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IMPLEMENTATION MECHANISM FOR PROJECT-TIED ASSISTANCE TO RGOB

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1. Background

Recalling the Joint Press Communiqué issued at the conclusion of the State Visit of His Majesty the King of Bhutan to India from 14 to 18 September 2003 and agreements reached thereof and Agreed Minutes of the Plan Talks of December 2002, and recognizing the need to streamline and improve programme delivery with regard to GOI project-tied assistance to RGOB, the two Governments have agreed to reactivate the Project Monitoring Committee (PMC).

2. The Project Monitoring Committee (PMC)

The Project Monitoring Committee shall review and monitor the implementation and progress of the agreed projects. The agreed Terms of Reference of the PMC is attached.

3. Modalities for Finalization and Implementation of GOI-assisted Projects

- I. The list of projects and the indicative fund allocations for the plan period shall be as agreed during the Plan Talks or as agreed between the two Governments. The list of Projects would be finalized on the basis of project documents, cost estimates and work plans.
- II. The RGOB shall thereafter prepare and forward the five-year Work Plans with an annualized statement of the estimated costs and fund requirements for each project to the GOI.

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- III. The GOI shall release 50% of the annual requirement of the cost of the project as an initial release on receipt of the request from RGOB accompanied by the five-year Work Plan. Subsequent releases shall be based on the submission of an annual work plan, progress report and utilization certificate and GOI shall release the 1st installment for the year by June/July and the 2nd installment by November/December of the same year.
- IV. Where it has been decided following consultations between the two Governments, that an agency of GOI would implement a project, that agency shall submit the annual work plans and cost estimates of the project to the RGOB through GOI including progress reports and utilization certificates by the months of June and December each year.
- a. Progress reports of such projects would be considered by the Project Monitoring Committee.
 - b. All efforts will be made by such GOI agencies to employ Bhutanese Contractors, wherever local capacity exists, to execute specific contracts.
 - c. The two Governments would facilitate technical consultations between GOI agencies and concerned RGOB Departments.
- V. Where RGOB lacks certain expertise, RGOB may request GOI for assistance of Indian experts in the formulation of projects.
- VI. The award of contract work for the GOI assisted projects should be, in conformity with the understandings reflected in the Agreed Minutes of

the Plan Talks of December 2002. Wide publicity would be given to Notices Inviting Tenders for the execution of GOI assisted projects.

- VII. Where consultants are required in the implementation of the projects, only consultants from either of the two countries shall be engaged by the projects.
- VIII. Procurements of material, stores and equipment and selection of consultants for all projects shall be as per GOI¹/ RGOB rules as applicable.
- IX. With the exception of projects referred to in para 3.(IV) above, the Royal Audit Authority shall audit all project accounts and reports will be forwarded by RGOB to the GOI. Similarly, GOI shall forward to RGOB audited project accounts as appropriate of the projects implemented by GOI agencies.

4. Taxes

- I. Any goods or materials imported for direct use in the projects shall not be subject to customs duties, sales tax or any such indirect taxes by the RGOB.
- II. Pending conclusion of Agreement on Avoidance of Double Taxation, the two Governments agree to avoid double taxation for all GOI employees and agencies employed in GOI assisted projects in Bhutan.

5. Plan Talks

Plan Talks will be held annually / biennially to review the GOI assisted projects.

¹ In respect of GOI Agency implemented Projects

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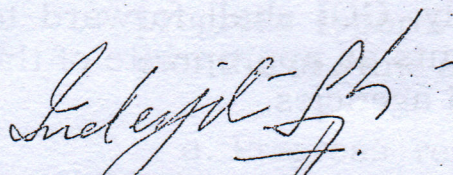
6. Review of the Mechanism

The implementation mechanism shall be reviewed from time to time and may be amended upon mutual agreement by the two Governments.

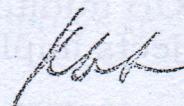
Signed on 20th October 2004 at Thimphu.

On Behalf of the Government
of the Republic of India

On Behalf of the
Royal Government of Bhutan



(Shri Rao Inderjit Singh)
Minister of State for External Affairs



(Lyonpo Khandu Wangchuk)
Minister for Foreign Affairs

TERMS OF REFERENCE OF THE PROJECT MONITORING COMMITTEE

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A. Background:

- i) The RGOB and the GOI have agreed to reactivate the Project Monitoring Committee (PMC) to monitor and facilitate smooth implementation of project-tied assistance.
- ii) The composition, scope and the responsibilities of the PMC shall be as follows:

B. Composition:

The PMC shall comprise of 8 members:

- RGOB 4 Members
- GOI 4 Members

Representatives from the consultants and executing agencies of the RGOB and GOI shall be invited to participate in the meetings as and when required.

C. Scope:

The PMC shall be the formal mechanism to facilitate smooth implementation of the projects funded by GOI under project-tied assistance, through joint monitoring including those works awarded to consultants/executing agencies of the two governments. It shall be responsible for ensuring that the project objectives and outputs are achieved and funds are utilized efficiently and effectively.

The PMC shall meet twice a year. Extraordinary meetings may be called if required.

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The venue for the meetings shall either be in Bhutan or in India.

The expenses of PMC activities shall be met by the two Governments.

D. Responsibilities:

- i) Monitor overall progress and implementation of the GOI project-tied assistance through reviews and visits to project sites as and when necessary.
- ii) Review physical and financial progress of the project.
- iii) Review any issues including causes of delay, if any, in the implementation of the projects and propose alternative solutions.
- iv) Review any major changes required in the scope of the project and make recommendations to the two governments, as necessary.
- v) Review and recommend, as necessary, any re-allocation of funds between the project activities not exceeding the overall approved allocation of the project.
