Dasho Nim Dorji  
Hon'ble Secretary  
Ministry of Finance  
Royal Government of Bhutan  
Tashichhodzong  
Thimphu, Kingdom of Bhutan

Re: Bhutan Multi Donor Fund for Public Financial Management Reform Program  
Strengthening Public Financial Management Project  
Grant No. TF0A5549  
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 Development Association ("World Bank"), acting as administrator of grant funds provided by donors ("Donors") under the Bhutan Multi Donor Fund for Public Financial Management Reform Program, proposes to extend to the Recipient a grant in an amount not to exceed four million United States Dollars (USD 4,000,000) ("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").

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.

1818 H Street NW • Washington, DC 20433 USA
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 DEVELOPMENT ASSOCIATION
(acting as the administrator of the Bhutan Multi Donor Fund for the Public Financial Management Reform Program)

By: [Signature]

Country Director for Bangladesh, Bhutan and Nepal

AGREE:

KINGDOM OF BHUTAN

By: [Signature]

Authorized Representative

Name

Title

Date:

Enclosures:


2. Disbursement Letter of the same date as this Agreement, together with the "Disbursement Guidelines for Investment Project Financing", dated February 2017
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.

(a) “AASBB” means the Accounting and Auditing Standards Board of Bhutan, established under the Ministry of Finance’s Office order MOF/DPA/AASBB9619 of May 25, 2010, or any successor thereto.

(b) “BAS” means the Bhutanese Accounting Standards issued by the AASBB and launched in April 6, 2012.

(c) “CCA” means the Central Coordinating Agency, Internal Audit, of the Ministry of Finance of the Recipient, or any successor thereto.

(d) “DMEA” means the Department of Macroeconomic Affairs of the Ministry of Finance of the Recipient, or any successor thereto.

(e) “DNB” means the Department of National Budget of the Ministry of Finance of the Recipient, or any successor thereto.

(f) “DPA” means the Department of Public Accounts of the Ministry of Finance of the Recipient, or any successor thereto.

(g) “DRC” means the Department of Revenue and Customs of the Ministry of Finance of the Recipient, or any successor thereto.

(h) “GPPMD” means the Government Procurement and Property Management Division of the Ministry of Finance of the Recipient, or any successor thereto.

(i) “Goods and Services Tax” or “GST” means the indirect tax proposed to be levied by the Recipient on goods and services sold in the territory of the Recipient.

(j) “HRD” means the Human Resources Division of the Ministry of Finance of the Recipient, or any successor thereto.

(k) “Incremental Operating Costs” means the reasonable costs required for management and supervision of Project activities including equipment, facilities, office supplies, consumables, communication expenses, translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, Project-related meeting expenses, Project-related travel, subsistence and lodging expenses, and other administrative costs directly related to the Project, costs of support staff, but excluding salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient’s civil service.
Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to contribute to the improvement of the efficiency, accountability and transparency of public financial management systems in Bhutan. The Project consists of the following parts:

Component 1: Strengthening Public Financial Management Legal and Institutional Framework
(a) Supporting activities related to Recipient’s GST implementation strategy, that shall include setting the legal and operational environment (ii) supporting the preparation of the design document for cabinet approval, and providing technical assistance for the drafting of GST law and excise law/regulations (ii) business process and institutional review of the DRC, (iii) development of the ICT strategy for GST implementation including website development, (iv) capacity building for stakeholders and outreach during the various stages and (v) providing necessary office equipment.

(b) Improving budget documentation, analysis and classification including through enhanced focus on gender and climate change.

Component 2: Strengthening Budget Execution and Oversight Capacities

(a) Strengthening public procurement systems, including automation

To support this objective, the following activities will be supported:

Part I: Designing and implementation of electronic government procurement.
Supporting the remaining phases in the electronic government procurement development. In phase II, the development of the grievance redress/complaints mechanism, system integration with Construction Development Board (CDB) and financial institutions and enhancement of registration and reporting system. In phase III aspects such as catalogues, purchase order, online evaluation, contract management, reverse auction, system integration, integration to e-Payment and e-invoice and reporting along with the necessary training of government users and bidders/suppliers/consultants will be supported.

Part II: Procurement policy review and capacity development.
Providing the (i) consultancy support for drafting and reviewing a procurement bill and public procurement rules and regulations including its translation and printing, (ii) development of the standard bidding documents for various methods and items, (iii) capacity building of the staff of GPPMD and relevant procurement officers of the Recipient and (iv) design and implementation of a framework agreement for long term contracts.

(b) Improving Accounting and Reporting Systems

To support this objective, the following activities will be supported:

Part I: Strengthening of public financial management processes and information systems and their integration for moving towards an integrated financial management information system.
This will be done by steps such as strengthening the core public financial management processes and systems and integrating these with other computerized systems, establishing data warehousing and mining capabilities, relevant audits and studies, and capacity development of core team and stakeholders.

Part II: Implementing international public sector accounting standards.
Supporting activities in building capacity, information and other systems/processes/procedures required for implementation.

(c) Strengthening Internal Controls and Accountability Institutions.
To support this objective, the following activities will be supported:

**Part I: Enhancing internal audit effectiveness**
This will be done by (i) Reinforcing focus on systems/thematic audits and enhancing the knowledge and capacity of internal auditors (ii) Building capacity of internal auditors to use advanced auditing and audit management tools (iii) Designing, developing and implementing a quality assurance process and external independent review of the function (iv) Collaboration with peer internal audit agencies and (v) Internal audit outreach activities.

**Part II: Supporting AASBB on implementation of accounting and auditing standards and establishment of professional accountancy organization**
(i) Assisting AASBB in implementing phase-wise roll-out of the accounting and auditing standards to state owned enterprises and private companies and (ii) supporting the establishment of the Institute of Chartered Accountants of Bhutan (ICAB).

**Part III: Capacity building of the Parliamentary Finance Committee and the Public Accounts Committee.**
Providing (i) technical backstopping and capacity building to the Parliamentary Finance Committee and its Secretariat to enhance budget scrutiny and (ii) capacity building to the members of the Public Accounts Committee and its Secretariat.

(d) Capacity development in public financial management of the officials of the Recipient including MoF officials which shall include development of (i) competency framework, training needs assessment, and training courses for supervisory staff and (ii) training courses for public financial management staff at other levels working for the Recipient.

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 Component 1(a) of the Project through DRC, Component 1(b) of the Project through PPD and DNB, Component 2(a) of the Project through GPPMD, Component 2(b) of the Project through DPA, Component 2(c) Part I of the Project through CCA, Component 2(c) Part II of the Project through AASBB, Component 2(c) Part III of the Project through the Parliamentary Finance Committee and Public Accounts Committee, Component 2(d) of the Project through HRD and DPA, 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 and as of July 1, 2016 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Institutional and Other Arrangements.** (a) The Recipient shall ensure that the DPA is responsible for the overall coordination and implementation of the Project and shall establish and maintain, not later than one (1) month after the date of countersignature of this Agreement by the Recipient and throughout the period of implementation of the Project, a PIU, with adequate professional and administrative staff in numbers and with qualification and experience and under terms of reference satisfactory to the Association, and headed by a Project manager, as such unit shall be required to, inter alia: (i) carry out day-to-day overall Project implementation and management including overall financial management and reporting; (ii) carry out regular quality control, supervision, and monitoring and evaluation of the Project’s performance.

(b) The Recipient shall ensure that the DPA coordinates with the PPD, GPPMD, DNB, DRC, CCA, DMEA, HRD in the MoF and the AASBB, RAA, Parliamentary Finance Committee and Public Accounts Committee in carrying out the various sub-Components of the Project.
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. **Documents; Records.**

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient's financial and narrative progress reports submitted to the World Bank; (iii) the Recipient's financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient's implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donors.

2.06. **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 acceptable to the World Bank. Each Project Report shall cover the period of each bi-annual period, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.

(b) 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 (6) months after the Closing Date.

2.07. **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 bi-annual period, covering the bi-annual period, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have the Project 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 (6) months after the end of such period.
2.08. **Procurement**

All goods consulting 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 the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Project (“Procurement Plan”) dated September 19, 2017 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with 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 “Disbursement Guidelines for Investment Project Financing”, dated February 2017, 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, Consulting Services, Incremental Operating Costs and Training and Workshops under the Project</td>
<td>4,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>4,000,000</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 January 31, 2021.

**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

Facsimile: 323154
4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  

Facsimile:  
1-202-477-6391