bid validity shall not be allowed without the prior concurrence of the Association: (i) for the first request for extension if it is longer than four weeks; and (ii) for all subsequent requests for the extension irrespective of the period.

g. Rate contracts entered into by the Recipient shall not be acceptable as a substitute for NCB procedures. Such contracts will be, however, acceptable for any procurement under Shopping Procedures.

h. Two or three envelope system shall not be used.

i. Bidding shall not be restricted to pre-registered firms, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International 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) Force Account after prior clearance from the Association</td>
</tr>
<tr>
<td>(d) Community Participation</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.

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>
<tr>
<td>(d) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(e) Single-Source Selection</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.1 to 5.4 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise agree, 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 procured on the basis of International Competitive Bidding or National Competitive Bidding; and (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $200,000 or more or contracts with Individual Consultants estimated to cost exceeding $50,000. 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 may 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 Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, services and incremental operating costs for the Project</td>
<td>6,700,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,700,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section 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 SDR 270,000 equivalent may be made for payments made prior to this date but on or after May 15, 2006, for Eligible Expenditures.

2. The Closing Date is October 10, 2012.
APPENDIX

Section I. Definitions


2. “DOR” means the Department of Roads within the Recipient’s Ministry of Works and Human Settlements.

3. “Dzongkhag” means an administrative District area within the Kingdom of Bhutan.

4. “EA” means each environmental assessment report prepared or to be prepared by the Recipient for each of the roads included in the Project, each such EA to be satisfactory to the Association and to set forth, inter alia, the assessment of environmental impacts of the construction, rehabilitation and other civil works for the relevant roads, and recommendations based on such assessment.

5. “EMF” means Environmental Management Framework dated October 27, 2006, prepared by the Recipient and satisfactory to the Association, providing: (i) the necessary background for environmental considerations to be built into the design of the Project, (ii) details of potential environmental issues that may arise under the works proposed to be carried out under the Project; and (iii) detailed guidelines on how to prepare EAs and Environmental Management Plans.

6. “EMP” means each Environmental Management Plan contained in an EA, each such EMP to be satisfactory to the Association and to set forth, inter alia, the measures to mitigate adverse environmental impacts of the construction, rehabilitation and other road works under the Project, and to monitor the implementation of such mitigation measures.


8. “Incremental Operating Costs” means the incremental operating costs arising under the Project on account of vehicles, fuel, equipment, office supplies, utilities, travel and accommodations and any other reasonable costs incurred for the execution and implementation of the Project, excluding salaries of the Recipient’s civil service.


10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 6, 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.

11. “PCU” means Project Coordination Unit established in DOR and responsible for, *inter alia*, the planning, implementation, coordination, management, supervision and monitoring and evaluation of activities to be carried out under the Project.

12. “PMU” means Project Management Unit to be established in each Project site and responsible for day-to-day supervision of the works and for ensuring compliance with design standards, quality assurance and the EMPs.

13. “SAF” means the Project Social Assessment Framework, prepared by the Recipient and satisfactory to the Association, that sets out, among other things: (i) a Project stakeholder analysis; (ii) impact and socio-economic assessments of people affected by the Project; (iii) Project resettlement policy framework; and (iv) an institutional assessment of Bhutan’s policies, principles and processes for assessing and mitigating social impacts on people affected by the Project.

14. “SDRR” means Safeguard Diagnostic Review Report jointly prepared by the Recipient and the Association as part of a Country Systems Pilot providing recommendations for following the Kingdom of Bhutan’s Country Systems on Environmental Management including: (i) necessary changes to environmental policies; (ii) institutional strengthening for road sector environmental management; (iii) training and capacity building; and (iv) reporting mechanisms.