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CONFORMED COPY

GRANT NUMBER H307-BHU

Financing Agreement

(Private Sector Development Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 2007

GRANT NUMBER H307-BHU

FINANCING AGREEMENT

AGREEMENT dated June 22, 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 five million three hundred thousand Special Drawing Rights (SDR 5,300,000) (“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 April 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 fifteen (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 Thimphu, Bhutan	890-201	009752323154

- 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) or 64145 (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 / Praful C. Patel

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase productive employment in the Kingdom of Bhutan through the promotion of enterprise development in the IT and ITES Sector, the enhancement of IT skills, and the improvement of access to finance.

The Project consists of the following parts:

Part 1. Development of IT/ITES Sector

Carrying out a program of activities that focuses on developing the Recipient's IT/ITES Sector, using an integrated approach that includes: (a) the carrying out of infrastructure for an IT Park; and (b) IT promotional activities.

Part 2. Development of an IT Skills Program

Developing IT skills within the Kingdom of Bhutan through the development and provision of: (a) generic skills for the IT/ITES Sector; (b) distance learning facilities and course management systems for IT skills development; and (c) an IT entrepreneurship development program.

Part 3. Strengthening Financial Sector through IT Use

Strengthening the Recipient's financial sector through the provision of: (a) IT system up-gradation in the BoB; (b) developing a financial sector IT development strategic plan; and (c) establishing the inter-bank electronic fund transfer clearing system at the RMA.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Recipient shall establish by May 15, 2007, or by some other date acceptable to the Association, and thereafter maintain at all times during Project implementation a Program Steering Committee whose membership shall include the Finance Secretary of the Recipient, and the Recipient's Secretary of Information and Communication, together with the heads of RUB, RMA and BoB, with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association.
2. The Recipient shall establish by May 15, 2007, or by some other date acceptable to the Association, and thereafter maintain at all times during Project implementation, the PIA within MoIC, with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including a designated financial management specialist and a designated procurement specialist.
3. The Recipient shall maintain at all times during Project implementation, the existing: (i) ETF, constituted by the Recipient's Council of Ministers, under Executive Order No. COM/04/07/886, dated March 1, 2007 of the Prime Minister of the Recipient; (ii) Task Force on IT Skills Development; (iii) Financial Sector IT Task Force and IT Technical Working Group, all with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association.

B. Environmental Assessment and Environmental Management Plan; Project Implementation Plan

1. The Recipient shall prepare or cause to be prepared within six (6) months of the selection of the private developer for Part 1(a) of the Project, or by some other date acceptable to the Association, an EA and EMP that are satisfactory to the Association, and shall implement the Project in accordance with the provisions of the agreed EA and EMP and in a manner satisfactory to the Association, and shall not revise, amend, or abrogate the agreed EA and EMP unless in a manner satisfactory to the Association.
2. The Recipient shall prepare within three (3) months of the Effective Date, or by some other date acceptable to the Association, a PIP that is satisfactory to the Association, and shall implement the Project in accordance with the provisions of

the agreed PIP and in a manner satisfactory to the Association, and shall not revise, amend, or abrogate the agreed PIP unless in a manner satisfactory to the Association.

C. Anti-Corruption

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 indicators agreed with the Association, for all components, detailing: (a) the progress with project implementation including: (i) physical progress, (ii) procurement management, and (iii) safeguard management including implementation of the EA and EMP; (b) achievement of outcome and 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 June 30, 2010, or by some other date acceptable to the Association, 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 between \$50,000 and \$200,000 and works estimated to cost between \$50,000 and \$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 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.

Procurement Method
(a) Shopping
(b) Direct Contracting after prior clearance from the Association
(c) Force Account after prior clearance from the Association
(d) Community Participation

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) Quality-Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on Consultants' Qualifications
(e) Single-Source Selection after prior clearance from the Association
(f) Procedures set forth in paragraphs 5.1 to 5.4 of the Consultant Guidelines for the 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 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:

Category	Amount of the Grant Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, works, services, training and incremental operating costs for the Project	5,300,000	100%
TOTAL AMOUNT	5,300,000	

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 13,000 equivalent may be made for payments made prior to this date but on or after January 1, 2007, for Eligible Expenditures.
2. The Closing Date is June 30, 2012.

APPENDIX

Section I. 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. “BoB” means the Recipient’s Bank of Bhutan established in 1968, and responsible for, *inter-alia*, the planning, implementation, coordination, management, supervision and monitoring and evaluation of activities to be carried out under Part 3(a) 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. "EA" means the environmental assessment report prepared or to be prepared by the Recipient for the Project, 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 Project, and recommendations based on such assessment.
6. "EMP" means each Environmental Management Plan prepared or to be prepared and contained in the 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 works under the Project, and to monitor the implementation of such mitigation measures.
7. “ETF” means Recipient’s Empowered Task Force that includes representatives from key ministries and departments relevant for new business registration and investment in Bhutan to clear and process such registration and investment in a timely manner.
8. “Financial Sector IT Task Force” means the Recipient’s task force responsible for the implementation of Parts 3(b) and (c) of the Project, together with the IT Technical Working Group [as this term is hereinafter defined].
9. “Fiscal Year” means the Recipient’s fiscal year beginning July 1 and ending June 30 the following year.

10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
11. “IFC” means the International Finance Corporation.
12. “IFC/SEDF” means the South Asia Enterprise Development Facility established in 2003 by IFC to provide technical assistance to the Project by: (i) preparing a financial sector IT development strategic plan; and (ii) providing bilateral technical assistance for the IT system upgrade in BoB on a cost sharing basis.
13. “Incremental Operating Costs” means the incremental operating costs arising under the Project on account of fuel, 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.
14. “IT/ITES” means the Recipient’s Information Technology/Information Technology-Enabled Services sector.
15. “IT system up-gradation Task Force” means the BoB’s task force chaired by the deputy managing director of the BoB, which shall oversee and coordinate the implementation of Part 3(a) of the Project in close cooperation with the IFC/SEDF during the course of the Project implementation.
16. “IT Technical Working Group” means the Recipient’s working group responsible for the carrying out of Parts 3(b) and (c) of the Project, together with the Recipient’s Financial Sector IT Task Force.
17. “MoE” means the Recipient’s Ministry of Education.
18. “MoF” means the Recipient’s Ministry of Finance.
19. “MoIC” means the Recipient’s Ministry of Information and Communications.
20. “MoLHR” means the Recipient’s Ministry of Labour and Human Resources.
21. “PIA” means the Recipient’s IT/ITES Promotion and Program Implementation Agency within MoIC and responsible for coordinating the implementation of the Project with the Recipient’s other agencies involved.
22. “PIP” means the Recipient’s Project Implementation Plan, to be prepared within three (3) months of the Effective date, satisfactory to the Association, as the same shall be amended from time to time, giving details of the guidelines and procedures as shall have been agreed with the Association for the implementation, supervision and monitoring of the Project.

23. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
24. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 25, 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.
25. “Program Steering Committee” means the Recipient’s Program Steering Committee established for overall management of the Project and shall include representatives from, *inter-alia*, BoB, MoIC, MoF, RMA and RUB (as both the latter terms are hereinafter defined).
26. “RMA” means the Recipient’s Royal Monetary Authority of Bhutan established under the Royal Monetary Authority of Bhutan Act (1982), responsible for, *inter-alia*, the overall implementation and coordination of Parts 3(b) and 3(c) of the Project.
27. “RUB” means the Recipient’s Royal University of Bhutan established under Royal Charter and jointly responsible for, *inter-alia*, the planning, implementation, coordination, management, supervision, monitoring and evaluation of activities to be carried out under Part 2 of the Project together with the PIA.
28. “Task Force on IT Skills Development” means the Recipient’s task force responsible for the oversight and coordination of Part 2 of the Project, whose membership shall include, *inter-alia*, representatives from RUB, MoLHR, MoIC, MoE, the Royal Civil Service Commission, and Bhutan Chamber of Commerce and Industry.

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