

CONFORMED COPY

CREDIT NUMBER 1900 BHU

(Second Forestry Development Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 9, 1988

CREDIT NUMBER 1900 BHU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 9, 1988, between KINGDOM OF BHUTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to receive from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount equivalent to SDR 3,700,000 (Swiss Contribution) to assist in financing the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland;

(C) Part A of the Project will be carried out by the Borrower through its Forest Department (FD);

(D) Part B through H of the Project will be carried out by Bhutan Logging Corporation (BLC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BLC the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association

and BLC;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Association and BLC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BLC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(c) "Special Account" means the account referred to in Section 2.02 (c) of this Agreement;

(d) "Project Area" means the area comprising the Dzongkhags (districts) of Thimphu, Paro and Haa; and

(e) "Project Coordinator" means the Managing Director of BLC.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eight hundred thousand Special Drawing Rights (SDR 800,000).

Section 2.02. (a) The amount of the Credit and the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution Account, respectively, in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower, the Association and Switzerland for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit and Swiss Contribution.

(b) Except as the Association and Switzerland shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed by the provisions of Article V of the General Conditions.

(c) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in the Bank of Bhutan on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 1998 and ending April 1, 2028. Each installment to and including the installment payable on April 1, 2008 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement shall: (i) carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and forestry practices, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project; (ii) carry out Part A of the Project in accordance with an Operational Action Plan satisfactory to the Association; and (iii) cause BLC to perform in accordance with the provisions of the Project Agreement all the obligations of BLC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BLC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit to BLC under a subsidiary loan agreement to be entered into between the Borrower and BLC, under terms and conditions which shall have been approved by the Association and which shall include, inter alia, the following:

- (i) the Borrower shall charge BLC an annual interest rate of 12%;
- (ii) repayment period shall be within 9 years inclusive of a grace

period of 2 years; and

(iii) BLC shall bear the foreign exchange risk.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association and Switzerland shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit and the Swiss Contribution shall be governed by the provisions of the Schedule to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts B through H of the Project shall be carried out by BLC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. In order to evaluate the achievement of Project objectives, the Borrower, BLC, the Association and Switzerland shall, by December 31, 1990, carry out a mid-term review of the implementation of the Project.

Section 3.05. For the purposes of effective coordination of all projects in the forestry sector, the Borrower shall:

(a) organize, at least once a year, a joint review of said projects among donors, BLC and FD under the chairmanship of the Planning Commission of the Borrower; and

(b) hold an annual workshop, timed with the joint review mentioned in the preceding paragraph, to be attended by the managers of the various forestry projects and to be chaired by the Ministry of Agriculture of the Borrower.

Section 3.06. The Borrower shall cause the Project Coordinator to prepare and furnish to the Association with the following reports:

(a) semiannual Project progress report not later than March 31 and September 30 of each year of Project implementation; and

(b) a mid-term Project review report to be furnished not later than September 30, 1990.

Section 3.07. By November 30 of each year, the Borrower shall instruct BLC regarding the cutting area priorities for the following year.

Section 3.08. In order to assist in carrying out Part A of the Project, the Borrower shall appoint to its FD by April 30, 1988:

(a) one additional ranger and two additional foresters to assist in carrying out the pest management and research program; and

(b) four additional foresters to carry out markings of trees in the priority areas for cutting by BLC.

Section 3.09. By December 31, 1988, or such other date agreed with the Association, the Borrower shall carry out: (a) a pre-harvest inventory; (b) a waste and defect study; and (c) furnish the findings of (a) and (b) to the Association for its review and comments.

Section 3.10. In order to assist the Borrower in carrying out Part A of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### ARTICLE IV

## Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments or agencies of the Borrower responsible for carrying out Part A of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) BLC shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BLC will be able to perform its obligations under the Project Agreement.

(c) BLC Charter of 1984 as heretofore amended shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BLC to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BLC or for the suspension of its

operations.

(e) The Swiss Contribution Agreement shall have failed to become effective by June 30, 1988, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (f) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Swiss Contribution made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor;
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
  - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
  - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and BLC.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by BLC, and is legally binding upon BLC in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and BLC and is legally binding upon the Borrower and BLC in accordance with its terms.

Section 6.03. The date (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Tashichhodzong  
Thimphu, Kingdom of Bhutan

Cable address:

Ministry of Finance  
Thimphu, Bhutan

Telex:

890-201

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF BHUTAN

By /s/ Dasho Jigme Thinley

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu

Regional Vice President  
Asia

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit and the Swiss Contribution

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Swiss Contribution, the allocation of the amounts of the Credit and the Swiss Contribution to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contribution Allocated (Expressed in SDR Equivalent)	% of Expendi- tures to be Financed
(1) Vehicles, equip- ment and materials:			100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local ex- penditures for

			items procured locally
(a) Vehicles and mate- rials	460,000		
(b) Equipment		1,320,000	
(2) Road con- struc- tion	200,000		15%
(3) Incremental operating costs		810,000	5%
(4) Technical assist- ance and training		920,000	100% of foreign expenditures
(5) Unallo- cated	140,000	650,000	
TOTAL	800,000	3,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means BLC's additional costs incurred after the date of this Agreement for the purposes of carrying out the investment and operation activities under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$100,000, may be made from the Credit on account of payments made for expenditures before that date but after June 30, 1987.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to strengthen the managerial and technical capacity of BLC and FD.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Pest and Forest Management

Pest surveillance and implementation of an active trapping, control and extension program in the pest-affected areas.

Part B: Logging

Treatment of about 2,640 ha of mixed coniferous forest under a program of salvage logging, to remove economically salvageable dead trees within the context of a proper silvicultural management plan.

Part C: Road Construction

Building permanent access roads as part of a long-term harvesting and management plan, and spur roads in areas selected for salvage logging.



Part D: Workshop Facilities

Provision of: (i) a modern workshop at Paro to repair forestry equipment; and (ii) training to upgrade the skills of the mechanics and supervisors.

Part E: Nursery Development

Establishment of at least one permanent nursery at a central location of the Project Area.

Part F: Reforestation

Regeneration of native tree species in clear cut areas with provision for fire control facilities and control of stock grazing.

Part G: Marketing Support

Development of a more active marketing strategy for timber products through the provision of sheds, equipment and technical assistance and training.

Part H: Technical Assistance

Strengthening of management skills of BLC through the provision of technical assistance, including the setting up of a commercial accounting system.

\* \* \*

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$90,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished

pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.

