
LOAN NUMBER 2463-BHU

LOAN AGREEMENT
(Ordinary Operations)
(Green Power Development Project)

between

KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 13 FEBRUARY 2009

LAL:BHU 37399

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 13 February 2009 between KINGDOM OF BHUTAN (hereinafter called the "**Borrower**") and ASIAN DEVELOPMENT BANK (hereinafter called "**ADB**").

WHEREAS

(A) the Borrower has applied to ADB for (a) a loan from ADB's ordinary capital resources; and (b) a loan from ADB's Special Funds for the purposes of financing the Dagachhu Hydroelectric Power Project described in Schedule 1 to this Loan Agreement, which together with the rural electrification project, constitutes the Green Power Development Project;

(B) ADB has agreed to provide the loan from ADB's Special Funds resources (the "**ADF Loan**") upon the terms and conditions set forth in the Loan Agreement, dated 13 February 2009 between the Borrower and ADB (the "**ADF Loan Agreement**"), and the Project Agreement dated 13 February 2009 among ADB, the Druk Green Power Corporation, Limited ("DGPC"), and Dagachhu Hydro Power Corporation, Limited ("DHPC");

(C) the Borrower has also applied to the Oesterreichische Kontrollbank, a specialized institution owned by Austrian commercial banks, ("**OeKB**") for a loan in an estimated amount equivalent to fifty-five million four hundred and sixty thousand Dollars (\$55,460,000), and to the National Pension and Provident Fund for a loan in an amount equivalent to fifteen million Dollars (\$15,000,000), for the purposes of providing cofinance to the Project;

(D) the Borrower has also applied to ADB for technical assistance to promote hydropower development that will contribute to Bhutan's economic growth and enhance region wide efficiency and cross-border cooperation by building capacity for DGPC and Druk Holding and Investments to finance, develop and manage hydropower, and build the capacity of the Department of Energy ("DOE") to implement the Borrower's hydropower development policy; and for such purposes ADB has agreed to provide a technical assistance grant up to the equivalent of one million four hundred and eighty-eight thousand Dollars (\$1,488,000); and

(E) ADB has agreed upon the basis, among other things, of the foregoing, to provide a loan from ADB's ordinary capital resources to the Borrower upon the terms and conditions set forth in this Loan Agreement; and the Project Agreement upon terms and conditions satisfactory to ADB;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 (the "**Loan Regulations**"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by The Borrower.

- (b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, in each case unless the context otherwise requires, the several terms defined in the Loan Regulations and the ADF Loan Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "ADF Loan" has the meaning given in Recital B to this Loan Agreement;

(b) "ADF Loan Agreement" has the meaning given in Recital B to this Loan Agreement;

(c) "DGPC Subsidiary Loan Agreement" means the agreement between the Borrower and DGPC, whereby the Borrower has agreed to relend the ADF Loan to DGPC for the purposes of the Project; and

(d) "DHPC Subsidiary Loan Agreement" means the agreement between the Borrower and DHPC referred to in Section 3.01 (a) of this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to provide to the Borrower a loan from ADB's ordinary capital resources in the amount of fifty-one million Dollars (\$51,000,000) (the "**Loan**"), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Loan Agreement.

(b) The Loan has a principal repayment period of 25 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) 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 Loan Agreement.

Section 2.02. The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3 to this Loan Agreement for purposes of financing the Project expenditures.

Section 2.03. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.04. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.05. Interest and other charges on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.06. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Floating Rate to a Fixed Rate, or vice versa; and

- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan, together with other funds required for the Project to DHPC under a Subsidiary Loan Agreement (the "**DHPC Subsidiary Loan Agreement**") upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the terms for relending the proceeds of the Loan shall be substantially the same as the Loan, except that DHPC shall assume the foreign exchange risk.

(b) ADB shall be entitled to retain in the Loan Account and to pay to itself on behalf of the Borrower, such amounts as in the reasonable estimation of the Borrower and ADB will be required to meet payments of interest and commitment charge that fall due in the period preceding the Loan Closing Date.

(c) The Borrower shall cause DHPC to apply the proceeds of the Loan and to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The Goods, Works, and services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, and services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule 3 may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works, and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where Goods, Works, or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works, and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 (iii) of the Loan Regulations shall be 31 December 2013 or, such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall carry out or cause to be carried out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and hydropower practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth herein and Schedule 5 to the Loan Agreement.

Section 4.02. The Borrower shall cause DGPC to enable ADB's representatives to inspect the Project, the Goods, and Works financed out of the proceeds of the Loan, all other plants, sites, properties and equipment, and any relevant records and documents relating to the Project.

Section 4.03. The Borrower shall make available or shall cause to be made available, to DHPC, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.04. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.05. The Borrower shall take all action that shall be necessary on its part to enable DGPC and DHPC to perform their respective obligations under the Project Agreement, and shall not take or permit any action that would interfere with the performance of such obligations.

Section 4.06. (a) The Borrower shall exercise its rights under the DHPC Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

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

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

(a) the Borrower shall have failed to perform any of its obligations under the ADF Loan Agreement;

(b) DGPC or DHPC shall have failed to perform any of its obligations under the Project Agreement;

(c) either party shall have failed to perform any of its obligations under the DHPC Subsidiary Loan Agreement, or the DGPC Subsidiary Loan Agreement, respectively;

(d) any party shall have failed to perform any of its obligations under the PPA, or the Shareholders Agreement, respectively; or

(e) the OeKB Loan Agreement or the NPPF Loan Agreement shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date.

Section 5.02. The following are specified as additional events for acceleration of maturity for the purposes of (a) Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 5.01.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

(a) the ADF Loan Agreement has been duly executed and delivered on behalf of the Borrower, and shall have become fully legally valid, binding and enforceable upon the Borrower, in accordance with its terms;

(b) the Project Agreement, shall have been duly executed and delivered on behalf of DGPC and DHPC, respectively, and shall have become fully legally valid, binding and enforceable upon DGPC and DHPC, respectively, in accordance with its terms;

(c) the PPA Addendum, the PPA, and the Shareholders Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of each party thereto, and shall have become fully legally valid, binding and enforceable upon each party thereto, in accordance with its terms; and

(d) the DGPC Subsidiary Loan Agreement and the DHPC Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of DGPC and DHPC, respectively, and shall have become fully legally valid, binding and enforceable upon DGPC and DHPC, respectively, in accordance with their terms.

Section 6.02. The following are specified as additional matters, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB:

(a) the Project Agreement, has been duly authorized or ratified by, and executed and delivered on behalf of each party thereto and are legally binding upon such parties in accordance with their terms;

(b) the PPA Addendum, the PPA, and the SHA, have been duly authorized or ratified by, and executed and delivered on behalf of each party thereto and are legally binding upon such parties in accordance with their terms; and

(c) the DGPC Subsidiary Loan Agreement and the DHPC Subsidiary Loan Agreement have been duly authorized or ratified by, and executed and delivered on behalf of each party thereto and are legally binding upon such parties in accordance with their terms.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Borrower hereby designates DGPC its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Loan Agreement; Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

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

Section 7.03. The authority conferred on DGPC under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Secretary of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Ministry of Finance
Thimphu
Bhutan

Facsimile Numbers:

(975) 2-323154
(975) 2-334994.

For ADB


Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2338.

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

KINGDOM OF BHUTAN

By 
LYONPO WANGDI NORBU
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
KUNIO SENGA
Director General
South Asia Department

SCHEDULE 1**Description of the Project**

1. The impact of the Project is to sustain the Borrower's inclusive economic growth and promote cross-border power trade and electricity access. The expected outcome of the Project is to generate long-term revenue to finance development for, among other things, health, education, and rural electrification development.
2. The Project involves the construction, operation and maintenance of the Dagachhu Hydroelectric Power Plant with an installed capacity of about 114MW, providing power for export to India, comprising *inter alia*, a run of the river hydropower project located on the Dagachhu river in Dagana district, and associated facilities, land acquisition and environmental management.
3. The Project is expected to be completed by 30 June 2013.

SCHEDULE 2**Amortization Schedule****(Green Power Development Project)**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a % based on 10% annuity)
15 Apr 2014	0.477674
15 Oct 2014	0.501558
15 Apr 2015	0.526636
15 Oct 2015	0.552967
15 Apr 2016	0.580616
15 Oct 2016	0.609647
15 Apr 2017	0.640129
15 Oct 2017	0.672135
15 Apr 2018	0.705742
15 Oct 2018	0.741029
15 Apr 2019	0.778081
15 Oct 2019	0.816985
15 Apr 2020	0.857834
15 Oct 2020	0.900726
15 Apr 2021	0.945762
15 Oct 2021	0.993050
15 Apr 2022	1.042702
15 Oct 2022	1.094838
15 Apr 2023	1.149579
15 Oct 2023	1.207058
15 Apr 2024	1.267411
15 Oct 2024	1.330782
15 Apr 2025	1.397321
15 Oct 2025	1.467187
15 Apr 2026	1.540546
15 Oct 2026	1.617574

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a % based on 10% annuity)
15 Apr 2027	1.698452
15 Oct 2027	1.783375
15 Apr 2028	1.872544
15 Oct 2028	1.966171
15 Apr 2029	2.064480
15 Oct 2029	2.167704
15 Apr 2030	2.276089
15 Oct 2030	2.389893
15 Apr 2031	2.509388
15 Oct 2031	2.634857
15 Apr 2032	2.766600
15 Oct 2032	2.904930
15 Apr 2033	3.050177
15 Oct 2033	3.202685
15 Apr 2034	3.362820
15 Oct 2034	3.530961
15 Apr 2035	3.707509
15 Oct 2035	3.892884
15 Apr 2036	4.087528
15 Oct 2036	4.291905
15 Apr 2037	4.506500
15 Oct 2037	4.731825
15 Apr 2038	4.968416
15 Oct 2038	5.216738
TOTAL	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Schedule 2

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the "Table"). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest and Commitment Charge

3. The amount allocated to Category 2 is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Conditions for Withdrawal

6. No withdrawals from the Loan Account shall be made until the following conditions have been met.

(a) the OeKB Loan Agreement, and the NPPF Loan Agreement, in form and substance satisfactory to ADB to ensure adequate funding of the total costs of the Project, shall have been duly executed and delivered on behalf of all parties thereto and shall have become fully legally binding and enforceable in accordance with their respective terms; and

(b) legal opinions have been delivered for the OeKB Loan Agreement, and the NPPF Loan Agreement, in form and substance satisfactory to ADB, indicating that the agreements have been duly executed and delivered on behalf of all parties thereto and shall have become fully legally binding and enforceable in accordance with their respective terms.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Green Power Development Project)			
CATEGORY			ADB FINANCING
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Percentage of ADB Financing from the Loan Account
1	Works	45,500,000	100 percent of the total cost*
2	Interest and Commitment Charge	5,500,000	100 percent of amount due*
	Total	51,000,000	

*Exclusive of local taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be subject to, and governed by, the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the method of procurement set forth below:

International Competitive Bidding

4. The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the method of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

C. Conditions for Award of Contract

5. The Borrower shall not award any Works contract financed under the Loan until:

(a) the Updated Resettlement Plan has been submitted to ADB for review and approval and disclosed to affected people in accordance with ADB's applicable information disclosure requirements for resettlement;

(b) ADB has approved the EIA and EMP and the Updated Resettlement Plan and each such document complies with all applicable laws and regulations of the Borrower and ADB's *Environment Policy (2002)* and *Involuntary Resettlement Policy (1995)* and applicable disclosure requirements;

(c) the Borrower has made any land and rights to land, available free from any encumbrances and has cleared the utilities, trees and any other obstruction from such land, required for commencement of construction activities;

(d) the relevant requirements from the EMP have been included in any Works contract;

(e) minimum workplace occupational safety norms and the core labor standards as identified by the fundamental International Labor Organization conventions are included in any Works contract;

(f) requirements regarding the payment of wages to all workers including male and female workers in a timely manner and have been included in the civil works contract;

(g) requirements regarding women's employment have been included in the civil works contract, where appropriate, and provision for equal wages to be paid to women employees for work of equal value; and

(h) requirements prohibiting child labor in Project activities (and complying with the relevant laws and regulations of the Recipient) are included in the civil works contract.

D. Industrial or Intellectual Property Rights.

6. (a) The Borrower 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, other Works, and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower 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.

E. ADB's Review of Procurement Decisions

7. All contracts procured under international competitive bidding procedures shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

I. Project Execution and Implementation Arrangements

A. Project Executing Agency

1. DGPC shall be the Project Executing Agency and shall be responsible for the overall execution and supervision of the Project. The Borrower shall cause DGPC to, and DGPC shall, follow the implementation arrangements set forth in this schedule

B. Project Implementing Agency.

2. DHPC shall be the Implementing Agency and shall be responsible for day to day coordination, implementation and administration of the Project and all activities required for carrying out the successful implementation of the Project. Such activities include:

- (a) the procurement of Goods and Works;
- (b) construction supervision;
- (c) maintenance of separate project accounts;
- (d) monitoring and reporting upon implementation of the Project;
- (e) the provision of coordination, support, and liaison activities; and
- (f) disbursement, accounting, logistics management, reporting, monitoring, supervision, organization of research activities, and local training.

3. The Borrower, through DGPC, shall cause DHPC to follow the implementation arrangements set forth in this schedule. The Borrower shall also ensure that (a) DHPC is managed by a full-time Project director; and (b) the Project director is supported by competent full-time personnel.

II. Financial Aspects

A. Counterpart Funding

4. The Borrower and DGPC shall ensure, and shall cause DHPC 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 or cost overruns, and (c)

counterpart financing for compensation and entitlements under the Resettlement Plan are fully provided directly to affected people prior to their displacement from housing and land.

B. Subsidiary Loan Agreements

5. The Borrower shall execute (a) the DGPC Subsidiary Loan Agreement with DGPC; and (b) the DHPC Subsidiary Loan Agreement, with DHPC, each upon terms and conditions satisfactory to ADB. The Borrower shall obtain all necessary approvals to enter into both such Subsidiary Loan Agreements and make any subloan thereunder, and shall have executed and validly entered into such Subsidiary Loan Agreements.

C. Cofinancing

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

D. Corporate Governance

7. The Borrower shall cause DGPC and DHPC to ensure, and DGPC and DHPC shall ensure, to the satisfaction of ADB that:

(a) DGPC retains the majority shareholding and majority representation on the Board of Directors of DHPC, and a majority representation from DGPC is required for a quorum for any meeting of DHPC's board of directors; and

(b) no material changes are made to the Shareholders Agreement without consultation with ADB.

E. Debt Service Coverage Ratio

8. DGPC and DHPC shall maintain a debt service coverage ratio of a minimum of 1.2 from the date commercial operations commence.

F. Hedging

9. DGPC shall cause DHPC to, and DHPC shall, (a) deliver a proposal to ADB for currency hedging or an alternative proposal that serves the purpose of hedging the Loan; and

(b) arrange currency hedging or an alternative proposal that serves the purpose of hedging the Loan in a form satisfactory to ADB.

III. Commercial

A. Commercial Agreement

10. The Borrower, DGPC, and DHPC, shall consult with ADB before making any changes to the Power Purchase Agreement, the Shareholders Agreement or to authorize new capital of DHPC.

11. No later than 28 February 2009, the Tata ER Underwriting Agreement shall have been executed and delivered, and all conditions precedent to its effectiveness shall be fulfilled (except for the condition that it has achieved registration with CDM executive board) and a legal opinion in a form acceptable to ADB stating the same shall have been provided.

12. The Borrower shall cause DGPC, and DGPC shall cause DHPC, to use its best efforts to achieve validation and registration of the Project under the Clean Development Mechanism of the Kyoto Protocol as soon as possible.

B. Licensing

13. Within sixty days of the Effective Date, the Borrower shall cause DHPC to, and DHPC shall, obtain all necessary construction licenses for the Project from the Bhutan Electricity Authority.

IV. Institutional Aspects and Financial Management

14. The Borrower shall cause DGPC and DHPC to, and DGPC and DHPC shall, apply a new corporate accounting policy, satisfactory to ADB, by no later than 31 December 2009.

15. The Borrower shall cause DHPC to, and DHPC shall, prepare the design for an integrated management information system, satisfactory to ADB by 31 December 2010, and install such integrated management information system by 31 December 2011.

V. Environmental Safeguards

16. The Borrower, DGPC and DHPC shall each ensure that the Project is implemented in accordance with all environmental safeguard measures. DGPC and DHPC shall adequately supervise the construction works carried out by private contractors to ensure compliance with these environmental safeguard measures.

17. The Borrower, DGPC and DHPC shall each ensure that the Project is undertaken, and all facilities and associated equipment are assessed, operated and maintained, in accordance with applicable laws and regulations of the Borrower, ADB's *Environment Policy (2002)*, and internal environmental policies and safeguard operational rules of DGPC and DHPC.

18. The Borrower, DGPC and DHPC shall each ensure that the outcomes of the EIA, SIEE and mitigation measures identified in the EMP and relevant government agencies

are complied with during the design, construction and operation of the Project. The Borrower shall and shall cause DGPC and DHPC to monitor and audit the implementation of the EMP, and shall provide reports to ADB twice a year on the implementation of the EMP.

19. The Borrower, DGPC and DHPC shall each ensure that construction (a) does not take place within national parks, wild and planted forests and wildlife sanctuaries without prior environmental clearances obtained from all relevant government agencies; and (b) avoids monuments of cultural or historical importance.

20. The Borrower shall cause DGPC and DHPC to, and DGPC and DHPC shall, (a) monitor the air, soil and water quality baseline and the minimum ecological water flow for a minimum of two years, (b) update the EMP in consultation with, and to the satisfaction of, ADB if any of these baselines suggests that changes to the existing EMP be required; and (c) revise and update the EMP in consultation with and to the satisfaction of ADB if any unanticipated environmental impacts arise.

VI. Land Acquisition and Resettlement

21. The Borrower, DGPC, and DHPC shall ensure that (i) all land and rights-of-way required by the Project are made available in a timely manner; (ii) any involuntary resettlement will be avoided or minimized; (iii) in collaboration with the competent authorities, title deeds for the new plots of land will be made available to all affected persons by 31 December 2008; (iv) the provisions of the Resettlement Plan, including compensation and entitlements for affected households and persons, will be implemented; and (v) the Project is in compliance with all applicable laws and regulations of the Borrower, including those amended from time to time, and the entitlement benefits as listed in the Borrower's applicable laws, and ADB's *Involuntary Resettlement Policy (1995)*.

22. The Borrower, DGPC, and DHPC shall ensure that

(a) sufficient budgetary resources are made available to cover all such compensation and associated costs;

(b) all such compensation will be paid at the applicable rates for the implementation of the Project as per the Resettlement Plan;

(c) rates will be revised by 30 September 2008 to ensure the application of the actual market price and the entitlement matrix in the Resettlement Plan should be used in determining the suitable compensation;

(d) payments are made in a timely manner, in any case before dispossession and beginning of civil works;

(e) all people affected by the Project are compensated fairly, such that their living standards are not adversely affected; and

(f) any relocation, resettlement and compensation of any persons who are adversely affected by the Project, or who will be relocated as a consequence of the Project, shall be promptly and efficiently carried out in accordance with (i) the Resettlement Plan, and

(ii) ADB's *Policy on Involuntary Resettlement* (1995), such that project-affected persons will at least maintain their standard of living at the same level as before implementation of the Project.

23. The Borrower, through DHPC, shall conduct monthly monitoring of the implementation of the Resettlement Plan. The Borrower and DGPC shall ensure that DHPC shall submit progress and completion reports on land acquisition and resettlement under the quarterly progress reports for the Project, and each of the Borrower, DGPC, and DHPC shall ensure that the compensation completion report is submitted to ADB within three months of completion of the implementation of the Resettlement Plan.

24. If any changes are made to the design of the Project that affect the land to be acquired or used for the Project in any way, the Resettlement Plan shall be updated based on detailed design, disclosed to affected persons, and submitted to ADB for review and approval prior to award of civil works contracts. The Borrower, DGPC, and DHPC shall ensure that prior to land acquisition and any resettlement under the Project, the Updated Resettlement Plan, including its update based on consensus of affected peoples is disclosed with all necessary information made available to persons affected by the Project and confirm that it is uploaded onto ADB's website. The Borrower, through DHPC, shall ensure that essential public infrastructure that may be affected under land acquisition and resettlement are replaced as appropriate in an expeditious manner in accordance with the Resettlement Plan and DHPC shall be responsible for associated costs and expenses.

25. DGPC and DHPC shall ensure that all construction contracts contain binding requirements for construction contractors to (a) fully reinstate pathways, other local infrastructures, and agricultural land to at least their pre-project condition upon the completion of construction; and (b) adequately record the condition of roads, agricultural land and other infrastructure prior to transport of material and construction commencement.

VII. Labor and Health

26. The Borrower, through DGPC and DHPC, shall (a) ensure that all civil works contracts require contractors employed under the project to incorporate minimum workplace occupational safety norms and the core labor standards as identified by the fundamental ILO conventions; (b) provide timely payment of wages to all workers including male and female workers (with such requirements being included in civil works contract and monitored by construction supervision consultants); (c) provide women's employment, where appropriate, and pay equal wages to women for work of equal value; (d) not employ child labor in Project activities, in compliance with the relevant laws and regulations of the Borrower; and (e) monitor the implementation of these provisions, including, the effects of the Project on women, through collection and compilation of gender-disaggregated data, where relevant, including in the relevant Resettlement Plan, social development action plan, and PPMES and provide monitoring reports of these activities to ADB.

27. The Borrower, through DGPC, and DHPC, shall cause the contractors to disseminate information on the risks of socially and sexually transmitted diseases, including HIV/AIDS and malaria, to their employees during Project implementation.

VIII. Governance and Anti-Corruption

28. The Borrower shall comply with, and shall cause DGPC and DHPC to carry out the Project in accordance with, ADB's *Anti-corruption Policy* (1998, as amended to date) and all applicable laws, including the Companies Act of the Kingdom of Bhutan. The Borrower acknowledges ADB's right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and shall ensure that DGPC and DHPC cooperate fully with any such investigation and extend all necessary assistance as may be necessary for successful completion of the investigation.

IX. Planning, Monitoring, and Review

A. Disbursements and Performance Audits

29. The Borrower shall ensure that DHPC reviews invoices from firms engaged in implementing the Project, and makes payments within 30 days of their receipt or inform the contractors of any shortfalls in its ability to make payment of the invoices.

30. The Borrower shall allow and facilitate ADB's representatives to conduct spot and random checks on (i) flow of funds and their use for the Project in accordance with the Loan Agreement, (ii) work-in-progress; and (iii) Project implementation.

B. Project Performance Monitoring and Evaluation System

31. During Project implementation, the Borrower shall cause DHPC, through the DGPC, to develop a Project Performance Monitoring and Evaluation System ("PPMES") including baseline performance monitoring, and systematic Project performance monitoring, including benefits monitoring and evaluation acceptable to ADB and the other donors. DHPC shall carry out surveys (a) at the start of Project implementation to establish baseline data, (b) at Project mid-term, and (c) at the time of Project completion and not later than six months after Project completion, to evaluate the Project benefits. Data to be compiled and analyzed for the purpose of performance monitoring and evaluation shall be in a format acceptable to ADB. Key indicators shall be proposed by DGPC and acceptable to ADB.

C. Annual Budget Plan

32. By 31 December of each year of Project implementation, the Borrower shall cause DGPC to, and DGPC shall cause DHPC to, and DHPC shall, provide ADB with an annual budget plan for the following fiscal year.

D. Semiannual Reviews

33. The Borrower and ADB shall carry out semiannual reviews of the Project during Project implementation. The semiannual reviews shall include an examination of budgetary allocations for the Project, operation and maintenance costs, staffing, implementation arrangements and achievements under the Project. The review shall include assessing progress for each Project component, identifying difficulties and constraints, and determining ways to overcome them.

E. Midterm Review

34. The Borrower and ADB shall jointly carry out a midterm review of the Project during the third year of Project implementation or at any other time as may be agreed upon by the Borrower and ADB. The results of the midterm review shall be discussed by the Borrower and ADB and if required, appropriate corrective measures shall be formulated to ensure successful Project implementation and achievement of the Project objectives by the Loan Closing Date.