

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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February 20, 2015

Honorable Minister Namgay Dorji
Minister of Finance
Ministry of Finance
Royal Government of Bhutan
Tashichhodzong
Thimphu, Kingdom of Bhutan

**Grant Agreement for the Kingdom of Bhutan's Readiness Preparation Proposal
Readiness Fund of the FCPF
Grant No. TF019030**

Excellency:

I wish to refer to Resolution PC2008-2 of the Participants Committee of the Forest Carbon Partnership Facility ("FCPF") regarding Selection of REDD Country Participants ("Resolution PC2008-2").

Resolution PC2008-2 provides that subject to the availability of funds, eligible REDD Country Participants may receive grant funding of up to three million six hundred thousand United States Dollars (USD3,600,000) for formulating and carrying out a Readiness Preparation Proposal ("R-PP").

The Kingdom of Bhutan ("Recipient") was selected as a REDD Country Participant. The Participants Committee of the FCPF ("PC") has reviewed the R-PP submitted by the Recipient and acknowledged the great efforts made by the Recipient in formulating its R-PP. Accordingly, the PC, through its PC/16/2013/2, decided to allocate grant funding to the Recipient in the amount of up to three million six hundred thousand Dollars (USD3,600,000) to enable it to move ahead with preparation for readiness, subject to the terms and conditions set out in said Resolution. Further, the PC approved, through its Resolution PC/Electronic/2012/1, the allocation of additional grant funding to the Recipient in the amount of up to two hundred thousand Dollars (USD200,000) (together with the above mentioned USD3,600,000 grant, the "Grant") for the purpose of strengthening the Recipient's national feedback and grievance redress mechanism, subject to the terms and conditions set out in said Resolution.

In response to the request for financial assistance made on behalf of the Recipient and the decisions of the PC referred to above, I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as trustee of the Readiness Fund for the FCPF, proposes to extend to the Recipient the Grant in the amount of three million eight hundred thousand Dollars (USD3,800,000) 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 Readiness Preparation Activities described in the Annex.

This Grant is funded out of the abovementioned FCPF trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. 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 Readiness Preparation Activities 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 the countersigned copy, this Agreement shall become effective as of the date of the countersignature.

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

By 
Johannes Zutt
Country Director

AGREED:

KINGDOM OF BHUTAN 

By _____
Authorized Representative.

Name Namgay Dorji

Title Finance Minister

Date: 19/03/2015

Minister
Ministry of Finance
Tashichho Dzong
Thimphu

Enclosures:

1. Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012.
2. Charter Establishing the Forest Carbon Partnership Facility, dated August 8, 2013.
3. Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006. Guidelines on Preventing and Combating Fraud and Corruption in Project Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011.
4. Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011.
5. Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011.

FCPF Readiness Fund Grant No. TF019030
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 below, constitute an integral part of this Agreement:

(a) The following term and definition shall be added to the Appendix to the Standard Conditions as paragraph 18 bis to read as follows:

18bis “‘Readiness Preparation Activities’ means the activities, described in the Agreement, for which the 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.”

(b) 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 “Readiness Preparation Activities.”

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 Establishing the Forest Carbon Partnership Facility (“Charter”), or in this Agreement.

- (a) “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.
- (b) “Operational Manual” means the manual adopted by the Department of Forests and Park Service 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.
- (c) “REDD+” means reducing emissions from deforestation and forest degradation, conservation of forest carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks.
- (d) “Strategic Environmental and Social Assessment” or “SESA” means the strategic environment and social assessment to be 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.

Article II Execution of Readiness Preparation Activities

2.01. **Objectives and Description.** The objective of the Grant is to build national capacity of the Recipient 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 Readiness Preparation Activities consist of the following parts:

Part 1: REDD+ Leadership Development

A. REDD+ Knowledge Generation: Provision of support for REDD+ knowledge generation activities, including: (a) workshops at national level; (b) consultation workshops at the district and geog levels; (c) study tours; (d) participation in relevant international meetings and workshops closely related to REDD+, as agreed by the World Bank; and (e) training on REDD+; and (f) training on sustainable forest management, forest law enforcement, feedback and grievance redress mechanism, and forest governance.

B. REDD+ Strategy Preparation: REDD+ Strategy preparation activities, including: a) analysis of Land Policy and drivers of forest degradation, and economic analysis of REDD+ Strategy options ; and b) Strategic Environmental and Social Assessment and preparation of Environmental and Social Management Framework.

C. REDD+ Payment for Environmental Services (PES) Scheme: The development and testing of PES scheme for REDD+ learning.

Part 2: REDD+ Information Infrastructure for Forest Management and REDD+

Provision of support for the completion of the Recipient's national forest inventory (NFI) and the development of a national satellite land monitoring system, including: (a) capacity building on development of forest baseline data (reference level), operational forest monitoring, and greenhouse gas accounting; (b) development of a satellite land monitoring system; (c) development of a multipurpose NFI and forest data management; (d) development of an integrated web-based forest information system; and (e) support of research related to national forest monitoring systems and information dissemination.

Part 3: REDD+ Management

Provision of support for the management and coordination of the Readiness Preparation Activities, including the carrying out of all related fiduciary responsibilities.

2.02. **Execution Generally.** The Recipient declares its commitment to the objectives of the Readiness Preparation Activities. To this end, the Recipient shall carry out the Readiness Preparation Activities through the Watershed Management Division and the Forest Resource Management Division of the Department of Forests and Park Services under the Ministry of Agriculture and Forests 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.** Without limitation upon the provision of paragraph 2.02 above, the Recipient shall ensure that, throughout the period of implementation of the Readiness Preparation Activities, the Watershed Management Division and the Forest Resource Management Division of the Department of Forests and Park Services 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 Readiness Preparation Activities, and shall execute the program in accordance with the Operational Manual, subject to such amendments as may be agreed with the Bank from time to time.

2.04 Safeguards.

(a) all (i) terms of reference for any technical assistance or studies carried out under the Readiness Preparation Activities and (ii) frameworks prepared on the basis of the SESA under the Readiness Preparation Activities pursuant to Section 2.01 of this Agreement 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; and

(b) in drafting any laws or regulations under the Readiness Preparation Activities, due attention will be given to said policies and laws.

2.05. Mid-term Progress Report and Completion Report. The Recipient shall, not later than July 31, 2016, prepare and furnish to the World Bank a mid-term progress report on the Readiness Preparation Activities in accordance with terms of reference acceptable to the World Bank, including the provisions of Section 6.3(b) of the Charter and Resolutions PC/7/2010/3 and PC/12/2012/2. The Recipient shall also prepare and furnish to the World Bank not later than six months after the Closing Date, a Completion Report in accordance with the provision of Section 2.06(b) (ii) of the Standard Conditions.

2.06. 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 six (6) months period, covering 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. 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.

2.07. Procurement.

All goods, non-consulting services, and/or consulting services required for the Readiness Preparation Activities and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in 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 (revised July 2014) ("Procurement Guidelines"), and 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").

2.08. Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds of the Grant shall be included in the procurement plan prepared by the Recipient and approved by the Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior to initiating the procurement process for any such contract.

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 100% of Eligible Expenditures consisting of goods, non-consulting services, consultants’ services, Training and Workshops, and Operating Costs, inclusive of Taxes.

For the purpose of Section 3.01, (i) the term “Workshops and Training” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Readiness Preparation Activities, including tuition, 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 consultant’s services); and (ii) the term “Operating Costs” means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of the implementation of the Readiness Preparation Activities, consisting of vehicle operation and maintenance communication and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and *per diem* for Readiness Preparation Activity staff for travel linked to the implementation of the Readiness Preparation Activities, and salaries of contractual staff for the Readiness Preparation Activities (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).

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, 2018.

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 Minister of Finance, Royal Government of Bhutan.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Royal Government of Bhutan
Tashichhodzong
Thimphu, Kingdom of Bhutan
Facsimile: 97- 532 -3154

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
Facsimile: 1-202-477-6391
