
GRANT NUMBER 0484-BHU(SF)

GRANT AGREEMENT
(Special Operations)

(Air Transport Connectivity Enhancement Project – Additional Financing)

between

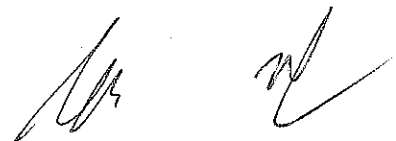
KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 29 SEPTEMBER 2016

BHU 44239



**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 29 September 2016 between the KINGDOM OF BHUTAN ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a Special Operations grant agreement dated 6 August 2012 between the Recipient and ADB ("Initial Special Operations Loan Agreement"), ADB agreed to make a grant to the Recipient from ADB's Special Funds in the amount of \$6,920,000 for the purposes of the project described in Schedule 1 to the Initial Special Operations Grant Agreement;

(B) the Recipient has applied to ADB for a grant for the purpose of the expanded project (the "Project") described in Schedule 1 to this Grant Agreement; and

(C) ADB has agreed to make a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein;

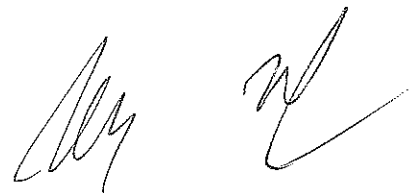
NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations or the Initial Special Operations Grant Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires, except that: (i) references, in the terms defined in the Initial Special Operations Grant Agreement, to the "Project" shall refer to the Project as defined herein; (ii) "Consulting Services" means the services to be financed out of the proceeds of the Grant referred to in paragraph 2 of Schedule 1 to this Grant Agreement; and (iii) "DOAT" means the Department of Air Transport at the Project Executing Agency.



ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources an amount of four million Dollars (\$4,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Except as ADB may otherwise agree, the Recipient shall cause all items of expenditure financed out of the proceeds of the Grant to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Grant Account in respect of Goods, Works and Consulting Services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and Works and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) Goods, Works and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2020 or such other date as may from time to time be agreed between the Recipient and ADB.



ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Grant proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Recipient shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Recipient's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Recipient, unless the Recipient shall otherwise agree.

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

ARTICLE V

Effectiveness

Section 5.01. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of this Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.



ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance
Royal Government of Bhutan
Thimphu, Bhutan

Facsimile Number:

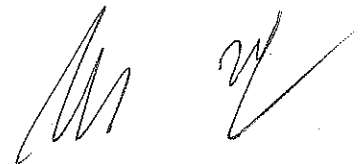
+975 2 323 154
+975 2 334 994

For ADB

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

Facsimile Numbers:

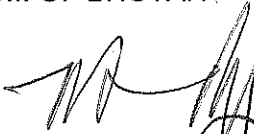
(632) 636-2444
(632) 636-2341

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IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant 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

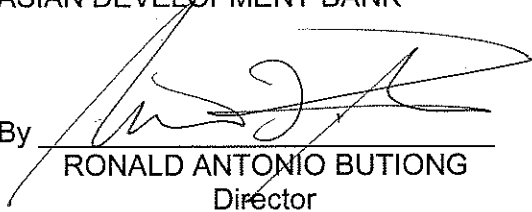
By



NIM DORJI
Secretary
Ministry of Finance

ASIAN DEVELOPMENT BANK

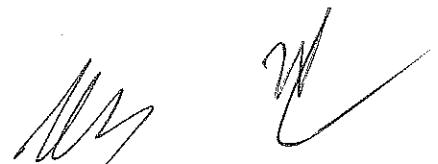
By



RONALD ANTONIO BUTIONG
Director
Regional Cooperation and
Operations Coordination Division
South Asia Department

SCHEDULE 1**Description of the Project**

1. The objective of the Project is improved safety, security and capacity at three domestic airports in Bumthang, Gelephu and Yonphula.
2. The Project shall comprise (i) construction of a passenger terminal building at Bumthang Airport; (ii) construction of quarters for aviation security staff at Gelephu Airport; and (iii) installation of low safety barrier around perimeter of apron at Yonphula Airport. Consulting Services will be provided to support the above stated activities.
3. The Project is expected to be completed by 30 June 2020.



SCHEDULE 2**Allocation and Withdrawal of Grant Proceeds**General

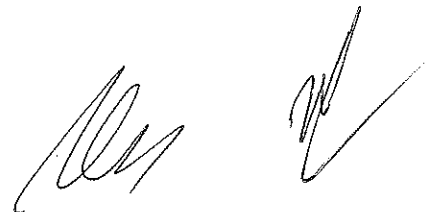
1. The table ("Table") attached to this Schedule sets forth the Category of items of expenditure to be financed out of the proceeds of the Grant and the allocation of the Grant proceeds to such Category.

Basis for Withdrawal from the Grant Account

2. Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed on the basis of the withdrawal percentage set forth in the Table.

Disbursement Procedures

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



TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Air Transport Connectivity Enhancement Project – Additional Financing)			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Grant Account
1	Project Costs	4,000,000	100 percent of total expenditure claimed
	Total	4,000,000	



SCHEDULE 3**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

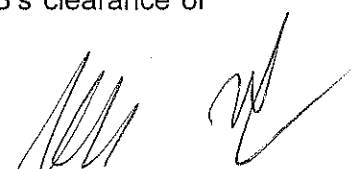
3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient 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 Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Recipient's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient 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 Recipient and ADB.

Conditions for Award of Contract

6. The Recipient shall not award any Works contracts until:
 - (a) the National Environment Commission of Bhutan has granted the final approval of the IEE; and
 - (b) the Recipient has incorporated the relevant provisions from the EMP into the Works contract.
7. The Recipient shall not award any Works contract which involves involuntary resettlement impacts, until the Recipient has prepared and submitted to ADB the final resettlement plan based on the Project's detailed design, and obtained ADB's clearance of such resettlement plan.



8. The Recipient shall not award any Works contract which involves impact on indigenous peoples until the Recipient has prepared and submitted to ADB the final indigenous peoples' plan, and obtained ADB's clearance of such indigenous peoples' plan.

Consulting Services

9. Except as ADB may otherwise agree, the Recipient shall apply quality- and cost-based selection for selecting and engaging Consulting Services.

Industrial or Intellectual Property Rights

10. (a) The Recipient 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 Recipient 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.

11. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

12. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

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SCHEDULE 4

Execution of Project

Implementation Arrangements

1. The Recipient 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 Recipient and ADB. In the event of any discrepancy between the PAM and this Grant Agreement, the provisions of this Grant Agreement shall prevail.

Environment

2. The Recipient shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Recipient relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement; Indigenous Peoples

3. The Recipient shall ensure that the Project does not involve any involuntary resettlement or indigenous peoples risks or impacts within the meaning of the SPS. If due to unforeseen circumstances, the Project involves any such impacts, the Recipient shall take all steps necessary or desirable to ensure that the Project complies with all applicable laws and regulations of the Recipient and with the SPS.

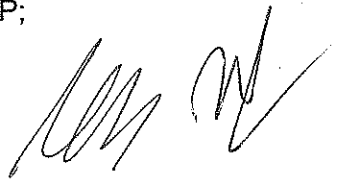
Human and Financial Resources to Implement Safeguards Requirements

4. The Recipient shall make available necessary budgetary and human resources to fully implement the EMP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

5. The Recipient shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE and the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Recipient 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 IEE and the EMP;



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

Safeguards Monitoring and Reporting

6. The Recipient shall do the following:
- (a) submit annual Safeguards Monitoring Reports to ADB 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 EIA and the EMP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
 - (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP promptly after becoming aware of the breach.

Prohibited List of Investments

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

Labor Standards, Health and Safety

8. The Recipient shall ensure that the core labor standards and the Recipient's applicable laws and regulations are complied with during Project implementation. The Recipient shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Recipient's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted infections, including HIV, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women. The Recipient shall strictly monitor compliance with the requirements set forth above and provide ADB with regular reports.



Gender and Development

9. The Recipient shall ensure that the principles of gender equity aimed at increasing Project benefits and impacts on women in the Project area are followed during implementation of the Project, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Project area to participate in the design and implementation of Project activities.

Counterpart Support

10. The Recipient shall make available through budgetary allocations or other means all counterpart funds required for timely and effective implementation of the Project, including funds to mitigate unforeseen environmental and social impacts, and to meet additional costs arising from design changes, price escalation in construction or installation costs or other unforeseen circumstances.

Governance and Anticorruption

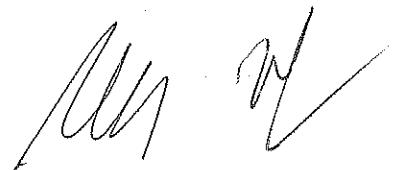
11. The Recipient shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

12. The Recipient 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 the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

13. The Recipient shall ensure that detailed information on project implementation is made readily available through the DOAT website. This shall include all relevant information and documents relating to procurement, including the list of participating bidders, name of the winning bidder, basis details on the bidding process adopted, amount of contract awarded and the list of goods and services procured.

Operation and Maintenance

14. The Recipient shall develop and implement a year round program for preventive and routine maintenance of the airports and facilities to be financed under the Project in accordance with acceptable international standards. The Recipient shall make the resources thus required available to DOAT on an annual basis for each fiscal year.

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