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CREDIT NUMBER 4562-BT
GRANT NUMBER H466-BT

Financing Agreement

(Development Policy Financing for Institutional Strengthening)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 2009

FINANCING AGREEMENT

AGREEMENT dated June 12, 2009, 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 appropriate macro-economic 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 grant and a credit (collectively, “Financing”) in the following amounts:
 - (a) an amount equivalent to six million one hundred sixty five thousand Special Drawing Rights (SDR 6,165,000) (“Grant”); and
 - (b) an amount equivalent to seven million five hundred thirty five thousand Special Drawing Rights (SDR 7,535,000) (“Credit”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are March 15 and September 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. 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 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 including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension is 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 is that 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 has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS

- 5.01. 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 the Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan

Facsimile:

009752323154

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
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at Thimphu, Kingdom of Bhutan, as of the day and year first above written.

KINGDOM OF BHUTAN

By /s/ Wangdi Norbu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas Krafft

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions Taken Under the Program**

The actions taken by the Recipient include the following:

1. The Department of National Budget of the Ministry of Finance has issued Office Memorandum DB/ADM-3/Office Memo 2008-09/2632 on December 13, 2008 indicating that it will produce quarterly budget situation budget reports starting from the quarter ending December 31, 2008 not later than one (1) month after each quarter, and it has issued the first report on January 28, 2009.
2. The Ministry of Finance has officially issued, for procurement by the public sector starting April 1, 2009: (a) standard bidding documents on the procurement of works on March 13, 2009 through Circular FM/DNP/PD-25/2009/4039; (b) standard bidding documents on the procurement of goods on March 16, 2009 through Circular FM/DNP/PD-25/2009/4040, and (c) a standard request for proposals for the procurement of consulting services on March 16, 2009 through Circular FM/DNP/PD-25/2009/4040.
3. The Anti-Corruption Commission has issued: (a) Executive Order No. ACC/PD-04/2009/31 on January 14, 2009 declaring to be in full force and effect The Asset Declaration Rules, 2008; and (b) Executive Order No. ACC/LD-6/2009 on March 5, 2009 declaring into full force and effect The Gifts Rules.
4. (a) The Cabinet approved on August 1, 2008, the Foreign Workers Recruitment Agents Regulation under the Labour and Employment Act; and (b) the Ministry of Labour and Human Resources submitted to the Cabinet, for approval, twelve (12) additional rules and regulations under the said act, regarding child labor, sexual harassment, leave, minimum wages, worker compensation, gratuity, provident fund, worker associations, labor inspection, grievance procedures, penalties, and internal service rules, on February 24, 2009 through Letter No. MoLHR/Mis.08/2009/449.
5. The Recipient has improved the quality of vocational education and training by introducing revised curricula for the following trades: general electricity; electrical house wiring; plumbing; computer hardware and networking, carpentry, and masonry; starting with the academic year 2008-2009.
6. On December 14, 2008, the Royal Monetary Authority Board gave an In-Principle Approval to set up three (3) banks and one (1) insurance company, which shall:

(a) mobilize a given amount of capital; and (b) comply with Bhutanese legislation.

7. The Ministry of Works & Human Settlement has prepared and submitted to the Cabinet, for approval, the Guidelines on Road Classification System, and Delineation of Construction and Maintenance Responsibilities on February 6, 2009 through Letter No. PPD/MOWHS/10FYP/2008-09/28/4303.

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 shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Grant Allocated (expressed in SDR)	Amount of the Credit Allocated (expressed in SDR)
Single Tranche	6,165,000	7,535,000
TOTAL AMOUNT	6,165,000	7,535,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. 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
 2. 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.
- D. 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.

E. Closing Date. The Closing Date is March 31, 2010.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2019 to and including March 15, 2029	1%
commencing September 15, 2029 to and including March 15, 2049	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 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Commission” means the Recipient’s Anti-Corruption Commission established pursuant to Article 3 of The Anti-Corruption Act of Bhutan 2006, or any successor thereto.
2. “Cabinet” means the Recipient’s Cabinet of ministers.
3. “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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (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;
 - (e) 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
 - (f) 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.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 5. "In-Principle Approval" means a process by which a financial institution is provisionally selected, and which has a period of one (1) year after notification of such In-principle Approval to fulfill certain conditions in order to obtain a banking license or an insurance license, as the case may be.
 6. "Labour and Employment Act" means The Labour and Employment Act of Bhutan 2007 enacted by the National Assembly of Bhutan on January 4, 2007 which entered into force on February 20, 2007.

7. “Ministry of Economic Affairs” means the Recipient’s Ministry of Economic Affairs, or any successor thereto.
8. “Ministry of Finance” means the Recipient’s Ministry of Finance, or any successor thereto.
9. “Ministry of Labour and Human Resources” means the Recipient’s Ministry of Labour and Human Resources, or any successor thereto.
10. “Ministry of Works & Human Settlement” means the Recipient’s Ministry of Works & Human Settlement, or any successor thereto.
11. “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 March 13, 2009 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.
12. “Royal Monetary Authority Board” means the Royal Monetary Authority Board established by the Recipient under The Royal Monetary Authority Act, 1982, or any successor thereto.
13. “The Anti-Corruption Act of Bhutan 2006” means The Anti-Corruption Act of Bhutan 2006 passed on July 3, 2006.
14. “The Asset Declaration Rules, 2008” means the rules, guidelines and form for assets declaration by all the Recipient’s public servants except those engaged in casual or temporary jobs, issued by the Anti-Corruption Commission, as such may be amended from time to time by the Recipient.
15. “The Gifts Rules 2008” means the The Gifts Rules 2008, issued by the Anti-Corruption Commission, which prohibit the solicitation, restrict the acceptance and set procedures on disclosure of gifts applicable to the Recipient’s public servants, as such may be amended from time to time by the Recipient.
16. “The Royal Monetary Authority Act, 1982” means The Royal Monetary Authority Act, 1982 passed on August 4, 1982.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) 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 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

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 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 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 "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".

- (a) The term "Program Preparation Advance" (renamed as such pursuant to subparagraph 8(c) above) is modified to read "Preparation Advance" and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”