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LOAN NUMBER 4229-BHU(COL)

LOAN AGREEMENT  
(Ordinary Operations [Concessional])

(Fiscal Sustainability and Green Recovery Program – Subprogram 1)

between

KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 18 OCTOBER 2022

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BHU 56010

**LOAN AGREEMENT**  
**(Ordinary Operations [Concessional])**

LOAN AGREEMENT dated 18 October 2022 between KINGDOM OF BHUTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

**WHEREAS**

(A) ADB has received from the Borrower a development policy letter dated 29 August 2022 ("Policy Letter"), setting forth certain objectives and policy actions, designed to develop the Borrower's public expenditure and fiscal management sector ("Program"), as described in Schedule 1 to this Loan Agreement;

(B) the Program comprises the first subprogram of a programmatic approach, as described in paragraph 1 of Schedule 1 to this Loan Agreement ("Programmatic Approach"), and the Borrower has applied to ADB for a loan for the purposes of the Program; and

(C) ADB has agreed to make a concessional loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of ADB's Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2022 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(v) is deleted and the following is substituted therefor:

"Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower;

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(x) is deleted and the following is substituted therefor:

"Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement;

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".
- (e) Section 5.01(b) is deleted.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

- (a) "Counterpart Funds" means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 4 of Schedule 4 to this Loan Agreement;
- (b) "CSI" means cottage and small industry;
- (c) "Deposit Account" means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;
- (d) "GNHC" means the Gross National Happiness Commission of the Borrower, or any successor thereto;
- (e) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (f) "MOEA" means the Ministry of Economic Affairs of the Borrower, or any successor thereto;
- (g) "MOF" means the Ministry of Finance of the Borrower, or any successor thereto;
- (h) "MOLHR" means the Ministry of Labour and Human Resources of the Borrower, or any successor thereto;
- (i) "NEC" means National Environment Commission of the Borrower, or any successor thereto;
- (j) "PDMF" means the policy design and monitoring framework, which combines the design and monitoring framework and the policy matrix, and which sets forth the Policy Actions as agreed between the Borrower and ADB;
- (k) "Policy Actions" means the policy actions, as agreed between the Borrower and ADB, accomplished or to be accomplished by the Borrower under the Program as set out in the PDMF;
- (l) "PPPF" means the post-program partnership framework, which sets out actions to be accomplished following completion of the Program as set out in the PDMF, as may be updated by the Borrower and ADB during the processing of the second subprogram of the Programmatic Approach;

- (m) "Program Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;
- (n) "Program Implementing Agencies" means MOF, MOEA, RMA, NEC and MOLHR and GNHC, or any successor thereto acceptable to ADB, which are responsible for implementing the Program;
- (o) "PSC" means program steering committee chaired by the Secretary of MOF; and
- (p) "RMA" means Royal Monetary Authority of the Borrower, or any successor thereto.

## **ARTICLE II**

### **The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of thirty seven million, three hundred and fifty thousand Dollars (\$37,350,000).

(b) The Loan has a principal repayment period of 16 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2022 or such other date as may from time to time be agreed between the Borrower and ADB.

### **ARTICLE IV**

#### **Particular Covenants**

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning: (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the Policy Actions.

### **ARTICLE V**

#### **Effectiveness**

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## **ARTICLE VI**

### **Miscellaneous**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

#### For the Borrower

Ministry of Finance  
Royal Government of Bhutan  
Thimphu, Bhutan

Facsimile Number:

(975) 2 324 867

#### For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 8636-2444.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

KINGDOM OF BHUTAN

By

  
\_\_\_\_\_  
LODAY TSHETEN  
Officiating Finance Secretary  
Ministry of Finance

ASIAN DEVELOPMENT BANK

By

  
\_\_\_\_\_  
SHAMIT CHAKRAVARTI  
Country Director  
Bhutan Resident Mission

## SCHEDULE 1

### Description of the Program

1. The principal objective of the Programmatic Approach is promotion of green and resilient economy recovery and creation of a conducive business environment to develop the private sector. The Programmatic Approach comprises two subprograms and the Program is the first subprogram.
2. The scope of the Program includes:
  - (a) strengthening domestic resource mobilization by: (i) making tax reforms; (ii) operationalizing a Customs Road Cargo Manifest System; (iii) approving a tax gap analysis to guide preparation of medium-term revenue strategy; (iv) increasing the tourism-levy fee to boost revenue, promote 'high-value, low-volume' tourism and services quality, promote carbon-neutral tourism and build a more sustainable tourism sector; (v) approving a reform strategy to restructure and improve performance of state-owned enterprises; and (vi) approving property management rules to improve and utilize the inventory of public properties;
  - (b) promoting private sector development by: (i) approving the autonomy of the CSI startup center to support new business ventures; (ii) approving rules to implement legislation to promote CSIs and economic activity in rural areas; (iii) approving rules and regulations for operation of restaurants and retail business, including easing licensing processes; and (iv) approving a reform plan to provide strategic direction to technical and vocational education and training activities and issuing an order to begin implementation of a foreign workers management strategy; and
  - (c) facilitating green recovery by: (i) approving regulations on substances that deplete the ozone layer and hydrofluorocarbons; (ii) approving a green taxonomy framework to facilitate categorization of projects for lending by the banking sector and to promote green finance that is also gender responsive; and (iii) approving a revised alternative renewable energy policy.
3. The Program is described in more detail in the Policy Letter and the PDMF.
4. The Program is expected to be completed by 30 September 2022.

**SCHEDULE 2****Amortization Schedule**

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Dollar)
15 December 2030	1,167,188
15 June 2031	1,167,188
15 December 2031	1,167,188
15 June 2032	1,167,188
15 December 2032	1,167,188
15 June 2033	1,167,188
15 December 2033	1,167,188
15 June 2034	1,167,188
15 December 2034	1,167,188
15 June 2035	1,167,188
15 December 2035	1,167,188
15 June 2036	1,167,188
15 December 2036	1,167,188
15 June 2037	1,167,188
15 December 2037	1,167,188
15 June 2038	1,167,188
15 December 2038	1,167,188
15 June 2039	1,167,188
15 December 2039	1,167,188
15 June 2040	1,167,188
15 December 2040	1,167,188
15 June 2041	1,167,188
15 December 2041	1,167,188
15 June 2042	1,167,188
15 December 2042	1,167,188
15 June 2043	1,167,188
15 December 2043	1,167,188
15 June 2044	1,167,188
15 December 2044	1,167,188
15 June 2045	1,167,188
15 December 2045	1,167,188
15 June 2046	1,167,172
Total	37,350,000

\* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Withdrawal of Loan Proceeds**

1. Except as set out in this Schedule or as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
2. An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at RMA into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with the applicable regulations and procedures of the Borrower.  
  
(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. No Loan proceeds shall be withdrawn to finance any item specified in the Attachment to this Schedule.
5. Notwithstanding any other provisions of this Loan Agreement and except as ADB may otherwise agree, no withdrawal shall be made from the Loan Account unless: (i) the Borrower has met the Policy Actions for the release of the Loan proceeds, and (ii) those Policy Actions continue to be in effect.

**Negative List**

No withdrawals of Loan proceeds will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (table) or any successor groups or sub-groups under future revisions to the United Nations Standard International Trade Classification, as designated by ADB by notice to the Borrower:

**Table: Ineligible Items**

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
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), nonirradiated 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, nonmonetary (excluding gold ore and concentrates)

Source: United Nations Standard International Trade Classification, Revision 3.

- (ii) expenditures for goods supplied under a contract that any national or international financial institution or agency has financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (iv) expenditures for narcotics;
- (v) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vi) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

## SCHEDULE 4

### Program Implementation and Other Matters

#### Implementation Arrangements

1. The Program Executing Agency shall oversee and coordinate the timely implementation of the Policy Actions and the actions set out in the PPPF. The Program and the actions set out in the PPPF will be implemented by the Program Implementing Agencies.

#### Policy Actions and Dialogue

2. The Borrower shall ensure that all of the Policy Actions adopted under the Program continue to be in effect for the duration of the Programmatic Approach.

3. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and the PPPF and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.

#### Use of Counterpart Funds

4. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

#### Governance and Anticorruption

5. The Borrower, the Program Executing Agency, and the Program Implementing Agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

#### Monitoring and Review

6. The Borrower shall monitor the implementation of the Program and the PPPF using a set of indicators and targets agreed between the Borrower and ADB to assess progress towards meeting the objectives of the Program. The Borrower, through the Program Executing Agency, shall establish and maintain a Program performance monitoring system that will include a database on the compliance status of Policy Actions and the actions set out in the PPPF. The Borrower and ADB shall undertake regular formal review of Program and PPPF performance and the status of implementation of the indicative policy actions for the second subprogram of the Programmatic Approach.

7. The PSC shall guide and monitor the implementation of the Program and the actions set out in the PPPF. The PSC will meet semiannually and, if needed, on an ad hoc basis to monitor progress and provide guidance on the timely implementation of the Program and the

actions set out in the PPPF. The PSC shall invite ADB to participate in such meetings as an observer.