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

Re: Strengthening Institutional Capacity of Druk Holding and Investments (DHI) to
Improve Corporate Governance of State Owned Enterprises in Bhutan
IDF Grant No. TF098973

Honorable Lyonpo:

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 thousand
United States Dollars (US$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").

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 with 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 original, this Agreement
will become effective upon the Recipient’s countersignature and the Subsidiary Grant
Agreement being executed on behalf of the Recipient and the Project Implementing Entity, as
defined in the Annex to this Agreement; provided, however, that the offer of this Agreement
shall be deemed withdrawn if the World Bank has not received the countersigned original of
this Agreement within ninety (90) days after the signature of this Agreement by the World
Bank.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

/s/ Nicholas Krafft
Country Director for Bhutan
South Asia Region
AGREED:
KINGDOM OF BHUTAN

By
/s Lam Dorji

Name: Lam Dorji
Title: Finance Secretary
Date: 17 May 2011

Enclosures:


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 July 31, 2010 (“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 as follows:

(a) “Capacity-building Plan” means the plan to be prepared by the Project Implementing Entity to guide the overall Project implementation, referred to in Section 2.03(f) of the Annex to this Agreement;

(b) “Project Implementing Entity” and the acronym “DHI” means Druk Holding and Investments or DHI, established as an autonomous holding company incorporated under the Companies Act of the Kingdom of Bhutan, 2000 (Act); and

(c) “Subsidiary Grant Agreement” means the agreement referred to in Section 2.03 of the Annex to this Agreement.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to improve corporate governance among state owned enterprises in the Kingdom of Bhutan. The Project consists of the following parts:

1. Development of a corporate governance code for DHI and its portfolio companies and model corporate governance documents

(a) Development of a corporate governance code for DHI and its portfolio companies to enhance policies and allow DHI to become a more effective owner of corporate assets and bring direct improvements to the governance and performance of its portfolio companies, and also serve as a model for other companies in the Kingdom of Bhutan.

(b) Provision of technical assistance to DHI to complete the preparation of the company ownership policy documents including terms of reference to develop an audit charter and company code of ethics.

(c) Provision of technical assistance to DHI to finalize its performance monitoring system consistent with international standards, to allow DHI to manage the performance of its holding companies.
2. **Capacity building and training activities; assessment of corporate governance**

(a) Provision of technical expertise to DHI to build its capacities to implement, among others, the proposed corporate governance activities mentioned above, analyze statements of DHI companies and to provide training opportunities to staff.

(b) Provision of corporate governance training for selected meritorious directors of DHI’s portfolio companies, to ensure the institutionalization and improvement of corporate governance.

(c) Carrying out an assessment of corporate governance in certain state owned enterprises, piloting toolkits to be developed by the World Bank for this purpose and providing recommendations and improvement options.

3. **Awareness raising on good governance and DHI’s role in corporate governance**

Conducting corporate governance awareness raising seminars and workshops aimed at the public, journalists, members of Parliament, donors and international organizations and other stakeholders.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project Implementing Entity to carry out the Project 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 make the proceeds of the Grant available to the Project Implementing Entity in accordance with a Subsidiary Grant Agreement to be entered into between the Recipient and the Project Implementing Entity in accordance with terms and conditions satisfactory to the World Bank.

(b) The Grant shall be made available in U.S. Dollars, if required, or otherwise in Ngultrum determined on the date, or respective dates, of withdrawal from the Grant Account of the value of the currency or currencies so withdrawn.

(c) Other terms of the Subsidiary Grant Agreement shall include the following:

(i) the Project Implementing Entity shall undertake to carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices, and social and environmental standards acceptable to the World Bank, and shall provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(ii) the Project Implementing Entity shall undertake to procure the consultants’ services to be financed out of the proceeds of the Grant in accordance with the provisions of Section 2.06 of this Annex, and utilize such consultants’ services exclusively in the carrying out of the Project;
(d) The Project Implementing Entity shall undertake to:

(i) maintain a financial management system and records and accounts adequate to reflect sound accounting practices, its operations and financial condition;

(ii) retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Project until at least the later of: (a) one (1) year after the Recipient and the World Bank have received the audited financial statements covering the period during which the last withdrawal from the Grant Account was made; and (b) two (2) years after the Closing Date;

(iii) enable the Recipient and the World Bank’s representatives to examine such records; and

(iv) monitor and evaluate the progress of the Project in accordance with the provisions of the Standard Conditions.

(e) The Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the proceeds of the Grant made available under the Subsidiary Grant Agreement upon failure by the Project Implementing Entity to perform its obligations under such agreement.

(f) The Recipient shall exercise its rights under the Grant Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Project. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Grant Agreement or any of its provisions.

(g) The Recipient shall cause the Project Implementing Entity to prepare and adopt throughout the period of the Project, the Capacity-building Plan which will include building up DHI policies, procedures, and staff capacity in critical areas such as monitoring, procurement, financial management and reporting governance accountability and transparency, and overall Project implementation. The Recipient shall not amend the Capacity-building Plan, if in the opinion of the World Bank, such amendment may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and, 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 the indicators set forth below in paragraph (b) of this Section. 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 performance indicators referred to above in paragraph (a) consist of the following:

(i) Completion of corporate governance code for DHI and its portfolio companies;
(ii) Completion of model corporate governance documents, including an audit charter and company code of ethics;

(iii) Completion of approximately 6 performance monitoring assessments of DHI companies;

(iv) The hiring of 3 local consultants to support the successful implementation of the Project;

(v) Successful completion of training and international certification for approximately 33 directors of DHI’s portfolio companies;

(vi) Completion of needs assessments of corporate governance in certain DHI Portfolio Companies; and

(vii) Completion of dissemination workshops for relevant stakeholders.

(c) 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 six (6) months after the Closing Date.

2.05. **Financial Management.** (a) The Recipient shall cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall cause the Project Implementing Entity to prepare the interim unaudited financial reports for the Project and furnish 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 cause the Project Implementing Entity to 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 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:

Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services.
(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 the Consultant Guidelines.

(c) 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 the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Established Private or Commercial Practices which have been found acceptable to the World Bank; (G) Selection of Service Delivery Contractors which have been found acceptable to the World Bank; (H) Selection of Individual Consultants; and (I) Sole Source Procedures for the Selection of Individual Consultants.

(d) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (i) the first contract to be awarded in accordance with each procurement method; and (ii) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in US$)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services</td>
<td>339,600</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training and Workshops</td>
<td>150,900</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Audit</td>
<td>9,500</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>500,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training and Workshops” means the costs associated with training and workshop participation of personnel involved in the implementation of the Project 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 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 three (3) 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 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  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable: Telex: Facsimile:

INTBAFRAD 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)