Honourable Minister Wangdi Norbu
Minister of Finance
Ministry of Finance
Royal Government of Bhutan
Thimphu
BHUTAN

Excellency:

Re: Bhutan: IDF Grant for Institutional Strengthening of the Ministry of Labor and Human Resources Project
IDF Grant No. TF097102

In response to the request for financial assistance made on behalf of the Kingdom of Bhutan (the “Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (the “World Bank”) proposes to extend to the Recipient, a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed four hundred ninety eight thousand five hundred United States Dollars (U.S.$498,500) (the “Grant”) on the terms and conditions set forth or referred to in this letter agreement (the “Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

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. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

/s/ Mark F. LaPrairie
Representative for Bhutan
South Asia Region
Honourable Minister Wangdi Norbu

AGREED:

KINGDOM OF BHUTAN

By /s/ Lam Dorji
Authorized Representative
Name Lam Dorji
Title Finance Secretary
Date July 7, 2010

Enclosures:


ANNEX

Article I
Standard Conditions; Definitions

1.01. Standard Conditions. The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 ("Standard Conditions"), with the modifications set forth in the Appendix to this Agreement, 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 as follows:

"MoLHR" means the Recipient’s Ministry of Labor and Human Resources, or any successor thereto.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to support the Recipient in its effort to strengthen the institutional capacity of the Ministry of Labor and Human Resources to facilitate employment and labor market entry of Bhutanese youth.

The Project consists of the following parts:


(a) Provision of technical assistance to MoLHR to develop national employment policy which guides employment creation and employment promotion strategies to address both the supply and demand side aspects of employment; and

(b) Provision of technical assistance to MoLHR, and training to MoLHR staff, private sector representatives and others to acquire international knowledge in occupational health and safety (OHS) in the work place, and to finalize and disseminate OHS regulations.

Part 2. Development of Innovative Public Private Partnerships for Skills Development

(a) Strengthening the capacity of MoLHR to identify, negotiate and supervise private and public sector training providers, thus building the blocks for future expansion of training focused on Bhutanese youth to help them enter the labor market; and

(b) Evaluate the experience of working with training providers to achieve the training and skills development objectives of the Recipient.

Part 3. Building the Capacity of MoLHR to Promote Employment and Labor Services

(a) Strengthening the human resources capacity of the regional employment and labor offices under MoLHR, to deliver services such as counseling job seekers, labor dispute resolution and labor inspection, through the provision of training and technical assistance.
(b) Strengthening the administrative capacity of MoLHR, particularly in policy development and planning, and in procurement, through the provision of training and technical assistance.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MoLHR 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 Credits and Grants”, dated October 15, 2006, with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. **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 sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than one (1) 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) National Employment policy developed;

(ii) OHS regulations reviewed and approved;

(iii) Number of contracts signed with private service providers; and

(iv) Service delivery of the regional offices improved.

(c) The Recipient shall, upon the World Bank’s request, 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 October 31, 2013.

2.04. **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 not later than forty-five (45) days 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.

2.05. **Procurement**
(a) **General.** All goods and 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:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services.

(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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods.** Goods shall be procured under contracts awarded on the basis of Shopping if the estimated value of the contract is less than USD 30,000 or its equivalent. If the estimated value of the contract is more than USD 30,000 or its equivalent National Competitive Bidding method will be used, subject to procedures listed in the Attachment to this Annex.

(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 may be used for the procurement of consultants’ services for those assignments which the World Bank agrees to meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Established Private or Commercial Practices which have been found acceptable to the World Bank; (G) Selection of Service Delivery Contractors which have been found acceptable to the World Bank; (H) Selection of Individual Consultants; and (I) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for goods estimated to cost the equivalent of $100,000 or more; (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and (c) individual consultant contract with estimated cost of more than USD 50,000 or its equivalent. 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) Article III of 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”) 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, Consultants’ Services and Training and Workshops</td>
<td>498,500</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>498,500</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training and Workshop” means the costs associated with training of personnel involved in the implementation of the Project including travel and subsistence costs for training and workshops, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials and other costs directly related to workshop and training courses preparation and implementation.

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 countersignature of this Agreement by the Recipient.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three (3) years after the date of countersignature of this Agreement by the Recipient.

Article IV
Recipient’s Representative; Addresses

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

4.02. 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

Cable address: Ministry of Finance
Facsimile: 323154
Thimphu, Bhutan

4.03. **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
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391

Washington, D.C.
Attachment to Annex

National Competitive Bidding Procedures

In order to ensure economy, efficiency and transparency and broad consistency with the provisions of Section I of the Procurement Guidelines the following should be followed:

(a) invitations to bid shall be advertised in at least one (1) widely circulated national newspaper, at least thirty (30) days prior to the deadline for the submission of bids;

(b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(c) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

(d) bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(e) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(f) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(g) contracts shall be awarded to the lowest evaluated bidders;

(h) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;

(i) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(j) annual rate contracts entered into by the implementing entity shall not be acceptable as a substitute for National Competitive Bidding Procedure; such contracts shall be acceptable for any procurement under Shopping as one of the quotation;

(k) re-bidding shall not be carried out without the prior concurrence of the Association;

(l) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents no preference of any kind shall be given to any bidder;

(m) a bidder’s bid security shall apply only to a specific bid, and a contractor’s performance security shall apply only to the specific contract under which it was furnished;
(n) split award or lottery in award of contracts shall not be carried out when two (2) or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:

(i) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and

(ii) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;

(o) extension of bid validity shall not be allowed without the prior concurrence of the Association: (i) for the first request for extension if it is longer than four (8) weeks, and (ii) for all subsequent requests for extension irrespective of the period;

(p) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and

(q) there shall not be any restrictions on the means of delivery of the bids except electronic submission of bidding documents.
APPENDIX

Modifications to the Standard Conditions and the Anti-Corruption Guidelines

A. The Standard Conditions are modified as follows:

1. The provisions of Section 4.02 (j) of the Standard Conditions are modified to read as follows:

   ... (j) Ineligibility. IBRD or IDA has declared the Recipient (other than the Member Country) ineligible to receive proceeds of any financing made by IBRD or IDA or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA, as a result of: (i) a determination by IBRD or IDA that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Recipient is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

B. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   “... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

   “… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such
financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”