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FINANCIAL INSTITUTIONS ASSOCIATION OF BHUTAN
THIMPHU : BHUTAN

STANDARD OPERATING PROCEDURE(SOP) FOR IMPLEMENTATION OF BILL DISCOUNTING FACILITY FOR GOVERNMENT CONTRACTS (WORKS)

FINANCIAL INSTITUTIONS ASSOCIATION OF BHUTAN

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A. Purpose

This "Standard Operating Procedure (SOP)" outlines the procedures under which the Drawer (contracting firm), financial institutions and the procuring agency would collaborate in the implementation and execution of the Bill Discounting facility for government contracts (works). The facility aims to improve Drawer's liquidity by providing immediate cash flow by discounting their receivables from procuring agencies through financial institutions.

B. Objective

The objective of this SOP is to ensure efficient, transparent, and compliant use of Bill Discounting for government contracts and ensure adherence to relevant rules and regulations.

C. Eligibility

Drawer who participates in any government procurement of works is eligible to avail Bill Discounting if the following conditions are fulfilled:

- a. Bill discounting shall be eligible on the net verified final bill receivable;
- b. Invoice amount should be of Nu. 1 million or more;
- c. Bill discounting shall be availed from the same financial institution that has provided the overdraft facilities for the work-awarded;

D. Exposure

As the underlying security is a Bill of Exchange duly accepted by the Procuring Agency, hence it shall be eligible for RWA applicable on exposure to Government.

E. Tenure

Maximum of **30 days**. The Procuring Agency shall inform the FIs if any validity extension is required **beyond 30 days** before the due date. The due date will accordingly be extended for the requested extension period subject to upfront payment of interest amount for the requested extension period. The Procuring Agency will also accept the revised payment terms of the Bill of Exchange.

F. Discount Rate/Interest

The Bill can be discounted at an interest rate of 8% p.a. as the facility is secured against a Bill of Exchange drawn on the Government with 0% RWA, which the Procuring Agency will unconditionally accept for a certain amount to be paid on the due date.

G. Disbursement

The eligible amount will be the net verified Bill amount/Bill of Exchange amount less **30 days** interest amount.

In case the payment is made by the Procuring Agency **before 30 days** the corresponding interest amount for the unexpired period will be paid back to the Contractor by the respective FI.

Further, if the drawer has already availed any credit facility from the FIs against the same work awarded, then the disbursement from the bill discounted will be first



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adjusted towards the existing credit facilities.

H. Roles & Responsibilities

1. Drawer

- i. Bear discount rate/interest, applicable fees and charges.;
- ii. Ensure timely settlement of discounted bills.
- iii. Coordinate with the procuring agency with regard to bill verifications to ensure timely payments.
- iv. Ensure that Bill discounting is obtained from the same financial institution that provided the overdraft facility for the work-awarded.
- v. A bill of exchange will be drawn by the Drawer on the Procuring Agency as per **Annexure 1**. The sum payable in the bill of exchange will be “certain”, and accepted by the Procuring Agency to be unconditionally payable on due date to the discounting FI.
- vi. Ensure to submit a request for discounting of bill of exchange drawn on the Procuring Agency as per **Annexure 2**.
- vii. Execution of required legal documents as outlined in this SOP.

2. Procuring Agency

- i. Unconditionally accept the Bill of exchange drawn by the Drawer. The amount to be paid on the due date should be certain. The due date of payment will be clearly outlined at the time of accepting the Bill of Exchange.
- ii. Forward the request for bill discounting to the FI as per **Annexure 3**.
- iii. Ensure timely verification of the bills and net amount for the bill submitted by the Drawer.
- iv. Any invoices that are under dispute shall not be eligible for Bill Discounting.
- v. Maintain proper documentation and payment schedule to avoid any delay.
- vi. Pay the full value of the bill to the Financial Institutions on the due date.
- vii. In the event of default of payment by the procuring agency beyond the period specified in the contract agreement, the procuring agency shall be liable for reimbursement of the discount/ interest amount and applicable charges incurred due to delayed payment.
- viii. Execution of required legal documents as outlined in this SOP.
- ix. Keep records of the bills discounted and payment thereof.

3. Financial Institution

- i. Ensure legal documentation formality as outlined under the SOP.
- ii. Ensure timely disbursement;
- iii. Recover the full value of the bill from the Government Procurement Agency on the due date;
- iv. Share information on disbursement of discounted amounts to the



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procuring agency.

- v. Alert procuring agency on the maturing bill before five working days of due date.
- vi. Keep track of discounted bills, their maturity dates and follow-up with concerned parties.
- vii. Maintain and share data on discounted bills to MOF.

I. Process Flow

- i. The Contractor will submit his final bill to the Procuring Agency.
- ii. Procuring Agency will verify the final bill.
- iii. The Contractor (Drawer) will draw a bill of exchange on the Procuring Agency (Drawee) as per **Annexure 1**.
- iv. The Contractor will also submit a request for discounting of the bill of exchange drawn on the Procuring Agency as per **Annexure 2**.
- v. The Head of Finance of the Procuring Agency will forward the request of bill discounting to the respective FI as per Annexure 3 along with unconditional acceptance on the bill of exchange drawn.
- vi. The FI after receiving the complete application and documents will process the request.

J. Settlement mode

- i. The debit advice will be issued from the respective procuring agency's LC/PLC account which will specify the appropriate credit bill discounting account and the name of the FI.
- ii. As it is currently practiced with offline debit advice (swift transactions) the procuring agency's LC/PLC's signatory authority will suffice for the debit advice.
- iii. If the bill discounting settlement is at FIs other than BoB, remittance will be routed through BIRT and the associated charges will be charged to the Procuring agency's LC/PLC account.
- iv. The instructions regarding the charging of the associated charges for the above-mentioned remittance will be captured in the debit advice.
- v. Once the bill discounting has been sanctioned to the contractor, the respective FI will have to communicate to the procuring agency the following details:
 - a. The credit bill discounting account,
 - b. The name of the FI
 - c. The amount disbursed
 - d. The interest amount
 - e. The due date for the settlement

K. Review and Amendment

The FIAB shall, as it may deem necessary, review and update this SOP to reflect any changing environment, policies or regulations.