January 14, 2013

Honourable Minister Wangdi Norbu
Minister of Finance
Ministry of Finance
Royal Government of Bhutan
Tashichhodzong
Thimphu, Kingdom of Bhutan

Re: Kingdom of Bhutan: IDF Grant for Strengthening Public Financial Management in Bhutan Project
IDF Grant No. "F013185"

Excellency:

In response to the request for financial assistance made on behalf of the Kingdom of Bhutan ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("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 five hundred fifty thousand United States Dollars (US$550,000) ("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").

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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 (ninety) days after the date of signature of this Agreement by the World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

[Signature]

Robert J. Saum
Country Director for Bhutan
South Asia Region
AGREED:
KINGDOM OF BHUTAN

By [Signature]
Authorized Representative
Name: MR. TAM DORTI
Title: FINANCE SECRETARY
Date: 31st January 2013

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
ANNEX

Article I
Standard Conditions; Definitions


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.

(a) “Accounting and Auditing Standards Board of Bhutan” or “AASBB” means the Accounting and Auditing Standards Board of Bhutan, established under the Ministry of Finance’s Office order MOF/DP/AAASBB9619 of May 25, 2010, or any successor thereto.

(b) “Debt Management Division” means the debt management division under the Department of Public Accounts of the Ministry of Finance responsible for maintaining the records of all external loans, government guaranteed loans, on-lent loans and domestic loans, including the maintenance of the database, loan records, processing of payments as well as providing debt service information.


(d) “FRR 2012/2013” means the financial rules and regulations to be revised and issued in 2012/2013 incorporating all the amendments/circulars to date and to replace FRR 2001.

(e) “Internal Audit Bureau” means the Director led bureau to be established within the Ministry of Finance responsible for administering the internal audit service, and issuing internal audit guidelines, policies and procedures as a successor to the Central Coordinating Agency, in accordance with Section 2.03(c)(i) of the Annex to this Agreement.

(f) “Internal Audit Manual” means the Manual drafted for internal audit function by the Central Coordinating Agency and to be approved by the Ministry of Finance.

(g) “Ministry of Finance” or “MoF” means the Recipient’s Ministry of Finance, or any successor thereto.

(h) “Public Financial Management Governance Group” or “PFM-GG” means the group to be established and to be supported by a Public Financial Management Secretariat comprising senior officials from various ministries/government bodies to provide oversight, guidance, revise and monitor progress of the implementation of the Recipient’s Public Financial Management Reform Program, in accordance with Section 2.03(c)(ii) of the Annex to this Agreement.
(i) "Public Financial Management Reform Program" means the Recipient’s prioritized reform actions in the area of Public Financial Management, as may be amended from time to time, and received by the World Bank under a letter dated June 29, 2012.

(j) "Public Financial Management Secretariat" or "PFM-Sec" means a unit formed by Ministry of Finance for supporting the PFM-GG in its functioning, in accordance with Section 2.03(c)(ii) of the Annex to this Agreement.

Article II
Project Execution

2.01. Project Objectives and Description. (a) The objectives of the Project are to assist the Recipient (i) improve its financial management in the public and private sector; and (ii) implement its Public Financial Management Reform Program.

(b) The Project consists of the following parts:

Part A. Strengthening Internal Audit Functions of the Internal Audit Bureau

(i) Strengthening the internal audit functions of the Internal Audit Bureau (a) to design acceptable oversight framework for internal audit coverage of national and sub-national governments; (b) to revise and promulgate the current Internal Audit Manual and charter in Bhutanese context and meeting international standards; (c) to provide technical assistance on developing a career planning model for rendering internal audit service as an attractive career option in order to attract quality in-service candidates; and (d) to enhance the skills of internal audit staff through training and workshops, purchase of equipment and internal audit software.

(ii) Preparation and publication of annual summary internal audit reports at national level and carry out approximately five (5) pilot internal audits with improved methodology, risk and systems focus and report presentation.

(iii) Providing assistance to public sector internal auditors (staff of internal audit unit of the Ministry of Finance) to obtain professional certification such as Certified Government Auditing Professional (CGAP) or Certified Internal Auditor (CIA).

Part B. Strengthening the Ministry of Finance’s Public Accounting Functions

(i) Providing technical assistance to establish and initiate the functioning of the Public Financial Management Governance Group and the Public Financial Management Secretariat that will facilitate implementation of the Recipient’s Public Financial Management Reform Program.

(ii) Provision of technical assistance for the carrying out of an evaluation of the existing separate systems for expenditure management, budgeting and planning and revenue management to explore options such as integrating and upgrading the existing standards systems into an integrated financial management information systems and/or introducing a new enterprise resource planning platform such as SAI or Oracle.
(iii) Provision of training to the Debt Management Division staff for monitoring project implementation, progress, reporting and funds withdrawal management, specifically in the areas of disbursement and financial management procedures, and provision of equipment to safeguard records and to improve the efficiency of its operations.

(iv) Provide training at the national and sub-national levels to approximately sixteen (16) accounts officers and approximately twenty (20) accounts heads from Dzongkhags (districts).

(v) Provision of technical assistance to the Ministry of Finance to revise FRR 2001 and issue a revised FRR 2012/2013 which incorporates all the amendments/circulars to date making it accessible to keep track and reducing the risk of non-compliance.

Part C. Technical Assistance to the Accounting and Auditing Standards Board of Bhutan

Provision of technical assistance to the Accounting and Auditing Standards Board of Bhutan, including training to accounting staff of approximately thirty-three (33) large companies that include both government- and private-owned companies, on the preparation of financial statements applying the Bhutanese Accounting Standards modeled on international financial reporting standards, to increase reliability and credibility of annual financial statements.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Parts A of the Project through the Central Coordinating Agency, Part B of the Project through its Department of Public Accounts, and Part C of the Project through the Accounting and Auditing Standards Board of Bhutan and its Department of Public Accounts all 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 and revised in January 2011 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. Institutional and Other Arrangements. (a) The Recipient shall ensure that the Department of Public Accounts is responsible for the overall coordination and implementation of the Project.

(b) The Recipient shall ensure that (i) the Department of Public Accounts coordinates with the Central Coordinating Agency in carrying out Part A of the Project; and

(c) The AASBI and its Department of Public Accounts collaborate and coordinate in carrying out Part C of the Project.

(c) The Recipient shall establish (i) the Internal Audit Bureau not later than twelve (12) months after the date of the countersignature this Agreement by the Recipient; and (ii) the Public Financial Management Governance Group and the Public Financial Management Secretariat not later than six (6) months after the date of the countersignature this Agreement by the Recipient, all to be maintained throughout the implementation of the Project with adequate and qualified staff as required for the Project.
2.04. Project Monitoring, Reporting, and Evaluation. 

(a) The Recipient shall monitor and evaluate the progress of the Project, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one (1) month after the date of such request.

(b) 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 five (5) months after the Closing Date.

2.05. 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 (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. Procurement

(a) General. All goods 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:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(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 (“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 1.8 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
Honourable Minister Wangdi No:bu

Procurement Guidelines, or Sections I, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services.** Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(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 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 (C) Single-source procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise agree, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for goods estimated to cost the equivalent of $30,000 or more procured on the basis of shopping; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of $100,000 or more or contracts with Individual Consultants estimated to cost the equivalent of $0,000 or more. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

**With Irawal 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”), 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>
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<tbody>
<tr>
<td>(1) Goods</td>
<td>29,485</td>
<td>100%</td>
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<tr>
<td>(2) Consultants' Services</td>
<td>373,025</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training</td>
<td>147,490</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>550,000</strong></td>
<td></td>
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</tbody>
</table>

For the purposes of this paragraph the term “Training” means the cost of training incurred under the Project as per World Bank approved training plan, attributable to courses, seminars and workshops, and comprising travel costs and subsistence allowances for training participants, costs associated with securing the services of trainers and speakers, rental of training facilities, and preparation and reproduction of training materials, and other costs directly related to training 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.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three 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:  
Facsimile:  
Ministry of Finance  
Thimphu, Bhutan  
323154
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

<table>
<thead>
<tr>
<th>Cable:</th>
<th>Telex</th>
<th>Facsimile:</th>
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<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI) or 4145 (MCI)</td>
<td>1-202-477-6391</td>
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