

February 9, 2018

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

Re: Kingdom of Bhutan: Second Grant Agreement for the Kingdom of
Bhutan's REDD+ Readiness Preparation Support
Readiness Fund of the FCPF-Grant No. TF0A6108
Letter Agreement

Excellency:

I wish to refer to the Grant Agreement between the Kingdom of Bhutan ("Recipient") and the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility ("FCPF"), dated February 20, 2015, ("Readiness Grant Agreement") pursuant to which the World Bank agreed to provide to the Recipient a grant in an amount of three million eight hundred thousand Dollars (US\$3,800,000), to enable the Recipient to move ahead with preparation for readiness.

The Participants Committee of the FCPF ("PC") has reviewed the request for an additional funding submitted by the Recipient, in accordance with the process as specified in the Resolution PC/12/2012/2. Through its Resolution PC/19/2015/4, the PC decided to allocate additional grant funding to the Recipient in an amount of up to four million eight hundred thousand Dollars (US \$4,800,000), to enable it to continue with its preparation for readiness, subject to the terms and conditions set out in the said Resolution ("Additional Grant").

In response to the request for financial assistance made on behalf of the Recipient and the details of the PC referred above, I am pleased to inform you that the World Bank agrees to extend the Additional Grant in the amount of four million eight hundred thousand Dollars (US \$4,800,000) on the terms and conditions set forth or referred to in this letter agreement ("Agreement" or "Second Grant Agreement"), which includes the attached Annex, to assist in the financing of the Additional Readiness Activities described in the Annex.


This Additional Grant is funded out of the abovementioned FCPF 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 Second Grant Agreement), the World Bank's payment obligations in connection with this Second Grant 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 Additional 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 Second Grant Agreement and to carry out the Additional Readiness Activities in accordance with the terms and conditions set forth or referred to in this Second Grant Agreement.

Since the execution of the Readiness Grant Agreement, the Charter establishing the FCPF (“Charter”) has been amended, and the terms and conditions of this Second Grant Agreement are based on the Charter, as so amended. Where there are inconsistencies between the Readiness Grant Agreement and this Second Grant Agreement, including in the use of terms, the provisions in this Second Grant Agreement shall prevail and deemed to have accordingly amended the provisions of the Readiness Grant Agreement to eliminate any such inconsistency.

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 Second Grant Agreement, and returning it to the World Bank.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility)

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

AGREED:

KINGDOM OF BHUTAN

By 
Authorized Representative

Name: Lyonpo Namgay Dorji
Title: Minister of Finance

Date: _____

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012
- (2) Disbursement Letter of the same date as this Agreement, together with the “Disbursement Guidelines for Investment Project Financing”, dated February 2017.
- (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 and as of July 1, 2016.
- (4) Charter Establishing the Forest Carbon Partnership Facility, dated December 23, 2015.

FCPF Readiness Fund Grant No. TFOA6108
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 February 15, 2012 (“Standard Conditions”), with the modifications set forth in the Appendix 1 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, the Charter, or in this Agreement; and the following additional terms shall have the following meanings.

- (a) “DoFPS” means the Department of Forests and Park Services of the Ministry of Agriculture and Forests of the Recipient, or any successor thereto.
- (b) “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework acceptable to the World Bank, which establishes the modalities and procedures to address potential negative environmental and social impacts from the implementation of REDD+ investments and demonstration activities as well as associated mitigation measures through employing best practices, and includes the screening criteria, procedures and institutional responsibilities for the safeguard policies that are triggered for subsequent REDD+ investments.
- (c) “Forest Reference Level” means one of the elements to be developed by the developing country Parties implementing REDD+ activities (according to paragraph 71 of decision 1/CP.16).
- (d) “Forest Resource Management Division” or “FRMD” means the Recipient’s forest resource management division under the Department of Forests and Park Services within the Ministry of Agriculture and Forests and operating as one of the six functional divisions of the Department of Forests or any successor thereto.
- (e) “Operating Costs” means the reasonable costs as approved by the World Bank, for the incremental expenses incurred on account of the implementation of the Additional Readiness Activities, consisting of vehicle operation and maintenance, communications, rental expenses, office (and office equipment) maintenance, utilities, documents, duplication/printing, consumables, travel costs and *per diem* for Additional Readiness Activities staff for travel linked to the implementation of the Additional Readiness Activities, and salaries of contractual staff for the Additional Readiness Activities (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).
- (f) “MRV” means measurement, reporting and verification.
- (g) “Ministry of Agriculture and Forests” or “MoAF” means the Recipient’s Ministry of Agriculture and Forests, or any successor thereto.
- (h) “National Land Commission” or the “NLC” means the apex body for land administration, management, surveying and mapping of the Recipient, established under the Land Act 2007 or any successor thereto.

- (i) "NFI" means national forest inventory of the Recipient.
- (j) "Operations Manual" means the manual to be adopted by the Department of Forests and Park Services and reviewed and accepted by the World Bank, defining implementation arrangements for the project, including, but not limited to procurement procedures, reporting requirements, financial management procedures and audit arrangement, and monitoring and evaluation arrangements.
- (k) "REDD+" means reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest and enhancement of forest carbon stocks.
- (l) "REDD+ Taskforce" or "Taskforce" means the task force constituted with key stakeholders as per the Operational Manual consisting of representatives from the relevant stakeholders and chaired by the Director of DoFPS and providing general guidance, coordination between the various sectors and policy support for the overall implementation of REDD+.
- (m) "REDD+ Secretariat" means the secretariat established in May 2009 within the Watershed Management Division (WMD) responsible for the overall management and implementation of the REDD+.
- (n) "Reference Emission Level" means the benchmark against which emission reductions and removals can be measured to assess the progress that a country makes through the implementation of a REDD+ program.
- (o) "Strategic Environmental and Social Assessment" or "SESA", means the strategic environment and social assessment conducted as part of the Readiness process to assess the potential impact from national REDD+ programs and policies, formulate alternatives and mitigation strategies and enhance the decision-making process around the design of the national REDD+ framework.
- (p) "Training and Workshops" means the reasonable costs as approved by the World Bank associated with the training and workshop participation of personnel involved in the implementation of the Additional Readiness Activities, including 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 courses and workshop preparation and implementation (but excluding goods and consultants' services).
- (q) "Watershed Management Division" or "WMD" means the Recipient's watershed management division under the Department of Forests and Park Services within the Ministry of Agriculture and Forests or any successor thereto.

Article II
Execution of the Additional Readiness Activities

2.01. *Additional Readiness Activities Objectives and Description.* The objective of the Additional Readiness Activities is to build national capacity of Bhutan to engage in REDD+ efforts at the national as well as international levels, through strengthened policies, increased knowledge on REDD+, and enhanced data on forests and forest management.

The Additional Readiness Activities consists of the following parts:

Component 1: Readiness Organization and Consultation

- (a) National REDD+ readiness coordination and mechanism: Provide support by strengthening the capacity of the Task Force, Secretariat to enable effective coordination of REDD+ readiness and implementation.
- (b) Stakeholder engagement and communication and dissemination: Provide support by (i) increasing the awareness of REDD+ activities to relevant stakeholders including by conducting training workshops on sustainable practices and (ii) designing and producing communication and media products for dissemination.
- (c) Capacity Building and training for REDD+ implementation: Provide support at the national level including by (i) capacity building, training for the Taskforce, Secretariat, forestry officials working on MRV, (ii) conducting training and consultations to the forestry staff.

Component 2: REDD+ Strategy Preparation

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

- (a) Assessment of Land Use, Land Use Change Drivers, Forest Law, Policy and Governance: Provide support by (i) contributing to the preparatory analysis for the national land use policy including the preparation of the road map for land use planning and zoning, and (ii) conducting workshops on the draft Forest Act of Bhutan.
- (b) REDD+ Strategy Options: Provide support by (i) enabling the carrying out of the economic analysis of strategy options (ii) organizing workshops on the REDD+ strategy at the district and local level (iii) refine the REDD+ strategy at the national level and (iv) converting national plantation strategy into local level action plans including by development of plantation guidelines and manual and revising the National Plantation Strategy
- (c) REDD+ Implementation Framework: Provide support for (i) development of sub-national action plans (ii) development of forest business master plan for sustainable use and conservation of resources (iii) the private sector including by the financing the introduction of bio-briquette technology and (iv) strengthening the REDD+ Secretariat .
- (d) Social and Environmental Impacts during Readiness preparation and REDD+ Implementation: Updating SESA for REDD+ activities and development of ESMF and strengthening the grievance redressal mechanism.

Component 3: Development of a National Forest Reference Emission Level and/or a Forest Reference Level

Develop a national forest Reference Emission Level and/or a Forest Reference Level by conducting training on the methodology and developing methodology to estimate the national forest carbon for selected species

Component 4: Design Systems for National Forest Monitoring and Information on Safeguards

- (a) Provision of support to strengthen the Recipient's national forest monitoring system by (i) strengthening the NFI data collection including by setting up the NFI system in the various field offices and (ii) development of an integrated web-based forest information system
- (b) Provision of support for the design of an information system for multiple benefits, other impacts, governance and safeguards by strengthening the safeguard information system including by developing an integrated web-based forest information system and enhancing surveillance.
- (c) Provision of support for development of the participatory tools for community participation including by developing of databases and mapping of forests.

Component 5: Project Management

Carrying out a program of activities to support the management and monitoring and evaluation of the Additional Readiness Activities through the provision of Operating Costs for the management of the project.

2.02. *Additional Readiness Activities Execution Generally.* The Recipient declares its commitment to the objectives of the Additional Readiness Activities. To this end, the Recipient shall carry out the Additional Readiness Activities through the WMD, FRMD and NLC respectively, 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.* Without limitation upon the provisions of Section 2.02 above:

(a) The Recipient shall ensure that, throughout the period of implementation of the Additional Readiness Activities, the WMD which shall include the REDD+ Secretariat, the FRMD and the NLC have assigned staff and resources in adequate number acceptable to the World Bank, in order to carry out the daily management and coordination, financial management, procurement, monitoring and evaluation of the Additional Readiness Activities, and shall execute the program in accordance with the Operations Manual, subject to such amendments as may be agreed with the Bank from time to time.

(b) The Recipient shall ensure that: (i) all terms of reference for any technical assistance or studies carried out under the Additional Readiness Activities; and (ii) safeguards instruments prepared, finalized, adopted or updated on the basis of the SESA under the Additional Readiness Activities, including, but not limited to, the ESMF and any other safeguards instruments, as necessary, pursuant to Section 2.01 of this Annex, are consistent with and pay due attention to the World

Bank's environmental and social safeguards policies, as well as the Recipient's own laws relating to the environment and social aspects.

(c) The Recipient shall ensure that in drafting any laws or regulations under the Additional Readiness Activities, due attention shall be given to said policies and laws.

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 this Additional Readiness Activities.

(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 this Additional Readiness Activities.

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 Additional Readiness Activities 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 Additional 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. ***Completion Report.*** 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 Additional Readiness Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester, 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, non-consulting services and consulting services required for the Additional Readiness Activities 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 the same date as of this Agreement, 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 Additional 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 Second Grant 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 Additional Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, Non-Consulting Services, Consulting Services, Operating Costs and Training and Workshops under the Additional Readiness Activities	4,800,000	100%
TOTAL AMOUNT	4,800,000	100%

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 Second Grant Agreement.

3.03. *Withdrawal Period.* The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2019.

**Article IV
Remedies**

The Additional Events of Suspension consist of the following, namely that the World Bank has determined that : (a) at any time before the Closing Date, the Recipient has failed to apply sound environmental or social standards or practices in its management or carrying out of Additional Readiness Activities; and (b) as a result of such failure, a situation has arisen after the date of this Second Grant Agreement which makes it improbable that the objective of the Additional Readiness Activities will be achieved.

**Article V
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: +975 2 323154/334994

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

APPENDIX 1
Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. The following terms and definition shall be added to the Appendix to the Standard Conditions as paragraph 18 bis to read as follows:

“18 bis. ““Additional Readiness Activities” means the activities described in the Second Grant Agreement, for which the Additional Grant is made, as the description of said activities may be amended from time to time by agreement between the Recipient and the World Bank.”

2. The term “Project” and its definition shall be deleted in their entirety from the Standard Conditions; and all references throughout the Standard Conditions to the term “Project” shall be deemed to refer to the “Additional Readiness Activities.”