Honourable Minister Namgay Do-ji
Ministry of Finance
Royal Government of Bhutan
Tashichhodzong
Thimphu, Kingdom of Bhutan

Re: SARIP Grant No.TF0A0099
Bhutan Regional Trade and Transport Studies Project

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 under the Partnership for South Asia Regional Integration Programmatic Trust Fund (TF071881) ("SARIP"), 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").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor(s). 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 Donor(s) 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. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.
Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

By Genevieve Boyreau
Senior Economist and Resident Representative
Bhutan Country Office
South Asia Region

AGREED:
KINGDOM OF BHUTAN

By: [signature]
Authorized Representative

Name: [signature]
Title: Finance Minister
Date: 20 May, 2013

Enclosures:
(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
(3) 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.
Article I
Standard Conditions; Definitions


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

(a) "MoEA" means the Recipient’s Ministry of Economic Affairs, or any successor thereto acceptable to the World Bank.

(b) "MoIC" means the Recipient’s Ministry of Information and Communications, or any successor thereto acceptable to the World Bank.

(c) "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/1999/4.01, 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.

(d) "Training and Workshops" means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including tuition and travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (excluding goods and consultants’ services).

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to determine the economic feasibility of priority investments aimed to reduce trade and communications costs through the improvement of transport and information and communication technology connectivity. The Project consists of the following parts:

(a) Part 1: Carrying out of a feasibility and design study for an inland container/clearance depot at Pasakha, including environmental and social safeguards studies and technical and economic impacts assessment.

(b) Part 2: Carrying out of a feasibility and options design study for telecommunication connectivity, providing cost estimates, proposing various business models for sustainable management of connectivity, and potential options and routings (e.g. operators, gateways) for purchasing international bandwidth.
Part 3: Carrying out of capacity building, technical assistance, analytical work, and communications and dissemination activities.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out Parts 1 and 3 of the Project through MoEA and Part 2 of the Project through MoIC, 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: (i) through MoEA, carry out Parts 1 and 3 of the Project; and (ii) through MoIC, carry out Part 2 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) The Recipient shall, no later than thirty (30) days from the date of the countersignature of this Agreement by the Recipient, establish a steering committee with composition and functions acceptable to the World Bank to ensure appropriate coordination and inputs as needed from MoEA and MoIC are obtained for the carrying of the Project.

(c) The Recipient shall through:

   (i) MoEA’s Department of Trade (for Parts 1 and 3 of the Project) and MoIC’s Department of Information Technology and Telecom (for Part 2 of the Project), carry out the day-to-day management of the activities under the Project, including: (A) timely procurement of goods and consultants under the Project, in accordance with the Procurement Guidelines, the Consultant Guidelines, and the Procurement Plan (as such terms are hereinafter defined); (B) coordination with other relevant technical departments/agencies of the Recipient for their inputs in the design and implementation of the proposed activities under the Project; and (C) collection and compilation of required information for the Project implementation monitoring and evaluation.

   (ii) MoEA, submit to the World Bank, the overall financial reports required under the Project in coordination and with inputs obtained from MoIC for MoIC’s respective part of the Project.

(d) 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, the Recipient shall 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.
(e) The Recipient hereby acknowledges and agrees that:

(i) as of the date of this Agreement, the World Bank has not been requested to and has not committed to fund and/or supervise the implementation of the potential investments with respect to which technical assistance has been provided under this Project;

(ii) any works related to potential investments for which technical assistance has been provided under this Project which are initiated and/or undertaken during the period of implementation of this Project shall be undertaken in compliance with the applicable World Bank’s Safeguard Policies regardless of the source of financing for such works; and

(iii) the World Bank shall not be responsible for any liabilities associated with implementation of potential investments in the event that the Recipient obtains financing for such potential investments other than the World Bank and/or applicable national standards, the standards of other financiers, or any other standards in the design, construction and/or operation of such potential investments.

2.04. Donor Visit. 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 Donor(s) 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 Progress Reports in accordance with the provisions of Section 2.06 of the Standard Conditions on the basis of the indicators set forth below in paragraph (b) of this Section. Each Progress 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) Development financing informed: The satisfactory completion of proposed studies under the Project will inform the preparation of new operations, mobilization of resources, and Recipient’s expenditure.

(ii) Policy/strategy informed: The satisfactory completion of proposed studies under the Project will inform the Recipient’s strategies on trade logistics and communications.

(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 (6) months after the Closing Date.

2.06. Financial Management.
(a) The Recipient shall ensure or cause to 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 six (6) months period, covering the semester, 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. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made, including the four (4) month disbursement grace period after the Closing Date. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months from the end of the grace period.

2.07. **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:


(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 in 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**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the following additional procedures: use model bidding document approved by the World Bank.
(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods 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; (F) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; and (G) 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) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; (G) Selection of Individual Consultants; and (H) 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>
</table>
(1) Goods, Consultants' services, and Training and Workshops | 500,000 | 100% \\
TOTAL AMOUNT | 500,000

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 December 31, 2015.

**Article IV**

**Recipient's Representative; Addresses**

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.01 of the Standard Conditions is its 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/  
International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

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