Hon’ble Lyonpo Namgay Dorji  
Minister of Finance  
Ministry of Finance  
Royal Government of Bhutan  
Tashichhodzong  
Thimphu, Kingdom of Bhutan

Re: SAWI Grant No.TF0A3513  
Hydromet Services and Disaster Resilience Regional Project  
Letter Agreement

Excellency:

In response to the request for financial assistance made on behalf of Kingdom of Bhutan ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided by various donors ("Donors") under the Multi-Donor Trust Fund for the South Asia Water Initiative Phase-2 ("SAWI TF No.071929"), proposes to extend to the Recipient, a grant in an amount not to exceed five hundred thousand United States Dollars (U.S.$500,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

Whereas, (a) by an agreement to be entered into between the World Bank and the Recipient ("CBDRM Grant Agreement"), the World Bank, acting as administrator of grant funds provided by the European Commission under the European Union-South Asia Capacity Building for Disaster Risk Management Single-Donor Trust Fund ("CBDRM TF No.072458"), will make an additional grant to the Recipient in an amount not to exceed one million five hundred thousand United States Dollars (US$1,500,000) in support of the Project on the terms and conditions set forth in such agreement; and (b) by an agreement to be entered into between the World Bank and the Recipient ("MDRM Grant Agreement"), the World Bank, acting as administrator of grant funds provided by Japan under the Japan-World Bank Program for Mainstreaming Disaster Risk Management in Developing Countries Single-Donor Trust Fund ("MDRM TF No.072129"), will make an additional grant to the Recipient in an amount not to exceed one million eight hundred thousand United States Dollars (US$1,800,000) in support of the Project on the terms and conditions set forth in such agreement.

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT
ASSOCIATION

By  Yoichiro Ishihara
Resident Representative and Senior Economist
Bhutan Country Office
South Asia Region

AGREED:
KINGDOM OF BHUTAN

By:  
Authorized Representative

Name:  Namgay Dorji
Title:  Minister
Date:  Sept 21, 2016

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions"), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, including, without limitation, in the paragraphs set forth below:

(a) “DDM” means the Department of Disaster Management under the Recipient’s Ministry of Home and Cultural Affairs, or any successor thereto, acceptable to the World Bank.

(b) “DHMS” means the Department of Hydromet Services under the Recipient’s Ministry of Economic Affairs, or any successor thereto, acceptable to the World Bank.

(c) “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impact on the livelihoods of such persons.

(d) “DOA” means the Department of Agriculture under the Recipient’s Ministry of Agriculture and Forests, or any successor thereto, acceptable to the World Bank.

(e) “Environmental and Social Management Plan(s)” and the acronym “ESMP(s)” mean the Recipient’s environmental and social management plan to be prepared pursuant to Section 2.03(h)(iii) of this Agreement, setting forth mitigation, enhancement, monitoring and institutional measures, including capacity building through training, required to eliminate any adverse environmental and social impacts of activities to be implemented under the Project; offset them, or reduce them to acceptable levels; enhance any positive impacts thereof; prescribe the procedures of the assessment, identification of Displaced Persons, terms and conditions for providing them with resettlement assistance and/or compensation, as well as the Displaced Persons’ entitlement schedule and mitigation of related social impacts arising from the carrying out of the Project, as such plans may be revised, updated or supplemented from time to time with the prior written concurrence of the World Bank.

(f) “ESMF” means the Environmental and Social Management Framework dated June 2016 adopted by the Recipient and disclosed on June 7, 2016, acceptable to the World Bank, which sets out the details of measures to manage potential environmental and social risks and mitigate, reduce and/or offset adverse environmental and social impacts resulting from, or likely to result from, the carrying out of the Project, including land acquisition and involuntary resettlement, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms, and includes principles and guidelines for the preparation of
any ESMP, as such framework may be revised from time to time with prior written approval of the World Bank.

(g) "Training" means the reasonable costs, as shall have been approved by the World Bank, of training under the Project, and attributable to seminars, workshops, and study tours, along with tuition, travel and subsistence allowances for training participants, costs associated with securing the services of trainers and workshop speakers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to course preparation and implementation (but excluding goods and consultants' services).

(h) "World Bank Safeguard Policies" means the World Bank's operational policies and procedures set forth in the World Bank's Operational Manual and identified as OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under www.WorldBank.org/opmanual.

Article II

Project Execution

2.01. Project Objectives and Description. The objective of the Project is strengthen the Recipient's capacity for hydromet services and disaster preparedness. The Project consists of the following parts:

(a) Part A: Hydromet Services Improvement

Carrying out a set of activities, through DHMS, to strengthen the capacity of DHMS to improve hydromet monitoring, forecasting and services through improvements in monitoring, forecasting, information and communications technology, hardware and software, and training, capacity strengthening, provision of consultants' services to prepare bidding packages, project management and monitoring and evaluation activities.

(b) Part B: Disaster Preparedness and Response Capacity Improvement

Carrying out a set of activities, through DDM, to strengthen the capacity for disaster preparedness and response, through: (i) the establishment of a National Emergency Operations Centre, procuring emergency communication equipment for the district disaster management offices, and establishment of fueling stations and helipads for emergency helicopter operation; and (ii) establishment of a disaster risk management geomatics system within DDM, related training and capacity building activities, project management and monitoring and evaluation activities.

(c) Part C: Design of an agromet decision support system

Carrying out a set of activities, through DOA, in collaboration with DHMS, to design an agromet decision support system, development and delivery of agromet information products in selected areas, and the related training and capacity building activities.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Part A of the Project through DHMS, Part B of the Project through DDM, and Part C of the Project through DOA, in collaboration with DHMS, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA
2.03. Institutional and Other Arrangements. The Recipient shall:

(a) through DHMS carry out Part A of the Project; through DDM carry out Part B of the Project; and through DOA (in collaboration with DHMS) carry out Part C of the Project, and shall maintain, at all times during the implementation of the Project, staff and resources for such purpose satisfactory to the World Bank.

(b) no later than forty-five (45) days from the date of the countersignature by the Recipient of this Agreement, establish a steering committee with composition and functions acceptable to the World Bank to ensure appropriate coordination and inputs, as needed from DHMS, DDM and DOA are obtained for the carrying of the Project.

(c) through DDM, no later than ninety (90) days from the date of the countersignature by the Recipient of this Agreement, appoint and thereafter maintain throughout the implementation of the Project, a project coordinator responsible for the overall project coordination with DHMS and DOA, organizing steering committee meetings, compiling financial reports and procurement plans and assisting the project focal persons of the project implementation units in coordinating activities under the Project.

(d) no later than thirty (30) days from the date of the countersignature by the Recipient of this Agreement, through DHMS, DDM, and DOA, each establish a project implementation unit, headed by a project focal person to carry out the day-to-day management of the activities under the Project, including: (i) timely procurement of goods, works, and consultants under the Project, in accordance with the Procurement Guidelines, the Consultant Guidelines, and the Procurement Plan (as such terms are hereinafter defined); (ii) coordination with other relevant technical department/agencies of the Recipient for their inputs in the design and implementation of the proposed activities under the Project; and (iii) collection and compilation of required information for the Project implementation monitoring and evaluation.

(e) through, DDM, submit to the World Bank, the overall financial reports required under the Project in coordination and with inputs obtained from DHMS and DOA for their respective part of the Project.

(f) no later than forty-five (45) days from the date of the countersignature by the Recipient of this Agreement, establish a joint technical working group with composition and functions acceptable to the World Bank to ensure appropriate coordination and exchange for the development of services under the Project.

(g) without limitation upon the provision of Section 2.02 above and in order to ensure proper implementation of the Project in an environmentally and socially responsible manner, ensure that the terms of reference for any consultancies related to any studies, technical assistance and capacity building activities under this Agreement shall be satisfactory to the World Bank following its review thereof, and, to that end, such terms of reference shall duly incorporate the requirements of the World Bank's Safeguard Policies, as applied to any consultations, information gathering and advice conveyed through such studies, technical assistance and capacity building activities.
(h) cause the DHMS, DDM, and DOA to:

(i) carry out of the Project in accordance with this Agreement;

(ii) ensure that all civil works to be financed through the Grant are technically and economically viable, and have been designed and appraised, with due regard for public health, safety, social and environmental standards acceptable to the World Bank, and are carried out in accordance with the ESMF;

(iii) in the case of any activity requiring the adoption of a ESMP(s), proceed to have such ESMP(s): (A) prepared in accordance with the ESMF; (B) submitted to the World Bank for review and approval; and (C) thereafter adopted and publicly disclosed, prior to the implementation of such activity; and

(iv) protect the interests of the Recipient and the World Bank to accomplish the purposes of the Project.

(i) ensure that the proceeds of the Grant are neither utilized to finance: (i) any land acquisition; nor (ii) any compensation, resettlement and rehabilitation payment to Displaced Persons as per the ESMP(s).

(j) ensure that all goods, works and services provided for the carrying out of the activities to be financed under Part B of the Project are not used either directly or indirectly for a military and/or paramilitary purpose.

2.04. *Donor Visibility and Visit.* (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors’ support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. *Project Monitoring, Reporting and Evaluation.* (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Strengthened capacity for hydromet services through increase in number of services developed.

(ii) Improved capacity for preparedness through strengthened emergency communications capacity established at the district level.
(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than one month after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:


(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Works**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and works shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the following additional procedures: use of World Bank model bidding document.
(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods and works for those contracts which are specified in the Procurement Plan: (A) International Competitive Bidding; (B) Shopping; (C) procurement under Framework Agreements in accordance with procedures which have been found acceptable to the World Bank; (D) Direct Contracting; (E) Force Account; and (F) Community Participation procedures which have been found acceptable to the World Bank.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants' services, Training and Incremental Operating Costs under the Project</td>
<td>500,000</td>
<td>13.16%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>500,000</td>
<td></td>
</tr>
</tbody>
</table>
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is June 30, 2017.

**Article IV**

**Effectiveness; Termination**

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the CBDRM Grant Agreement and the MDRM Grant Agreement, dated the same date as this Agreement, between the Recipient and World Bank, providing a grant in support of the Project, have been executed and delivered and all conditions precedent to their effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

4.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.03. **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 ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

    Ministry of Finance
    Tashichhodzong
    Thimphu, Kingdom of Bhutan

    Facsimile:
    975-2-334994
5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development/
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Facsimile:

1-202-477-6391