

CONFORMED COPY

CREDIT NUMBER 1900 BHU

(Second Forestry Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BHUTAN LOGGING CORPORATION

Dated May 9, 1988

CREDIT NUMBER 1900 BHU

PROJECT AGREEMENT

AGREEMENT, dated May 9, 1988 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BHUTAN LOGGING CORPORATION (BLC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Kingdom of Bhutan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eight hundred thousand Special Drawing Rights (SDR 800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BLC agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(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) by a subsidiary loan agreement to be entered into between the Borrower and BLC, proceeds of the credit provided for under the Development Credit Agreement will be made available to BLC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS BLC, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) BLC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Parts B through H of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and forestry practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and BLC shall otherwise agree, BLC shall carry out Parts B through H of the Project in accordance with: (i) an Operational Action Plan, satisfactory to the Association, as such plan may be reviewed on an annual basis and revised, as necessary, by agreement between the Association and BLC; and (ii) sound environmental protection measures including those set forth in the Operational Action Plan.

Section 2.02. 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 this Agreement.

Section 2.03. BLC shall carry out 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 the Project Agreement and Parts B through H of the Project.

Section 2.04. BLC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, BLC shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) BLC shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) BLC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by BLC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

#### ARTICLE III

##### Management and Operations of BLC

Section 3.01. BLC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and forestry practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. BLC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and forestry practices.

Section 3.03. BLC shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) BLC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) BLC shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 copies of its financial statements for such year as so audited, and (B) 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 financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, BLC shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 1 to 1.

(b) For purposes of this Section:

(i) The term "debt" means any indebtedness of BLC maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.

(iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of BLC not allocated to cover specific liabilities.

(iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of exchange acceptable to the Association.

## ARTICLE V

### Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of BLC thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify BLC of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For BLC:

Bhutan Logging Corporation  
Thimphu, Kingdom of Bhutan

Cable address:

BHUFORST

Telex:

8901220

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BLC, or by BLC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Chairman of BLC or such other person or persons as the Chairman of BLC shall designate in writing, and BLC shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu

Regional Vice President  
Asia

BHUTAN LOGGING CORPORATION

By /s/ Dasho Jigme Thinley

Authorized Representative

SCHEDULE

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Parts C and D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Bhutan may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Vehicles, equipment and materials estimated to cost the equivalent of \$50,000 or less per contract and the equivalent of \$1,650,000 in the aggregate may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

Part D: Procurement Without Contracting

Road construction works may be carried out through force account.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist BLC in carrying out Parts B through H of the Project, BLC 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.

