
GRANT 0088/0089-BHU (SF)

GRANT AGREEMENT
(Special Operations)

(Micro, Small, and Medium-Sized Enterprise Sector Development Program)

between

KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 19 FEBRUARY 2008

LPS: BHU 39221

GRANT AGREEMENT (Special Operations)

GRANT AGREEMENT dated 19 February 2008 between the KINGDOM OF BHUTAN (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Recipient a development policy letter dated 15 October 2007 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Grant Agreement, designed to develop the micro, small, and medium-sized enterprise sector of the Recipient (the "Program");

(B) the Recipient has applied to ADB for a grant from its Special Funds resources for the purposes of the Program;

(C) the Recipient has also applied to ADB for a grant from its Special Funds resources in connection with the Micro, Small, and Medium-Sized Enterprise Sector Development Project (hereinafter called the "Project") and by an agreement of even date herewith (hereinafter called the "Project Grant Agreement"), ADB has agreed to provide a grant to the Recipient from ADB's Special Fund resources in an amount of nine million dollars (\$9,000,000); and

(C) ADB has, on the basis inter alia of the foregoing, agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

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

(a) Section 2.01(15) is deleted and the following is substituted therefor:

15. The term "Program" means the program for which ADB has agreed to make the Grant, as described in the Grant Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Recipient.

(b) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(c) Section 2.01(17) is deleted and the following is substituted therefor:

17. The term “Program Executing Agency” means the entity or entities responsible for the carrying out of the Program as specified in the Grant Agreement.

(d) The term “Project Executing Agency” wherever it appears in the Grant Regulations shall be substituted by the term “Program Executing Agency”.

(e) Section 5.01 (a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Grant Agreement, the Recipient shall be entitled to withdraw from the Grant Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Grant Agreement.

Section 1.02. The terms defined in the Grant Regulations are incorporated into this Grant Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “BFDC” means Bhutan Development Finance Corporation of the Recipient, or any successor thereto;

(b) “Counterpart Funds” means the Ngultrum proceeds accruing to the Recipient and generated from the Grant proceeds under the Program and referred to in paragraph 7 of Schedule 4 to this Grant Agreement;

(c) “Deposit Account” means the account referred to in paragraph 4 of Schedule 2 to this Grant Agreement;

(d) “Eligible Items” means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 2 to this Grant Agreement) and, services in connection with the delivery and installation of such goods, the costs of which are eligible for financing out of the proceeds of the Grant;

(e) “First Tranche” means the portion of the proceeds of the Grant in an amount not exceeding two million dollars (\$2,000,000) to be initially withdrawn and utilized on or after the Effective Date subject to compliance with all the conditions for the release of the First Tranche specified in Attachment 2 to Schedule 2 to this Grant Agreement;

(f) “MEA” means the Ministry of Economic Affairs of the Recipient;

(g) “MOF” means the Ministry of Finance of the Recipient;

(h) “MSME” means a micro, small, and medium-sized enterprise;

(i) “MSME division” means the micro, small, and medium-sized enterprise division established or to be established under MEA by the Recipient;

(j) “Ngultrum” or the sign “Nu” means ngultrum being the currency of the Recipient;

(k) “Policy Matrix” means the policy matrix as agreed between the Recipient and ADB and attached to the Policy Letter;

(l) “Program Executing Agency” means, for the purposes and within the meaning of the Grant Regulations, MOF, or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

(m) “Program Implementing Agency” means each of BDFC, MEA, and SQCA, or any respective successor thereto acceptable to ADB, which is responsible for implementing its respective part of the Program as described in paragraph 1 of Schedule 4 to this Grant Agreement;

(n) “Project Agreement” means the Project agreement to be entered into by and between ADB and BDFC;

(o) “PPMU” means the Program and Project management unit described in paragraph 3 of Schedule 4 to this Grant Agreement;

(p) “PSC” means the inter-agency program steering committee described in paragraph 2 of Schedule 4 to this Grant Agreement;

(q) “RMA” means the Royal Monetary Authority of the Recipient, or any successor thereto;

(r) “RTIO” means the regional trade and industrial office of the Recipient;

(s) “Second Tranche” means the portion of the proceeds of the Grant in an amount not exceeding two million dollars (\$2,000,000) after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 2 to this Grant Agreement;

(t) “SQCA” means the Standards and Quality Control Authority of the Recipient; and

(u) “Third Tranche” means the balance of the proceeds of the Grant remaining in the Grant Account after the utilization of the First Tranche and the Second Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 6 of Schedule 2 to this Grant Agreement.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Grant Agreement an amount of six million dollars (\$6,000,000).

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 Program in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant may be withdrawn from the Grant Account only for the purposes of financing expenditures incurred for Eligible Items under the Program 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, all Eligible Items to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2010 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 Program, 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 maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.

(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB semi-annual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Suspension and Cancellation

Section 5.01. The following is specified as an additional event for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations: the Recipient shall have failed to perform any of its obligations under the Project Grant Agreement.

ARTICLE VI

Effectiveness

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

(a) the Project Grant Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient, and all conditions precedent to its effectiveness other than a condition requiring the effectiveness of this Grant Agreement shall have been fulfilled;

(b) the Project Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, BDFC and shall have become legally binding upon BDFC in accordance with its terms, subject only to the effectiveness of the Project Grant Agreement; and

(c) all conditions for the release of the First Tranche, specified in Attachment 2 to Schedule 2 to this Grant Agreement, shall have been met.

Section 6.02. The following are specified as additional matters, for the purposes of Section 9.02(c) of the Grant Regulations, to be included in the opinion or opinions to be furnished to ADB:

(a) the Project Grant Agreement has been duly authorized or ratified by and executed and delivered on behalf of the Recipient, and is legally valid and binding upon Recipient; and

(b) the Project Agreement has been duly authorized or ratified by and executed and delivered on behalf of the BDFC, and is legally valid and binding upon BDFC.

Section 6.03. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. 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 7.02. 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
Thimpu, Bhutan

Facsimile Number:

(009752) 323154

For ADB

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

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

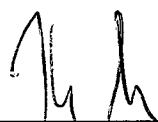
(632) 636-2444
(632) 636-2337.

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 and to be delivered at the principal office of ADB, as of the day and year first above written.

KINGDOM OF BHUTAN

By 
DASHO YANKI T. WANGCHUK
Secretary
Ministry of Finance

ASIAN DEVELOPMENT BANK

By 
KUNIO SENGA
Director General
South Asia Department

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to provide support to the Recipient to promote the expansion and growth of MSME sector and encourage private sector development by (i) establishing a policy, strategy, and institutional framework for MSME development, (ii) enhancing business laws and regulations to facilitate MSME operations, (iii) increasing access to market-based finance, and (iv) strengthening the business support infrastructure. The Program is described in more detail in the Policy Letter and the Policy Matrix. The Program shall be implemented during the period 2007 - 2010.

2. In support of the Program:

(a) the proceeds of the Grant shall be used to finance the costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraphs 7 of Schedule 4 to this Grant Agreement.

3. The proceeds of the Grant are expected to be utilized by 31 December 2010.

SCHEDULE 2

Withdrawal of Grant Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Grant proceeds from the Grant Account.

2. (a) Withdrawals from the Grant Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Grant Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other grants or loans made by ADB.

3. (a) An application for withdrawal from the Grant Account shall be submitted to ADB by the Recipient and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Recipient confirming that with respect to each year during which the proceeds of the Grant are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Grant expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Recipient during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans or grants made by ADB.

(d) The Recipient shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Recipient has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Recipient shall open a Deposit Account at the RMA into which all withdrawals from the Grant Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Recipient shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any

event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Recipient shall submit trade statistics and any other information as ADB may require from time to time to assess the Recipient's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Grant Agreement or the Grant Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Recipient, that (a) sufficient progress has been achieved by the Recipient in the carrying out of the Program; and, in particular, (b) the Recipient has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

6. Notwithstanding any other provisions of this Grant Agreement or the Grant Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Third Tranche unless ADB shall be satisfied, after consultation with the Recipient, that (a) sufficient progress has been achieved by the Recipient in the carrying out of the Program; and, in particular, (b) the Recipient has fulfilled the conditions for the release of the Third Tranche specified in Attachment 4 to this Schedule.

Attachment 1 to Schedule 2**Negative List**

1. Grant proceeds shall finance the foreign currency expenditures for the reasonable cost of imported goods required during the Micro, Small, and Medium-Sized Enterprise Sector Development Program.
2. No withdrawals shall be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3), or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Recipient;

Table xxx: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Recipient or of goods supplied from the territory of the Recipient;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party; and

- (vii) expenditures on account any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the First Tranche**A. Establish a policy, strategy, and institutional framework for MSME development**

1. Improve organizational structure and develop an appropriate policy, strategy, and institutional framework for MSME development:

a) The MEA, in consultation with the private sector development committee, or a body designated for the purpose, shall have commenced overseeing and acting as a policy body regarding overall MSME development.

b) The Recipient shall have established a PSC comprising the Secretaries of MEA, MOF, and Ministry of Agriculture of the Recipient, and the Managing Director of RMA, with Secretary, MEA, as the chairperson.

c) The MEA shall have notified the establishment of a MSME division for implementing the Program and facilitating coordination between different ministries and other relevant government agencies, BDFC, Bhutan Chamber of Commerce and Industry, and the other private sector participants regarding MSME development.

B. Enhance business laws and regulations

2. Enhance legal and regulatory structure and conduct regulatory impact assessment: The MEA shall have established a regulatory impact assessment working group under the MSME division to undergo training with the objective of subsequently piloting regulatory impact assessment.

3. Simplify business formalization process: The Recipient shall have reduced overall time involved in the business formalization process¹ from 62 to 43 days.

4. Introduce one-stop shops to facilitate business formalization process: The Recipient shall have established a one-stop shop working group, consisting of government officers from all relevant administrative levels to formulate a model for, and functions of, a one-stop shop, and prepare an action plan for introducing one-stop shops in the RTIOs.

5. Increasing accountability and efficiency of RTIOs: MSME division shall have been assigned the task by MEA of reviewing and establishing performance benchmarks and monitoring system for RTIOs within a defined timeframe.

C. Increase access to market-based finance

6. Restructure BDFC as a sustainable and efficient financial institution dedicated to MSMEs and rural lending: BDFC Board shall have approved and adopted a 5-year

1

The business formalization process refers to the procedures and costs associated with setting up a business, which is based on the definition used in the *Doing Business* of the World Bank. There are 10 procedures involved when setting up a new business in Bhutan.

strategy and business plan, which shall have included an appropriate corporate governance structure, human resource strategy, and performance targets.

7. Establish a central registry to encourage secured transactions: The Recipient shall have formed a central registry working group to commence a feasibility study for establishing a central registry at the RMA.

D. Strengthen business support infrastructure

8. Broaden business development services support with private sector participation: MSME division shall have been assigned the task by MEA to assess business development service requirements by MSMEs based on the recommendations of ADB's Project Preparatory Technical Assistance 4412 to meet the identified needs and to submit its findings within a set period.

9. Improve quality control and product standards: The SQCA shall have established a standards working group to determine quality control and product certification standards for key industries in the MSME sector.

Conditions for Release of the Second Tranche

1. The conditions to be fulfilled by the Recipient for the release of the Second Tranche are, maintaining the conditions satisfied under the First Tranche and achievement, satisfactory to ADB, of the conditions set out below.

A. Establish a policy, strategy, and institutional framework for MSME development

2. Improve organizational structure and develop an appropriate policy, strategy, and institutional framework for MSME development: The MEA shall have prepared a draft long-term policy, strategy, and institutional framework and program for MSME development (a white paper on MSME development) based on a competitiveness study, supply chain and value added analyses, and in consultation with the private sector and relevant stakeholders.

B. Enhance business laws and regulations

3. Enhance legal and regulatory structure and conduct regulatory impact assessment: The regulatory impact assessment working group shall have completed the preparation and training to include policy, methodology, and procedures; and further, conducted pilot regulatory impact assessment on draft legislation/s [Bhutan Enterprises Registration Act and/or Industries and Investment Act, or any other legislation relevant to MSME development]

4. Simplify business formalization process: The Recipient shall have reduced overall time involved in the business formalization process from 43 to 30 days.

5. Introduce one-stop shops to facilitate business formalization process: The one-stop shop working group shall have submitted an action plan to MEA for introducing one-stop shop units at the regional level, including the introduction of performance benchmarks.

C. Increase access to market-based finance

6. Restructure BDFC as a sustainable and efficient financial institution dedicated to MSMEs and rural lending: BDFC shall have commenced implementation of the approved new strategy and the 5-year business plan.

7. Establish a central registry to encourage secured transactions: The RMA shall have approved the plan and procured relevant software and hardware for establishing the central registry, and rolled out phase I services covering existing collaterals of financial institutions.

D. Strengthen business support infrastructure

8. Broaden business development services support with private sector participation: The MSME division shall have established a cost sharing facility to meet the identified needs.

9. Improve quality control and product standards: The SQCA shall have submitted the proposed Standards Act to the National Assembly.

Conditions for Release of the Third Tranche

1. The conditions to be fulfilled by the Recipient for the release of the Third Tranche are, maintaining the conditions satisfied under the First Tranche and the Second Tranche and achievement, satisfactory to ADB, of the conditions set out below.

A. Establish a policy, strategy, and institutional framework for MSME development

2. Improve organizational structure and develop an appropriate policy, strategy, and institutional framework for MSME development: The Recipient shall have adopted the MSME policy, strategy and institutional framework, and development program with the 3-year action plan for MSME development.

B. Enhance business laws and regulations

3. Enhance legal and regulatory structure and conduct regulatory impact assessment:

a) The Recipient shall have reviewed and revised, as needed, the draft legislation/s based on recommendations of the regulatory impact assessment working group for submission to the National Assembly.

b) The Recipient shall have adopted the approved regulatory impact assessment policy and designated the MSME division to implement the policy.

4. Simplify business formalization process: The Recipient shall have reduced overall time involved in business formalization process to less than 30 days aiming to approximate international best practice.

5. Introduce one-stop shops to facilitate business formalization process:

a) The MSME division shall have set up a website with complete information on the business formalization process and prepared a brochure detailing the process of business formalization with time and costs involved for public dissemination.

b) The MEA shall have established one-stop shop units in the RTIOs at the regional level.

6. Increasing accountability and efficiency of RTIOs: The MSME division shall have disseminated performance benchmarks to the public and RTIOs to implement performance benchmarks as set by MEA, and established complaints desk to obtain feedback from public users.

C. Increase access to market-based finance

7. Establish a central registry to encourage secured transactions: The RMA shall have made the central registry fully operational as per the approved plan.

D. Strengthen business support infrastructure

8. Broaden business development services support with private sector participation: The MEA shall have made the cost sharing facility fully operational.

9. Improve quality control and product standards: The SQCA, or its successor, Bhutan Standards Bureau shall have approved the plan for establishment of product standards, testing facilities, and product certification.

SCHEDULE 3

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Grant.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Recipient's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 4

Program Implementation and Other Matters

Implementation Arrangements

1. The MOF, as the Program Executing Agency, shall be responsible for overall execution, coordination, and supervision of the Program. The MEA shall be responsible for implementation of the entire Program, except that (i) BDFC shall be responsible for implementation of the sub-component under the Program relating to adoption and implementation of the new 5-year business plan as described in item C.1 of the Policy Matrix, and (ii) SQCA shall be responsible for implementation of the sub-component under the Program relating to improvement of quality control and product standards as described in item D.2 of the Policy Matrix.

2. By November 2007, the Recipient shall set up a PSC chaired by the Secretary of MEA, and comprising amongst others, the Secretaries of MOF and Ministry of Agriculture, and the Managing Director of RMA, or their designated representatives, to monitor progress, coordinate implementation, and ensure effective fulfillment of the proposed policy reforms. The PSC shall meet every quarter, or as often as needed. ADB shall be entitled to receive all reports and minutes of PSC and may attend the meetings of PSC as an observer.

3. By November 2007, the Recipient shall establish a MSME division to act as the PPMU, which shall be headed by a senior staff of MEA, and be responsible for implementing the Program and coordinating support for Program and Project administration. The MSME division shall have a core group to implement the Program, and a coordination group to support and oversee the implementation of policy actions and the Project. The coordination group shall comprise representatives of the respective divisions at MEA, BDFC, RMA, SQCA, Ministry of Agriculture, Division of Debt Management at the Department of Public Accounts at MOF, Bhutan Agriculture and Food Regulatory Authority, and Bhutan Chamber of Commerce and Industry.

Implementation of the Policy Letter and Policy Matrix

4. The Recipient shall (i) ensure that the policies and actions taken, as described in the Policy Letter and the Policy Matrix prior to the date of this Grant Agreement, shall continue in effect during the Program period and subsequently, and (ii) promptly adopt all other policies and take all other actions indicated in the Policy Letter and the Policy Matrix, and ensure that such policies and actions continue in effect during and after the Program period.

Policy Dialogue

5. The Recipient shall keep ADB informed of, and the Recipient and ADB shall from time to time exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix. The Recipient shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints.

6. The Recipient shall keep ADB informed of policy discussions with other international and bilateral agencies that may have implications for the implementation of the Program and shall provide ADB with the opportunity to comment on any resulting proposals. The Recipient shall take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

7. The Recipient shall ensure that the Counterpart Funds are used for meeting Program expenditures, and to support the cost of adjustment linked to reform measures including the development of MSME policy, strategy, and institutional framework, introduction of one-stop shops in RTIOs, simplification of business formalization processes, undertaking of regulatory impact assessment on select business laws, adoption of the new 5-year business plan by BDFC, review and preparation of a plan for rationalization of credit assistance to MSMEs, establishment of a central registry at RMA, implementation of cost-sharing facility at MEA, and preparation of a plan for testing, standards establishment, and product certification.

BDFC

8. The Recipient shall cause BDFC to (i) perform all obligations set forth in this Grant Agreement to the extent that they are applicable to BDFC, and (ii) furnish to ADB semi-annual reports on the execution of the Program to the extent applicable to it. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following six months.

Anticorruption

9. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program.

Monitoring of the Program

10. The Recipient shall ensure that PPMU shall (i) establish and maintain a performance evaluation system for the Program, which shall include a data base on the status of policy measures and Program indicators based on the Policy Matrix and the design and monitoring framework for the Program; (ii) monitor the implementation of the Program and its impacts; (iii) submit to ADB semi-annual progress reports on the implementation of the Program, including accomplishment of the policy and institutional reforms set forth in the Policy Letter and the Policy Matrix; and (iv) submit to ADB a Program completion report at the end of the Program period.

11. The Recipient and ADB shall review the implementation of the Program every six months and at the end of the Program Period. To facilitate such review, the Recipient shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

12. Approximately three (3) months prior to the scheduled release of the Second Tranche and the Third Tranche, respectively, or such other time as the Recipient and ADB may agree, ADB shall review the progress in implementing the policy reforms under the Program as set out in the Policy Letter and the Policy Matrix, including the fulfillment of the conditions listed in Attachment 3 and Attachment 4 to Schedule 2 to this Grant Agreement, respectively.