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CREDIT NUMBER 4835 -BT

# Financing Agreement

(First Development Policy Credit)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 21, 2011

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Public Disclosure Authorized

## **FINANCING AGREEMENT**

AGREEMENT dated March 21, 2011, 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.A. of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate 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 sixteen million five hundred thousand Special Drawing Rights (SDR 16,500,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are February 15 and August 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 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 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; TERMINATION**

5.01. The Additional Condition of Effectiveness is 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 the 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  
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/ Lyonpo Wangdi Norbu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Isabelle M. Guerrero

Authorized Representative

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

**A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:

1. As part of the Integrated Public Service Delivery System initiative, the draft of the delivery standards have been prepared and forwarded to the Cabinet Secretariat in 2010 by ten (10) ministries of the Recipient, twelve (12) autonomous agencies and twenty (20) Dzongkhags.
2. The Cabinet has approved a National Anti-Corruption Strategic Framework on July 14, 2009, has distributed said framework to all public and private stakeholders within the territory of the Recipient and posted said framework on the Anti-Corruption Commission website of the Recipient.
3. The Cabinet has approved an Economic Development Policy on November 10, 2009, and has formally released said Policy to the public on April 2, 2010.
4. The Recipient has established the Credit Information Bureau in November 2009, which is operational and has commenced offering products including Consumer Credit Information Reports and Self Inquiry Reports.
5. The Cabinet has approved a National Human Resource Development Policy on March 5, 2010.
6. The Ministry of Works and Human Settlements has adopted the Thromde Rules on June 30, 2010, and said Rules have come into force on July 1, 2010.
7. The National Environment Commission has approved the National Standards for Ambient Air Quality, Industrial Emission, Workplace Emissions, and Noise Levels in February 12, 2010, commenced the implementation of said Standards and has made them available to general public through the National Environment Commission website.

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

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>
(1) Single Withdrawal Tranche	16,500,000
<b>TOTAL AMOUNT</b>	<b>16,500,000</b>

- 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 appropriateness of the Recipient's macroeconomic policy framework.
- D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
- (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 November 30, 2011.

**SCHEDULE 2****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 15 and August 15 commencing February 15, 2021 to and including August 15, 2030:	5%

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

## APPENDIX

### Section I. Definitions

1. “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.
2. “Cabinet” means the Recipient’s Cabinet of Ministers.
3. “Cabinet Secretariat” means the secretariat of Cabinet which supports the executive of the Royal Government of Bhutan.
4. “Consumer Credit Information Report” means a comprehensive credit report which provides the credit history of a consumer and the level of its indebtedness which is provided by the Credit Information Bureau to financial institutions and “Consumer Credit Information Reports” means, collectively, more than one Consumer Credit Information Report.
5. “Credit Information Bureau” means a unit within the Royal Monetary Authority of Bhutan that maintains an electronic database containing identifying information, data and credit records of borrowers, or any successor thereto.
6. “Dzongkhags” mean districts.
7. “Economic Development Policy” means the Recipient’s policy approved by the Cabinet which sets the agenda and the general direction for the economic development of sectors that have the highest potential.
8. “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.
9. “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.
10. “Integrated Public Service Delivery System” means an initiative of the Recipient for improving public service, and regulatory and organizational reforms.
11. “Ministry of Works and Human Settlements” means the Recipient’s Ministry of Works and Human Settlements, or any successor thereto
12. “National Anti-Corruption Strategic Framework” means the Recipient’s strategy for taking anti-corruption measures in public and private organizations.
13. “National Environment Commission” means the National Environment Commission, an independent agency created under the Recipient’s National Environment Protection Act, 2007, or any successor thereto.
14. “National Human Resource Development Policy” means the Recipient’s policy formulating the overall human resource development including, *inter alia*, strategies for long term learning opportunities to enhance and promote continuous education at all levels by providing guidance to human resource development policies and plans in selected sectors of the economy.
15. “National Standards for Ambient Air Quality, Industrial Emission, Workplace Emissions, and Noise Levels” means the Recipient’s environmental standards for ambient air, the maximum limits for pollutants, the acceptable work place emissions and the noise level limits within the Recipient’s territory developed pursuant to the Recipient’s Environmental Assessment Act, 2000.
16. “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 September 8, 2010 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.

17. “Royal Monetary Authority of Bhutan” means the Royal Monetary Authority of Bhutan established by the Recipient under The Royal Monetary Authority Act, 1982, or any successor thereto.
18. “Self Inquiry Report” means a comprehensive credit report, displaying the details of each credit facility availed by the consumer or commercial entity and its related parties, with the name of the institutions which is provided by the credit information Bureau when requested by a consumer or a commercial entity and “Self Inquiry Reports” means, collectively, more than one Self Inquiry Report.
19. “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.
20. “Thromde” means a municipality.
21. “Thromde Rules” means the rules for the implementation of the Local Governments’ Act of Bhutan, 2007, enacted on July 7, 2007, specifying responsibilities, procedures, functions, and revenue sources of the Thromde.

## **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 set forth below. In all other respects, the General Conditions remain unchanged.

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 3.03 (b) (*Accelerated Repayment*) is deleted in its entirety.
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”.

