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CREDIT NUMBER 5647-BT

# Financing Agreement

(Fiscal Sustainability and Investment Climate Development Policy Financing)

between

**KINGDOM OF BHUTAN**

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

Dated

*July 22*, 2015

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## FINANCING AGREEMENT

AGREEMENT dated July 22, 2015, 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 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) 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 fourteen million three hundred thousand Special Drawing Rights (SDR 14,300,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are May 15<sup>th</sup> and November 15<sup>th</sup> in each year.

- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.08. The Payment Currency is Dollar.

### **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 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 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)

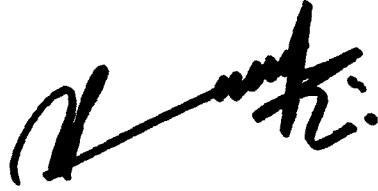
1-202-477-6391

AGREED at  
first above written.

Thimphu, Bhutan, as of the day and year

KINGDOM OF BHUTAN

By



Authorized Representative

Name: Lyonpo Namgay Dorji

Title: Minister, Ministry of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Genevieve Bayeaud

Title: Resident 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. The Recipient: (a) through RMA, has issued the RMA Official Communication that lifts the policy ban of March 2012 imposed on the provision of housing and vehicle loans by financial institutions; and (b) through MoF, has issued the Tax Public Notification that raises custom duties, sales taxes and green taxes of selected goods.
  2. The Recipient, through its Cabinet, has approved for submission to its Parliament a bill that amends the Movable and Immovable Property Act (MIPA) in order to facilitate the effective usage of movable assets as collaterals.
  3. The Recipient, through RMA, has issued the CRST Public Notification that improves access to credit by, *inter alia*, small and medium enterprises through the usage of movable assets as collaterals by requiring the registry of them in the Central Registry for Secured Transaction (CRST).
  4. The Recipient, through RMA, has issued the CIB Regulations that sets forth, *inter alia*, the obligation of Data Providers to provide credit information of utility companies to the Credit Information Bureau (CIB).
  5. The Recipient, through its Cabinet, has submitted to its Parliament a bill that amends the Companies Act in order to strengthen the protection of minority shareholders of companies regulated by such act.
  6. The Recipient, through its Cabinet, has submitted to its Parliament an enterprise registration bill that regulates the usage of a single business identification number and one-stop-shop enterprise registration processes.
  7. The Recipient, through its Cabinet, has approved the Licensing Policy that creates a level playing field for companies and encourages them to participate in the formal economy.
  8. The Recipient, through MoEA, has approved the Revised Foreign Direct Investment (FDI) Rules and Regulations to lower threshold values for allowing foreign institutional investors and repatriations of profits.

9. The Recipient, through MoF, has issued the Filing of Tax Return Notification that enhances the tax module of its revenue administration management information system by allowing electronic tax filing and payments.

**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	14,300,000
<b>TOTAL AMOUNT</b>	14,300,000

- 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. 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.
- E. Audit.** Upon the Association's request, the Recipient shall:
1. have the deposit account referred to in Section D of this Schedule audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the end of the Recipient's fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and
3. furnish to the Association such other information concerning the abovementioned deposit account and their audit as the Association shall reasonably request.

- F. 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.
- G. Closing Date.** The Closing Date is March 31, 2016.



**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May 15 <sup>th</sup> and November 15 <sup>th</sup> :	
commencing November 15, 2020 to and including May 15, 2030	<b>1.65%</b>
commencing November 15, 2030 to and including May 15, 2040	<b>3.35%</b>

\* 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. “Cabinet” means the Recipient’s council of ministers as further set forth in the Recipient’s constitution.
2. “Central Registry for Secured Transaction” or “CRST” means the registry established by RMA containing, *inter alia*, information on moveable collateral pledged with financing institutions.
3. “CRST Public Notification” means the RMA’s communication establishing the CRST as of July 1, 2014, duly disclosed at RMA’s website.
4. “Companies Act” means the Recipient’ act of 2000 regulating the creation of companies as corporate entities and the operation of such entities within the territory of the Recipient.
5. “Credit Information Bureau” or “CIB” means the Recipient’s unit established by RMA responsible for, *inter alia*, maintaining a database with credit information, data and records of borrowers within the territory of the Recipient.
6. “CIB Regulations” means the Recipient’s Credit Information Bureau Regulations of 2015, issued by RMA establishing the CIB.
7. “Data Provider” means a person providing credit and data information to the CIB on the basis of a contract as per the CIB Regulations; and “Data Providers” means all such providers.
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. “Filing of Tax Return Notification” means the notification DRC/TAX/M&E/RAMIS13A /2014 issued by MOF on December 30, 2014.
- 10. “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.
- 11. “Licensing Policy” means the Recipient’s business licensing policy effective as of March 2015.
- 12. “Kuensel” means the national newspaper of the Recipient.
- 13. “MoEA” means the Recipient’s Ministry of Economic Affairs.
- 14. “MoF” means the Recipient’s Ministry of Finance.
- 15. “Movable and Immovable Property Act” or “MIPA” means the Recipient’s act of 1999 relating to loans, mortgages and other security interests in moveable and immovable property.
- 16. “Parliament” means the Recipient’s legislature.
- 17. “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 May 8, 2015, 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.
- 18. “Revised Foreign Direct Investment (FDI) Rules and Regulations” means the revised FDI Rules and Regulations of 2012 adopted by MoEA as FDI (amendment) Rules and Regulations of 2014 on January 1, 2015.
- 19. “RMA” means the Royal Monetary Authority of Bhutan, the Recipient’s central bank.

20. "RMA Official Communication" means RMA's communication, duly disclosed at RMA's website, by which the following guidelines are issued: (a) the 2014 Guidelines on Commercial Housing Loan and Home Loan effective as of September 1, 2014; (b) the 2014 Guidelines on Motor Vehicles Loans effective as of September 1, 2014; and (c) the 2014 Guidelines on Consumer Loans effective as of September 1, 2014.
21. "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.
22. "Tax Public Notification" means the notification DRC/STD/(Tax Act)/3/2014/285 published by MoF on July 26, 2014 in Kuensel, which includes revised rates of customs duty, sales tax of selected goods such as motor vehicles, pharmaceutical products and medical instruments, as per Annexure I of the notification.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions 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 subsequent Sections in Article II are renumbered accordingly.
3. "Section 3.02. *Service Charge and Interest Charge*
  - (a) *Service Charge*. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.
  - (b) *Interest Charge*. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

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 4 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 4 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. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 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 “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.
- (d) A new term called “Interest Charge” is added to read as follows:  
  
“Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”
- (e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.
- (f) 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”.
- (g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).