
CREDIT NUMBER 6928-BT

Financing Agreement

(COVID-19 Crisis Response Development Policy Financing)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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: (i) 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 (ii) the Recipient’s maintenance of an adequate 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) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to Twenty-Four Million Four Hundred Thousand Special Drawing Rights (SDR 24,400,000) (variously, “Credit” and “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.04. The Payment Dates are March 15 and September 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

- 2.06. The Payment Currency is Dollar.
- 2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (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 consists of the following: namely 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 consists of the following: namely that the 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 consists of the following: namely 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 Signature Date.
- 5.03. For purposes of Section 10.05(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 Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan; and

(b) the Recipient's Electronic Address is:

Facsimile:

00975-2-323154

- 6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

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

(b) the Association's Electronic Address is:

Telex:

Facsimile:

248423 (MCI)

1-202-477-6391

AGREED as of the Signature Date.

KINGDOM OF BHUTAN

By

Dashe Nim Dorji

Authorized Representative

Name: Dashe Nim Dorji

Title: Finance Secretary

Date: 24-Jun-2021

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Mercy Miyang Tembon

Authorized Representative

Name: Mercy Miyang Tembon

Title: Country Director

Date: 24-Jun-2021

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Pillar 1: Strengthening policies for economic resilience and environmental sustainability

1. The Ministry of Finance has approved the Rules and Regulations on Goods and Services Tax Act of Bhutan 2020.
2. The Ministry of Finance has published: (i) quarterly fiscal accounts for Q1 FY2020/21 and Q2 FY2020/21; and (ii) quarterly debt reports with debt profile, cost and risk indicators (covering central government and central government-guaranteed debt) for Q1 FY2020/21 and Q2 FY2020/21.
3. The Ministry of Finance has published the debt management strategy for the years FY2020/21-FY2022/23, which has been approved by the Minister of Finance, and includes clear targets for domestic and external borrowing and a review/assessment of the previous debt strategy, as per the Public Debt Policy 2016.
4. (i) The Cabinet has approved the Tourism Policy of the Kingdom of Bhutan, and (ii) the Tourism Levy Act of Bhutan 2020 has been enacted.
5. The National Environment Commission has adopted the Environmental Standards 2020.
6. The Ministry of Economic Affairs has approved the Low-Emission Development Strategy for the Industrial Sector.
7. The Ministry of Works and Human Settlement has approved the Low-Emission Development Strategy for Human Settlements.

Pillar 2: Enhancing programs to address the economic, social and health impact of COVID-19

8. To support the flow of credit to cottage and small industries, (i) the Cabinet has approved the establishment of the National Credit Guarantee Scheme (NCGS), and (ii) the Ministry of Finance has approved a monitoring and evaluation framework for the NCGS.

9. The Ministry of Health has approved the National COVID-19 Vaccine Deployment Plan to establish the institutional framework for effective COVID-19 vaccine deployment.
10. The National Commission for Women and Children (NCWC) has approved the Gender and Child Protection Emergency Preparedness and Response Plan During COVID-19 Pandemic to address gender-based violence and provide child protection.

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

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Withdrawal Tranche	24,400,000
TOTAL AMOUNT	24,400,000

- 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 adequacy of the Recipient’s macroeconomic policy framework.
- D. Deposit of Financing Amounts.**

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03(a) of the General Conditions; (b) the details of the account to which the BTN equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03(a) of the General Conditions.
- E. Closing Date.** The Closing Date is June 30, 2022.

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, 2031 to and including March 15, 2041	1%
commencing September 15, 2041 to and including March 15, 2061	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 3.05(b) of the General Conditions.

APPENDIX

Definitions

1. “BTN” means Bhutanese Ngultrum.
2. “Cabinet” means the Recipient’s council of ministers, *Lhengye Zhungtshog*, as set forth in the Recipient’s constitution.
3. “COVID-19” means the coronavirus disease caused by the 2019 novel coronavirus (SARS-CoV-2).
4. “FY” means a fiscal year of the Recipient, which begins on July 1 of each calendar year and ends on June 30 of the following calendar year.
5. “Environmental Standards 2020” means the Recipient’s national environmental standards entitled the “Environmental Standards 2020”, dated June 2020, adopted by the National Environment Commission on June 25, 2020.
6. “Gender Child Protection Emergency Preparedness and Response Plan During COVID-19 Pandemic” means the document entitled “Gender-Based Violence and Child Protection Emergency Preparedness and Response During COVID-19 Pandemic”, approved by the National Commission for Women and Children (NCWC).
7. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021).
8. “Low-Emission Development Strategy for Human Settlements” means the Low-Emission Development Strategy for Human Settlements in Bhutan 2021, approved by the Ministry of Works and Human Settlement on May 5, 2021.
9. “Low-Emission Development Strategy for the Industrial Sector” means the Low-Emission Development Strategy for the Industrial Sector in Bhutan, approved by the Ministry of Economic Affairs on May 20, 2021.
10. “Ministry of Economic Affairs” means the Recipient’s Ministry of Economic Affairs.
11. “Ministry of Finance” means the Recipient’s Ministry of Finance.
12. “Ministry of Health” means the Recipient’s Ministry of Health.

13. “Ministry of Works and Human Settlement” means the Recipient’s Ministry of Works and Human Settlement.
14. “National Commission for Women and Children” or “NCWC” means the Recipient’s National Commission for Women and Children, an autonomous government agency, established to take the lead in protecting and promoting the rights of women and children in Bhutan.
15. “National Credit Guarantee Scheme” or “NCGS” means the National Credit Guarantee Scheme, launched on October 5, 2020, as a counter cyclical policy measure during the COVID-19 situation to stimulate investments through enhanced access to finance by providing Government guarantees to participating banks.
16. “National COVID-19 Vaccine Deployment Plan” means the Recipient’s National COVID-19 Vaccine Deployment Plan (NVDP), dated January 2020, approved by Ministry of Health in January 2021.
17. “National Environment Commission” means the Recipient’s National Environment Commission, an autonomous government agency, mandated to look after all issues related to the environment in Bhutan.
18. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated May 21, 2021, 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 and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
19. “Public Debt Policy 2016” means the Recipient’s Public Debt Policy 2016, approved by the Cabinet on August 2, 2016.
20. “Rules and Regulations on Goods and Services Tax Act of Bhutan 2020” means the Recipient’s Rules and Regulations on Goods and Services Tax Act of Bhutan 2020, approved by the Ministry of Finance on April 30, 2021.
21. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
22. “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.

23. “Tourism Levy Act of Bhutan 2020” means the Tourism Levy Act of Bhutan 2020, which was enacted by the Recipient’s Parliament at the third Session of Third Parliament, and came into force on July 1, 2020.
24. “Tourism Policy of the Kingdom of Bhutan” means the Tourism Policy of the Kingdom of Bhutan 2021, approved by the Cabinet on January 5, 2021.