

Public Disclosure Authorized

# OFFICIAL DOCUMENTS

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CREDIT NUMBER 5923-BT

## Financing Agreement

Public Disclosure Authorized

(Programmatic Development Series  
Second Fiscal Sustainability and Investment Climate Development Policy Credit)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 2017

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## FINANCING AGREEMENT

AGREEMENT dated **March 10**, 2017, 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 (i) 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 (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) 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 seventeen million five hundred thousand Special Drawing Rights (SDR 17,500,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.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 February 15 and August 15 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.
- 2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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 4.08 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 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

Telex:	Facsimile:
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



Authorized Representative

Name: Namgay Dorji

Title: Minister, Ministry of finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Yoichiro Ishihara

Title: Resident Representative  
Bhutan Country Office

## 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, through its Cabinet, has approved a debt policy setting debt limits to improve fiscal sustainability.
2. The Recipient, through the MoF, has approved the revised rule and regulations on fiscal incentives in order to broaden the tax base and align with the Economic Development Policy.
3. The Recipient, through its Cabinet, has approved for submission to its Parliament the Insolvency Bill to provide a framework for businesses to resolve insolvency and to strengthen the rights of secured creditors.
4. The Recipient: (a) through the BICMA and BEA, has issued a directive for utility companies to share credit information with the CIB; and (b) through a letter from the CIB dated October 25, 2016, has certified the completion of the upgrades of its system to enable the sharing of credit information from utility companies.
5. The Recipient, through its Cabinet, has approved the Financial Sector Development Action Plan.
6. The Recipient, through a letter from its National Land Commission dated October 25, 2016, has certified the establishment of an online property and land registration system in Thimphu.
7. The Recipient, through a letter from its MoEA dated October 26, 2016, has certified the introduction of a single window for online business registration.
8. The Recipient: (a) through its Cabinet, has approved a PPP Policy; and (b) through the MoF, approved PPP rules and regulations at its 54<sup>th</sup> policy planning and coordination meeting in 2016.

#### 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	17,500,000
<b>TOTAL AMOUNT</b>	<b>17,500,000</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 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. 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 June 30, 2018.

**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, 2022 to and including August 15, 2031	<b>1.65%</b>
commencing February 15, 2032 to and including August 15, 2041	<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. “BEA” means the Bhutan Electricity Authority, which was granted full autonomy by the Recipient as of January 1, 2010, through a directive issued by its Cabinet, while originally established as a functional autonomous agency as per Section 7 of the Electricity Act of the Recipient (2001) to restructure and regulate the electricity supply industry to allow private sector participation in the electricity supply industry, and to empower the Recipient to create companies for carrying out all or any of the purpose of the Electricity Act of the Recipient, or any successor thereto.
2. “BICMA” means the Bhutan InfoComm and Media Authority, established through the Information Communication and Media Act of the Recipient (2006), or any successor thereto.
3. “CIB” means the Recipient’s Credit Information Bureau, established through the Recipient’s Credit Information Bureau Regulations of 2015, issued by the RMA, or any successor thereto.
4. “Cabinet” means the Recipient’s council of ministers as further set forth in the Recipient’s constitution, or any successor thereto.
5. “Economic Development Policy” means the economic development policy of the Recipient, revision of which was approved by the Cabinet in 2016, setting forth economic development of the country aiming at creating an enabling environment for investment.
6. “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.
7. "Financial Sector Development Action Plan" means the financial sector strategy of the Recipient, approved by its Cabinet on September 26, 2016, which provides a detailed and prioritized action plans for the short, medium and longer-term, to be undertaken to deepen the financial sector and improve its soundness, efficiency and inclusiveness.
  8. "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.

9. “Insolvency Bill” means the bill, regulating the restructuring and insolvency systems of the Recipient, including the financial distress of a corporate and unincorporated entities, and individuals, replacing the Bankruptcy Act of the Recipient (1999).
10. “MoEA” means the Recipient’s Ministry of Economic Affairs, or any successor thereto.
11. “MoF” means the Recipient’s Ministry of Finance, or any successor thereto.
12. “National Land Commission” means an autonomous agency established pursuant to the Land Act of the Recipient (2007), or any successor thereto.
13. “Parliament” means the Recipient’s legislature.
14. “PPP” means the public-private partnerships, entailing an arrangement between the public institution and private sector parties whereby the private party renovates, constructs, operates, maintains, and/or manages an asset to provide a service in whole or in part, in accordance with specified output specifications.
15. “PPP Policy” means the framework policy of the Recipient, approved by its Cabinet on March 1, 2016, aiming to, among others, facilitate and promote a structured, institutionalized and predictable approach to PPPs, and to ensure transparency in the structuring, procurement and implementation of PPP projects.
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 November 7<sup>th</sup>, 2016, 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. “RMA” means the Royal Monetary Authority of Bhutan, the Recipient’s central bank, or any successor thereto.
18. “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.

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

The General Conditions are hereby modified 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 is modified to read as follows:

“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).