
LOAN NUMBER 3226-BHU(SF)

GRANT NUMBER 0421-BHU(SF)

FINANCING AGREEMENT
(Special Operations)

(Second Green Power Development Project)

between

KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 4 MAY 2015

BHU 44444

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 4 May 2015 between KINGDOM OF BHUTAN ("Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement;

(B) the Project will be carried out by the Druk Green Power Corporation Limited ("DGPC") and Tangsibji Hydro Energy Limited ("THyE"), and for this purpose the Beneficiary will make available to DGPC the proceeds of the loan and the grant provided for herein, which DGPC will in turn make available to THyE as DGPC's equity contribution to THyE, upon terms and conditions satisfactory to ADB;

(C) by an agreement of even date herewith between ADB and THyE ("Ordinary Operations Loan Agreement"), ADB has agreed to provide to THyE a loan from ADB's ordinary capital resources of an amount of seventy million Dollars (\$70,000,000);

(D) THyE has separately applied to a consortium of Indian commercial banks led by the State Bank of India ("SBI", and together with its consortium members "Rupee Lenders") for a loan denominated in Indian Rupees equivalent to \$58,820,000 to finance certain expenditures under the Project on a parallel basis ("Rupee Loan"); and

(E) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB on the one part and DGPC and THyE on the other;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations") are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term “Borrower”, wherever it appears in the Loan Regulations, shall be substituted by the term “Beneficiary” as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(25) is deleted and the following is substituted therefor:

“Project Agreement” means the Project Agreement of even date herewith between ADB and DGPC and THyE.

(d) The term “Project Executing Agency” appearing in Sections 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations shall be substituted by the term “DGPC and THyE”.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (“Grant Regulations”) are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term “Grant Agreement”, wherever it appears in the Grant Regulations, shall be substituted by the term “Financing Agreement”.

(b) The term “Recipient”, wherever it appears in the Grant Regulations, shall be substituted by the term “Beneficiary” as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(16) is deleted and the following is substituted therefor:

“Project Agreement” means the Project Agreement of even date herewith between ADB and DGPC and THyE.

(d) The term “Project Executing Agency” appearing in Sections 6.01(a), 8.01(c), 8.01(e), 8.01(i), 9.01(b) and 9.02(b) of the Grant Regulations shall be substituted by the term “DGPC and THyE”.

Section 1.03 Wherever used in this Financing Agreement, the several terms defined in the Loan Regulations and the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Financing Agreement have the following meanings:

(a) “Environmental Impact Assessment” or “EIA” means each environmental impact assessment for the Project, including any update thereto, prepared and submitted by the Beneficiary and cleared by ADB;

(b) “Environmental Management Plan” or “EMP” means each environmental management plan for the Project, including any update thereto, incorporated in an EIA;

(c) “Environmental Safeguards” means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(d) “Goods” means equipment and materials to be financed out of the proceeds of the Loan or the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance;

(e) “Indigenous Peoples Safeguards” means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(f) “Involuntary Resettlement Safeguards” means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(g) “Loan Disbursement Handbook” means ADB's Loan Disbursement Handbook (2012, as amended from time to time);

(h) “MW” means mega watt;

(i) “PAM” means the project administration manual for the Project dated 16 October 2014 and agreed between the Beneficiary and ADB, as updated from time to time in accordance with the respective administrative procedures of the Beneficiary and ADB;

(j) “PPA” means the power purchase agreement pursuant to which PTC agrees to purchase from THyE the power generated under the Project;

(k) “PTC” means the Power Trading Corporation of India;

(l) “Procurement Guidelines” means ADB's Procurement Guidelines (2013, as amended from time to time);

(m) “Procurement Plan” means the procurement plan for the Project dated 16 October 2014 and agreed between the Beneficiary and ADB, as updated from time to time, in accordance with the Procurement Guidelines and other arrangements agreed with ADB;

(n) “Project facilities” means the assets and facilities to be installed and constructed under the Project;

(o) “Resettlement Plan” or “RP” means the resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(p) “Safeguards Monitoring Report” means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP and the RP (as applicable), including any corrective and preventative actions;

(q) “Subsidiary Loan Agreement” means the subsidiary loan agreement between the Beneficiary and DGPC referred to in Section 3.01 of this Loan Agreement; and

(r) "Works" means construction or civil works to be financed out of the proceeds of the Loan or the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

- (a) a loan in various currencies equivalent to sixteen million nine hundred eighty seven thousand Special Drawing Rights (SDR16,987,000) ("Loan"); and
- (b) a grant in the amount of twenty five million two hundred fifty thousand Dollars (\$25,250,000) ("Grant").

Section 2.02. (a) The Beneficiary shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 February and 15 August in each year.

Section 2.04. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. (a) The Beneficiary shall make the proceeds of the Loan and the Grant available to DGPC under a Subsidiary Loan Agreement upon terms and

conditions satisfactory to ADB. Except as ADB shall otherwise agree, the terms for the Subsidiary Loan Agreement shall include an interest rate, a repayment period and a grace period identical to the terms of this Financing Agreement; provided that DGPC shall bear foreign exchange risk. DGPC shall thereafter contribute the proceeds of the Loan and the Grant to THyE's equity in accordance with the relevant provisions of the PAM.

(b) The Beneficiary shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan and the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Financing Agreement, as such Schedule may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. Except as ADB may otherwise agree, the Beneficiary shall procure, or cause to be procured, the items of expenditure to be financed out of proceeds of the Loan and the Grant in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2020, and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2020 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement and the Project Agreement.

Section 4.02. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.04. The Beneficiary shall take all action which shall be necessary on its part to enable DGPC and THyE to perform their obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Beneficiary shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Beneficiary and ADB and to accomplish the purposes of the Loan and the Grant.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Beneficiary to make withdrawals from (a) the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations, and (b) the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations, respectively:

(i) the loan provided for in the Ordinary Operations Loan Agreement or the Rupee Loan shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date;

(ii) any of the parties to the Subsidiary Loan Agreement shall have failed to perform one or more of its obligations thereunder in a manner which, in the reasonable opinion of ADB, may adversely affect the carrying out of the Project or the operation of the Project facilities; or

(iii) any of the parties to the PPA shall have failed to perform one or more of its obligations under the PPA in a manner which, in the reasonable opinion of ADB, may adversely affect the carrying out of the Project or the operation of the Project facilities.

Section 5.02. The following is specified as an additional event for acceleration of maturity of the loan for the purposes of Section 8.07(d) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01(e) of the Grant Regulations, respectively:

(a) the Ordinary Operations Loan Agreement shall have been duly authorized by, and executed and delivered on behalf of, THyE and shall have become legally binding upon THyE in accordance with its terms; and

(b) the Beneficiary and DGPC shall have entered into the Subsidiary Loan Agreement.

Section 6.02. A date 90 days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Beneficiary hereby designates THyE as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.04 of this Financing Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations, and Sections 5.01, 5.02, 5.03 and 5.04 of the Grant Regulations.

Section 7.02. Any action taken or any agreement entered into by THyE pursuant to the authority conferred under Section 7.01 of this Financing Agreement shall be fully binding on the Beneficiary and shall have the same force and effect as if taken by the Beneficiary.

Section 7.03. The authority conferred on THyE under Section 7.01 of this Financing Agreement may be revoked or modified by agreement between the Beneficiary and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Secretary of the Ministry of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

Ministry of Finance
Thimpu
Bhutan

Facsimile Numbers:

+975 2 323-154
+975 2 334-994.

For ADB

Asian Development Bank
6, ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

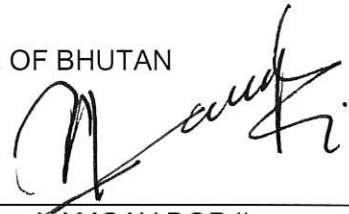
Facsimile Numbers:

+63 2 636-2444
+63 2 636-2338.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

KINGDOM OF BHUTAN

By



NAMGAY DORJI
Minister
Ministry of Finance

ASIAN DEVELOPMENT BANK

By



HUN KIM
Director General
South Asia Department

SCHEDULE 1**Description of the Project**

1. The objective of the Project is to increase clean hydropower generation in the Kingdom of Bhutan.
2. The Project shall comprise construction and operationalization of a 118 MW hydropower generation plan in Trongsa district, including the associated transmission line of about 18.6 kilometers to the Yurmo substation, as described in more detail in Annex 1 to the PAM.
3. The Project is expected to be completed by 31 December 2019.

SCHEDULE 2

Amortization Schedule

(Second Green Power Development Project)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 February 2023	353,896
15 August 2023	353,896
15 February 2024	353,896
15 August 2024	353,896
15 February 2025	353,896
15 August 2025	353,896
15 February 2026	353,896
15 August 2026	353,896
15 February 2027	353,896
15 August 2027	353,896
15 February 2028	353,896
15 August 2028	353,896
15 February 2029	353,896
15 August 2029	353,896
15 February 2030	353,896
15 August 2030	353,896
15 February 2031	353,896
15 August 2031	353,896
15 February 2032	353,896
15 August 2032	353,896
15 February 2033	353,896
15 August 2033	353,896
15 February 2034	353,896
15 August 2034	353,896
15 February 2035	353,896
15 August 2035	353,896
15 February 2036	353,896
15 August 2036	353,896
15 February 2037	353,896
15 August 2037	353,896
15 February 2038	353,896
15 August 2038	353,896
15 February 2039	353,896
15 August 2039	353,896
15 February 2040	353,896
15 August 2040	353,896
15 February 2041	353,896
15 August 2041	353,896
15 February 2042	353,896
15 August 2042	353,896
15 February 2043	353,896

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 August 2043	353,896
15 February 2044	353,896
15 August 2044	353,896
15 February 2045	353,896
15 August 2045	353,896
15 February 2046	353,896
15 August 2046	353,888
Total	16,987,000

* The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3

Allocation and Withdrawal of Loan and Grant Proceeds

General

1. The tables attached to this Schedule set forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the Grant. Table 1 sets forth the allocation of the Loan proceeds to each such Category. Table 2 sets out the allocation of the Grant proceeds to each such Category. (Reference to "Category" in this Schedule is to a Category or Subcategory of Table 1 and Table 2, respectively.)

Basis for Withdrawal from the Loan and Grant Accounts

2. Except as ADB may otherwise agree, the proceeds of the Loan and the Grant shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in Table 1 and Table 2, respectively.

Disbursement Procedures

3. Except as ADB may otherwise agree, the proceeds of the Loan and the Grant shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

4. Withdrawals from the Loan Account and the Grant Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Financing Agreement, subject to a maximum amount equivalent to 20% of the aggregate amount of the Loan and the Grant.

Condition for Withdrawals from Loan Account and Grant Account

5. Notwithstanding any other provision of this Financing Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account or the Grant Account until:

(a) the financing agreement for the Rupee Loan shall have been duly executed and delivered on behalf of the parties thereto, and all conditions precedent to its effectiveness shall have been fulfilled or arrangements satisfactory to ADB shall have been made for the fulfillment thereof within a period of time satisfactory to ADB;

(b) ADB and the Rupee Lenders shall have set out the terms of their collaboration in respect of the Project in a manner satisfactory to ADB;

(c) THyE has entered into the PPA with PTC on terms and conditions acceptable to ADB, all conditions to effectiveness of the PPA have been fulfilled, and the PPA has been declared effective in accordance with its provisions; and

(d) the Beneficiary, DGPC and THyE have certified in writing that all licenses and permits required for the Project have been obtained, or arrangements satisfactory to ADB have been made to obtain such licenses and permits within a period of time satisfactory to ADB.

TABLE 1

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Second Green Power Development Project)			
Number	Item	Total Amount Allocated for ADB Financing (SDR) Category	Basis for Withdrawal from the Loan Account
1	Civil Works and Hydromechanical Equipment*	16,987,000	50% of total expenditure claimed
	Total	16,987,000	

* Subject to the condition for withdrawal described in paragraph 5 of Schedule 3.

TABLE 2

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Second Green Power Development Project)			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Grant Account
1	Civil Works and Hydromechanical Equipment*	\$25,250,000	50% of total expenditure claimed
	Total	\$25,250,000	

* Subject to the condition for withdrawal described in paragraph 5 of Schedule 3.

SCHEDULE 4

Procurement of Goods and Works

General

1. The procurement of Goods and Works shall be subject to and governed by the Procurement Guidelines, except that ADB's member country procurement eligibility restrictions shall not apply.
2. All terms used in this Schedule and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Beneficiary may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

5. The Beneficiary and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Beneficiary's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Beneficiary and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Beneficiary and ADB.

Conditions for Award of Contract

6. The Beneficiary shall ensure and cause DGPC and THyE to ensure that they do not award any Works contracts which involves environmental impacts until:
 - (a) the National Environment Commission of the Beneficiary has granted the final approval of the relevant EIA; and
 - (b) the Beneficiary has incorporated or caused DGPC and THyE to incorporate the relevant provisions from the EMP into the Works contract.

7. The Beneficiary shall not award any Works contract which involves involuntary resettlement impacts, until the Beneficiary has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

Industrial or Intellectual Property Rights

8. (a) The Beneficiary shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

ADB's Review of Procurement Decisions

9. Contracts procured under international competitive bidding procedures shall be subject to prior review by ADB, unless otherwise agreed between the Beneficiary and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. The Beneficiary, DGPC and THyE shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Beneficiary and ADB. In the event of any discrepancy between the PAM and this Financing Agreement, the provisions of this Financing Agreement shall prevail.
2. DGPC and THyE shall outsource the supervision and monitoring of the establishment of the transmission facilities under the Project to Bhutan Power Corporation and ensure that all relevant data are reflected in the quarterly reports from DGPC and THyE to ADB, including the Safeguards Monitoring Reports.

Environment

3. The Beneficiary shall ensure, or cause DGPC and THyE to ensure, that the preparation, design, construction, implementation, operation of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Beneficiary relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the EIAs; and (d) all measures and requirements set forth in each EIA and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.
4. The Beneficiary shall ensure, and cause DGPC and THyE to ensure, that (a) there are no measurable adverse impacts on critical habitat that could impair its ability to function; (b) there is no reduction in the population of any recognized endangered or critically endangered species; and (c) any lesser impacts are mitigated. Without limiting the generality of the foregoing, the Beneficiary shall cause DGPC and THyE to establish a biodiversity management committee acceptable to ADB that (a) shall be responsible for implementation monitoring and evaluation of the biodiversity conservation and biodiversity management plan as outlined in the relevant EMP and (b) shall ensure that the Project facilities are constructed and operated in a manner consistent with the JSW National Park Management Plan.
5. The Beneficiary shall cause DGPC and THyE to (a) assess on a continuous basis, in accordance with the relevant EMP, the minimum environmental water flow requirements during the operation of the Project facilities; and (b) ensure a minimum water flow, at a level acceptable to ADB, so as to minimize downstream impacts and make sure there is no net loss of downstream aquatic biodiversity arising from the operation of hydropower facilities in the Mangdechhu river basin, including from the Project facilities and the Mangdechhu Hydroelectric project. The Beneficiary shall cause DGPC to establish a funding mechanism or internal resources to ensure integrated water resources management for the Mangdechhu river basin, including compliance with the minimum environmental water flow requirements as set out in the preceding sentence.

Land Acquisition and Involuntary Resettlement

6. The Beneficiary shall ensure, or cause DGPC and THyE to ensure, that all land and all rights-of-way required for the Project, and all Project facilities are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Beneficiary relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

7. Without limiting the application of the Involuntary Resettlement Safeguards, and the RP, the Beneficiary shall ensure or cause DGPC and THyE to ensure that no physical or economic displacement takes place in connection with the Project until (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Indigenous People

8. The Beneficiary shall ensure, or cause DGPC and THyE to ensure, that the preparation, design, construction, implementation and operation of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Beneficiary relating to indigenous people; (b) Indigenous Peoples' Safeguards; and (c) any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

9. The Beneficiary shall make available, or cause DGPC or THyE to make available, necessary budgetary and human resources to fully implement the EMPs and the RP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

10. The Beneficiary shall ensure, or cause DGPC and THyE to ensure, that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the relevant EIA, EMP and the RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Beneficiary with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the relevant EIA, EMP and the RP;

- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction;

Safeguards Monitoring and Reporting

11. The Beneficiary shall do the following or shall cause DGPC or THyE to do the following:
- (a) submit quarterly Environmental Safeguards Monitoring Reports and semiannual Involuntary Resettlement Safeguards Monitoring Reports to ADB during construction of the Project facilities and annual Environmental Safeguards Monitoring Reports during operation of the Project facilities, and disclose relevant information from such reports to affected persons promptly upon submission;
 - (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the relevant EIA, EMP or the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;
 - (c) no later than 31 March 2015 engage a panel of experts to monitor and report upon Project implementation, and facilitate the carrying out of any monitoring activities by such panel; and
 - (d) report any actual or potential breach of compliance with the measures and requirements set forth in the relevant EIA, EMP or the RP promptly after becoming aware of the breach.

Prohibited List of Investments

12. The Beneficiary shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards

13. The Beneficiary, DGPC and THyE shall ensure that all Works contract documents negotiated under the Project incorporate provisions and budget to the effect that contractors (a) comply with all applicable labor laws and related international treaty obligations of the Beneficiary and do not employ child labor, as defined under Bhutan law; (b) provide safe working conditions for male and female workers; (c) carry out HIV/AIDS and human trafficking prevention and awareness campaigns in the campsites and corridors of influence; and (d) provide equal wages for equal work between men and women.

Governance and Anticorruption

14. The Beneficiary, DGPC, and THyE shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date); and (b) cooperate with any investigation by ADB and extend all necessary assistance, including providing access to all relevant books and records, for satisfactory completion of such investigation.

15. DGPC and THyE shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants, and other service providers as they relate to the Project.

16. DGPC and THyE shall ensure that their websites provide updated, detailed information on project implementation, especially procurement-related information including the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and adequate details of the Goods and Works procured.

Counterpart Support

17. The Beneficiary and DGPC shall ensure, and cause THyE to ensure, that (a) all local and foreign currency counterpart financing necessary for the Project shall be provided in time to enable completion of the Project activities; (b) additional counterpart financing shall be provided if necessary for any shortfall of funds, including if the financing from Rupee Lenders does not materialize; and (c) counterpart financing for compensation and entitlements under the RP are fully provided directly to affected people prior to their displacement from housing and land.

Cofinancing

18. The Beneficiary, DGPC and THyE shall (a) keep ADB informed of their discussions on any proposed financing arrangements with other public, commercial, bilateral, and multilateral financial institutions for the Project, and (b) provide ADB with an opportunity to comment on any resulting proposals. The Beneficiary shall consider ADB's views before finalizing any such proposals.

Corporate Governance of THyE

19. The Beneficiary shall cause DGPC and THyE to ensure, and DGPC and THyE shall ensure, to the satisfaction of ADB that:

- (a) DGPC retains the majority shareholding and majority representation on the board of directors of THyE at all times, and the corporate documents of THyE shall require that a majority representation from DGPC is required for a quorum for any meeting of THyE's board of directors; and
- (b) no material changes are made to the corporate documents of THyE without consultation with ADB. DGPC and THyE shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of

their respective articles of incorporation and will afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

Debt Service Coverage Ratio

20. DGPC and THyE shall maintain a debt service coverage ratio of a minimum of 1.2 from the date that commercial operations commence.

Mangdechhu Hydropower Project

21. The Beneficiary shall take appropriate actions to ensure that the construction of the substation in Yurmo under the Mangdechhu Hydropower Project and establishment of the Mangdechhu-Goling-Jigmeling-Alipurdwar transmission line corridor are completed in a satisfactory manner prior to the commissioning of the Project facilities.

Changes to PPA and Ownership of THyE

22. The Beneficiary, DGPC, and THyE, shall consult with ADB before making any changes to the PPA and before authorizing the sale or issuance of any shares in the capital of THyE.

23. DGPC shall ensure that a strategic investor holds at least 26% of THyE's issued share capital by 31 December 2015, unless the terms and conditions of any such participation will in the reasonable opinion of DGPC and THyE materially adversely affect THyE's operations.

Others

24. The Beneficiary and DGPC shall cause THyE to use its best efforts to achieve registration of the Project under the Clean Development Mechanism of the Kyoto Protocol by 31 December 2016.

25. The Beneficiary shall cause DGPC and THyE to obtain all necessary construction licenses for the Project within 60 days of the Effective Date.