

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H374-BT

Financing Agreement

(Additional Financing for the Education Development Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 15, 2008

Public Disclosure Authorized

FINANCING AGREEMENT

Agreement dated July 15, 2008, entered into between KINGDOM OF BHUTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing to the Original Project. 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 grant in an amount equivalent to nine hundred eighty thousand Special Drawing Rights (SDR 980,000) (“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 March 15 and September 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 Education.
- 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 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 V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient’s Representative is the 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 Thimphu, Bhutan	890-201	323154

- 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 Washington, D.C.	248423 (MCI)	1-202-477-6391

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/ Marco Scuriatti

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (a) to assist in the implementation of the education development program in the Ninth Five-Year Plan; and (b) to that end, to expand access to primary and secondary education and to improve the quality and relevance of education at all levels.

The Project consists of the Original Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Implementation**

1. The Recipient shall carry out the Project in accordance with Sections 1, 2, 4, 5, 6, and 7 of Schedule 4 of the Original Financing Agreement.

B. Anti-Corruption

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

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 the indicators agreed with the Association. Each Project Report shall cover a period of two calendar quarters in line with semi-annual supervision missions conducted by the Association, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after 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. The Recipient shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the 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 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 paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Preference for Domestically Manufactured Goods.** The provisions of paragraphs 2.54 and 2.55 of the Procurement Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient.
3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding subject to procedures listed in the Annex to this Schedule
(b) Shopping
(c) Direct Contracting

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.

Procurement Method
(a) Selection Based on the Consultants' Qualification
(b) Single Source Selection
(c) Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. 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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Goods, Works, Consultants' Services, Training, Innovation Grants under Part B.2 of the Project	980,000	100%
TOTAL AMOUNT	<u>980,000</u>	

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.
2. The Closing Date is December 31, 2009.

ANNEX to SCHEDULE 2**National Competitive Bidding Procedures**

In order to ensure economy, efficiency and transparency and broad consistency with the provisions of Section I of the Procurement Guidelines the following should be followed:

- (a) invitations to bid shall be advertised in at least one widely circulated national newspaper, at least 30 days prior to the deadline for the submission of bids;
- (b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (c) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;
- (d) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (e) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (f) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and 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;
- (g) contracts shall be awarded to the lowest evaluated bidders;
- (h) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;
- (i) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (j) contracts shall not be awarded on the basis of nationally negotiated rates;
- (k) re-bidding shall not be carried out without the prior concurrence of the Association;
- (l) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;

- (m) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (n) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:
 - (i) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and
 - (ii) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (o) 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 eight weeks, and (ii) for all subsequent requests for extension irrespective of the period;
- (p) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and
- (q) there shall not be any restrictions on the means of delivery of the bids.

APPENDIX**Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary” means a school that receives an innovation grant for quality enhancement under Part B.2 of the Project.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Environmental Management Plan” or “EMP” mean the Recipient’s plan dated April 15, 2003, satisfactory to the Association, setting forth, *inter alia*, measures for mitigating the potential environmental impact of the Project, as the same may be updated from time to time with the agreement of the Association.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Innovation Grants” means the innovation grants provided for under Part B.2 of the Project.
8. “MOE” means the Recipient’s Ministry of Education and any successor thereto.
9. “MoLHR” means the Recipient’s Ministry of Labor and Human Resources and any successor thereto.
10. “Ninth Five-Year Plan” means the Borrower’s Ninth Five-Year Plan (2002-2007) for socio-economic development.
11. “Original Financing Agreement” means the Development Credit Agreement for Education Development Project between the Recipient and the Association, dated September 4, 2003, amended on August 25, 2006, and as amended to the date of this Agreement (Credit Number 3820-BHU).
12. “Original Project” means the Project described in the Original Financing Agreement.

13. “Peoples Consultation Plan” means the Recipient’s plan dated May 30, 2003, satisfactory to the Association, ensuring that local communities benefit from the Project, as the same may be updated from time to time with the agreement of the Association.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 28, 2008 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.
16. “Project Implementation Plan” means the Recipient’s Project Implementation Plan, satisfactory and acceptable to the Association, including any amendments made to such plan, from time to time, with the Association’s approval, that sets forth various procedures and information necessary for carrying out the Project; performance indicators and monitoring and evaluation guidelines; administrative, accounting and financial procedures; procurement and disbursement guidelines; and environmental matters.
17. “SPBD” means the School Planning and Building Division within MoE.