Pandemic Emergency Financing Facility
Grant Agreement

(Development Policy Financing with a Catastrophe Deferred Drawdown Option)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as a Responding Agency of the Pandemic Emergency Financing Facility
AGREEMENT dated as of the Signature Date between KINGDOM OF BHUTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Bank”), acting as a Responding Agency of the Pandemic Emergency Financing Facility (“PEF”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement).

WHEREAS

(A) The Recipient, to enhance its preparedness for and resilience to catastrophes, has also requested the Bank to provide a Development Policy Financing with a Catastrophe Deferred Drawdown Option in the amount of ten million nine hundred thousand (10,900,000) Special Drawing Rights (SDR 10,900,000) to the Recipient for the purpose of providing financing for the Program pursuant to the terms of the financing agreement between the Recipient and the Bank of the same date as this Agreement, as such agreement may be amended from time to time (“Financing Agreement”); and

(B) the Bank 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 of Schedule I to the Financing Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework.

The Recipient and the Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard 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 Standard Conditions or in the Appendix to this Agreement or in the Financing Agreement.

Article II
The Grant

2.01. The Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount to be determined in accordance with Section 2.02 of this Agreement (“Grant”).
2.02. If any amount of the PEF funds is made available to the Bank for the Bank to provide a grant to the Recipient following the procedures described in Schedule 2 to this Agreement, the Bank shall, subject to Section 2.03 of this Article, promptly notify the Recipient in writing of the amount to be made available to the Recipient under this Agreement. Upon written confirmation by the Recipient of such notice, the amount so notified shall be deemed to constitute the amount of the Grant under Section 2.01 of this Article II.

2.03. The Bank may not provide any notification under Section 2.02 of this Article II if: (a) the right of the Recipient to make withdrawals from the Grant Account is suspended in accordance with the provisions of Article IV of the Standard Conditions; or (b) the right of the Recipient to make withdrawals from the financing account of the financing under the Financing Agreement is suspended or any amount of the financing under the Financing Agreement is cancelled.

2.04. The Recipient may withdraw the proceeds of the Grant in accordance with Schedule I to this Agreement.

2.05. The Grant is funded out of the PEF/World Bank Trust Fund for which the Bank may receive funds from the PEF from time to time. In accordance with Section 3.02 of the Standard Conditions, the Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it from the PEF, and the Recipient’s right to withdraw the Grant Proceeds is subject to the availability of such funds.

2.06. Without limitation upon the provisions of Section 2.08 of the Standard Conditions, the Recipient shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

Article III
The Program

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 2.08 of the Standard Conditions:

(a) the Recipient and the Bank 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 Bank for its review and comment a report on the progress achieved in
carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Bank 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 I to this Agreement.

Article IV
Additional Remedies

4.01. The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions 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.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied.

(a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action.

(b) The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

(c) The Bank 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. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of the Member Country, showing on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

5.03. Except as the Recipient and the Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the Bank dispatches to the Recipient notice
of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. Termination for Failure to Become Effective. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 (ninety) days after the Signature Date, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Secretary, Ministry of Finance of the Recipient, or Joint Secretary of the International Economic Cooperation Coordination Division, Ministry of Finance.

6.02. For purposes of Section 7.01 of the Standard 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 7.01 of the Standard Conditions:

(a) the Bank’s address is:

    International Development Association
    1818 H Street, N.W.
    Washington, D.C. 20433
    United States of America; and
(b) the Bank's Electronic Address is:

Telex: 248423 (MCI) or 1-202-477-6391
AGREED as of the Signature Date.

KINGDOM OF BHUTAN

By

Authorized Representative
Name: NAMEDAY TSHERING
Title: MINISTER
Date: 20.05.2020

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as a Responding Agency of the Pandemic Emergency Facility

By

Authorized Representative
Name: TENZIN LHDON
Title: Acting Resident Representative
Date: May 10, 2020
SCHEDULE 1
Availability of Grant Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program are set forth in paragraph 4 of Pillar B of Section I of Schedule 1 to the Financing Agreement.

Section II. Availability of Grant Proceeds

A. General. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and such additional instructions as the Bank may specify by notice to the Recipient.

B. Allocation of Grant Amounts. The Grant is to be made available for withdrawal by the Recipient in a single withdrawal tranche in the amount determined in accordance with Section 2.02 of this Agreement from which the Recipient may make withdrawals of the Grant.

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of any amount of the Grant unless: (a) the Bank is satisfied based on evidence satisfactory to it, that a government public declaration or other executive notification has been issued, as the case may be, declaring a State of Disaster to respond to an imminent or occurring health-related shock; and (b) the pre-agreed activation criteria as stipulated in the PEF Operations Manual has been satisfied to respond to occurring infectious disease outbreaks, for which the Grant funds are made available from the PEF pursuant to the provisions set forth in the “PEF Funds Allocations Guidelines” set forth in the PEF Operations Manual.

2. Notwithstanding the foregoing, if, at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Grant, the Bank determines that a review of the Recipient’s progress in carrying out the Program is warranted, the Bank shall give notice to the Recipient to that effect. Upon the giving of such notice, no withdrawals shall be made unless and until the Bank has notified the Recipient of its satisfaction, after an exchange of views as described in paragraphs (a), (b), and (c) of Section 3.01 of Article III of this Agreement, with the progress achieved by the Recipient in carrying out the Program.
D. Deposit of Grant Amount. Except as the Bank may otherwise agree:

1. The Recipient, within (thirty) (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Bank: (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. Excluded Expenditures. The Recipient undertakes that the proceeds of the Grant shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Grant was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is October 31, 2020.
SCHEDULE 2

Request for Funds

A. Upon experiencing an outbreak of a high-severity infectious disease, the Recipient may submit a Request for Funds application to the PEF Coordinator through the Bank to seek funding from the PEF, as further described in the PEF Operations Manual.

B. The Request for Funds application shall be substantially in a form set out in the PEF Operations Manual, published online at www.worldbank.org/PEF, as such form may be revised in accordance with the provisions of the PEF Operations Manual.

C. The PEF Coordinator or the PEF Steering Body, as the case may be, will determine whether and how much PEF funding may be made available through the Bank to the Recipient, based on the Request for Funds application submitted by the Recipient.

D. Any amount determined by the PEF Coordinator or the PEF Steering Body, as the case may be, to be made available to the Recipient through the Bank will be transferred from the PEF to the PEF/World Bank Trust Fund.

E. The Bank shall, in accordance with Section 2.02 of Article II of this Agreement, notify the Recipient of the amount made available to the PEF/World Bank Trust Fund for the Bank to provide a grant to the Recipient.
APPENDIX

Section I. Definitions

1. “BTN” means Bhutanese Ngultrum.

2. “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 IDA or IBRD has financed or agreed to finance, or which the IDA or IBRD has financed or agreed to finance under another loan, credit, or grant;

   (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 Bank by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
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</thead>
<tbody>
<tr>
<td>112</td>
<td>121</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
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<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
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<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
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<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and</td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

(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, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Bank;

(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 Recipient determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Grant proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

3. “Financing Agreement” means the agreement dated May______, 2020 entered into between the Recipient and IDA whereby IDA has agreed to provide financing in support of the Program on the basis of: (a) actions which the Recipient has already taken under the Program as described in Pillar B.4 of Section I of Schedule I to the said Agreement; and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.

4. “PEF” means the Pandemic Emergency Financing Facility Trust Fund established by the IBRD in consultation with the World Health Organization and other development partners as a financing arrangement, entailing a trust fund in the form of a financial intermediary fund administered by the IBRD as Trustee, and through which funds may be made available to governments, multilateral agencies, non-governmental organizations and others responders to support efforts to respond to high-severity infectious disease outbreaks before they turn into pandemics.

5. “PEF Coordinator” means the Bank acting in the capacity of the coordinator of the PEF.
6. "PEF Operations Manual" means the operations manual of the PEF dated October 15, 2018, published online www.worldbank.org/PEF as the same may be amended from time to time.

7. "PEF/World Bank Trust Fund" means the trust fund established and administered by the Bank as a Responding Agency of the PEF to receive funds from the PEF (Trust Fund No. TF073092).

8. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated April 1, 2020 from the Recipient to IDA declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from IDA and the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Pillar B.4 of Section I of Schedule I to the Financing Agreement, and actions to be taken consistent with the program’s objectives.

9. "Request for Funds" means a written request for funds application submitted or to be submitted to seek funding from the PEF in the form as specified in the PEF Operations Manual.

10. "State of Disaster" means upon the occurrence of a health related shock, (a) (i) declaration made pursuant to the provisions of the Disaster Management Act; or (ii) the Prime Minister, in his capacity as the ex-officio Chairperson of the NDMA has declared a disaster; or (b) the MoF has, on the recommendation of the NDMA acting under the relevant provisions of the Disaster Management Act, issued in accordance with Section 66 of the Public Finance Act, 2007, an order to authorize use of public funds to be drawn down for the purpose of mobilizing financial resources to respond to a health emergency.

11. "Signature Date" means the later of the two dates on which the Recipient and the Bank signed this Agreement and such definition applies to all references to “the date of the Grant Agreement” in the Standard Conditions.

12. "Standard Conditions" means the Standard Conditions for Grant Financing Made by the Bank Out of Trust Funds”, dated February 25, 2019 with the modifications set forth in Section II of this Appendix.

Section II. Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. Sections 2.01 (Project Execution Generally) and 2.07 (Financial Management: Financial Statements: Audits) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
2. Paragraph (a) of Section 2.03 (renumbered as such pursuant to paragraph 1 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

3. Paragraph (c) of Section 2.04 (renumbered as such pursuant to paragraph 1 above) is modified to read as follows:

"Section 2.04. Plans; Documents; Records. The Recipient shall ensure that:

(c) all records evidencing expenditures under the Grant are retained until two years after the Closing Date; and"

4. Paragraph (c) of Section 2.05 (renumbered as such pursuant to paragraph 1 above) is modified to read as follows:

"Section 2.05. Program Monitoring, Reporting and Evaluation. The Recipient shall:

(c) ensure the preparation and delivery to the Bank, not later than six (6) months after the Closing Date, a completion report of such scope and in such detail as the Bank shall reasonably request on the execution of the Program, the performance by the Recipient and the Bank of their respective obligations under the Grant Agreement and the accomplishment of the purposes of the Grant."

5. Sections 3.05 (Designated Accounts) and 3.06 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article III are renumbered accordingly.

6. 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 Grant is put in support of the Program, other than to finance expenditures excluded pursuant to the Grant Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read as “Program” and its definition is modified to read as follows:
"Program" means the program referred to in the Grant Agreement in support of which the Grant is made. All references to "Project" throughout these Standard Conditions are deemed to be references to "Program".