

CONFORMED COPY

CREDIT NUMBER 3309 BHU

Development Credit Agreement

(Rural Access Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 16, 2000

CREDIT NUMBER 3309 BHU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 16, 2000, 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from the Government of the Netherlands (the Netherlands) a non-reimbursable contribution in an amount of one million nine hundred fifty-five thousand Netherlands Guilders (NLG 1,955,000) (the Netherlands Contribution) to assist in financing the Project on the terms and conditions set forth in an agreement (the Netherlands Contribution Agreement) to be entered into between the Borrower and the Netherlands; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the credit provided for in Article II of this Agreement (the Credit) to the Borrower upon the terms and conditions set forth in this Agreement;

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 (as amended through December 2, 1997) (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) "DOR" means the Division of Roads of the Borrower within MOC (as hereinafter defined);

(b) "DYT" means the District Development Committee (Dzongkhag Yargye Tshogchung) of each Project District (as hereinafter defined) involved in, inter alia, the planning and coordination of activities to be carried out under the Project at the district level;

(c) "Dzongkhag Administration" means the administrative authority of each District (Dzongkhag) of the Borrower responsible for, inter alia, the planning, implementation, coordination, management, supervision and monitoring and evaluation of development activities carried out at the district level;

(d) "EA" means each environmental assessment report prepared or to be prepared by the Borrower for each of the roads included in the Project, each such EA to be satisfactory to the Association and to set forth, inter alia, the assessment of environmental impacts of the construction, rehabilitation and other civil works for the relevant roads and recommendations based on such assessment;

(e) "Eligible Categories" means categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(g) "EMP" means each environmental management plan contained in an EA, each such EMP to be satisfactory to the Association and to set forth, inter alia, the measures to mitigate adverse environmental impacts of the construction, rehabilitation and other civil works for the roads included in the Project and to monitor the implementation of such mitigation measures;

(h) "Environmental Codes of Practice" means the Environmental Codes of Practice of the Borrower prepared by DOR setting forth environmental guidelines to be followed for all road planning, design, construction and maintenance activities;

(i) "MOC" means the Ministry of Communications of the Borrower;

(j) "Participatory Activities" means activities involving stakeholders, local communities and non-governmental organizations for assisting in the implementation of the Project and for enhancing the effectiveness of the Project, including without limitation a project launch workshop and other workshops and training;

(k) "Project Cell" means the Project Cell established in DOR and responsible for, inter alia, the planning, implementation, coordination, management, supervision and monitoring and evaluation of activities to be carried out under the Project;

(l) "Project District" means each District (Dzongkhag) of the Borrower in which a part of the Project will be carried out;

(m) "Project Implementation Plan" means the Project Implementation Plan of the Borrower for the carrying out of the Project, dated October 1999 and approved by the Association, as the same may be updated from time to time with the agreement of the Association;

(n) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(o) "RAP" means each resettlement action plan prepared or to be prepared by the Borrower for each of the roads included in the Project, each such RAP to be satisfactory to the Association and to be consistent with the objectives, policies, procedures and other provisions set forth in the Policy Framework for Resettlement and Rehabilitation of Project Affected Persons of the Borrower dated September 1999 and approved by the Association and to set forth, inter alia, the entitlement framework, institutional arrangements, implementation schedules, monitoring mechanisms and cost

estimates for the resettlement and rehabilitation of people affected by the implementation of the Project; and

(p) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

## 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 this Agreement, an amount in various currencies equivalent to eight million five hundred thousand Special Drawing Rights (SDR 8,500,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement 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.

Section 2.03. The Closing Date shall be April 30, 2005 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 on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) 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 June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing June 15, 2010 and ending December 15, 2039. Each installment to and including the installment payable on December 15, 2019 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum

of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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, and, to this end, shall carry out the Project, through DOR, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, social and environmental practices, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall: (a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound financial management and accounting practices the operations, resources and expenditures related to the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section including 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 fiscal year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such fiscal year as so audited,

and (B) an opinion on such financial statements, records and accounts and a 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, and the audit thereof, and concerning said auditors, as the Association may 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 Project Management Reports or statements of expenditure, the Borrower shall:

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

(ii) retain or cause to be retained, until at least one year after the Association has received the audit report 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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than July 1, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional event is specified, namely, that:

- (a) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Netherlands Contribution shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Netherlands Contribution Agreement.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the Netherlands Contribution 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.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) the Netherlands Contribution Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of this Agreement, have been fulfilled; and

(b) all actions set forth in the action plan referred to in Section 4.02(a) of this Agreement for which the completion dates specified therein precede the Effective Date have been completed.

Section 6.02. The date ninety (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 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:

248423 (MCI) or  
64145 (MCI)

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/ Lyonpo Om Pradhan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Marilou Uy

Country Director,  
Bhutan

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit 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)	% of Expenditures to be Financed
(1) Civil works	6,520,000	85%
(2) Goods	170,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 90% of local expend- itures for other items procured locally
(3) Consultants' services (including services of local non-governmental organizations and local communities), training, studies and workshops	720,000	100%
(4) Unallocated	1,090,000	
TOTAL	8,500,000	

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; and

(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.

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 SDR 750,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in Part A.1 of this Schedule on account of payments made for expenditures before that date but after April 1, 1999.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$50,000 equivalent each; (b) works under contracts costing less than \$300,000 equivalent each; (c) services under contracts costing less than \$50,000 equivalent each for employment of consulting firms (including local non-governmental organizations and local communities) and \$25,000 equivalent each for employment of individual consultants; and (d) training; all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Bank of Bhutan, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records, accounts and financial statements reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statements of expenditure.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the



Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal or exceed the equivalent of SDR 2,200,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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.

#### Annex B to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,000,000.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower in: (i) improving the access of rural communities to markets, schools, health centers and other economic and social infrastructure in order to improve the quality of life and productivity of rural communities; and (ii) strengthening institutional capacity for implementing environmentally friendly approaches to improve rural access, community involvement in rural roads selection and management and improved infrastructure maintenance.

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: Road Construction and Rehabilitation

1. Implementing a program of construction and rehabilitation of about 120 km of feeder roads. 2. Carrying out a program of resettlement and rehabilitation of people affected by the implementation of Part A.1 of the Project.

#### Part B: Institutional Capacity Strengthening

Strengthening the institutional capacity of MOC/DOR, the DYT's and Dzongkhag Administrations through the provision of technical assistance and training for: (i) project management, project designs with environmentally friendly methods, monitoring and evaluation, and the strengthening of the financial management system established in DOR; (ii) environmental and social assessment studies and related action plans; (iii) maintenance planning of feeder roads, including prioritization, efficiency improvements and introduction of community participation; (iv) Participatory Activities; (v) socio-economic evaluation of completed roads; and (vi) pre-investment studies for a follow-up project.

\* \* \*

The Project is expected to be completed by October 31, 2004.

## SCHEDULE 3

### Procurement

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

##### Part B: National Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

(a) invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;

(b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(c) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

(d) bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(e) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(f) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(g) contracts shall be awarded to the lowest evaluated bidders;

(h) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;

(i) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(j) contracts shall not be awarded on the basis of nationally negotiated rates;

(k) re-bidding shall not be carried out without the prior concurrence of the Association;

(l) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;

(m) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

(n) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which (i) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder and (ii) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;

(o) extension of bid validity shall not be allowed without the prior concurrence of the Association (i) for the first request for extension if it is longer than eight weeks and (ii) for all subsequent requests for extension irrespective of the period;

(p) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and

(q) there shall not be any restrictions on the means of delivery of the bids.

Part C: Other Procurement Procedures

1. International or National Shopping/Direct Contracting

Goods estimated to cost less than \$50,000 equivalent per contract:

- (i) may, up to an aggregate amount not to exceed \$160,000 equivalent, be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines; or
- (ii) may, with the Association's prior agreement and up to an aggregate amount not to exceed \$100,000 equivalent, be procured by direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines.

2. Procurement of Small Works/Direct Contracting /Force Account

Works estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent:

- (i) may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully;
- (ii) may, with the Association's prior agreement, be procured by direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines, up to an aggregate amount not to exceed \$200,000 equivalent; or
- (iii) may, if they meet the requirements of paragraph 3.8 of the Guidelines and with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines, up to an aggregate amount not to exceed \$300,000 equivalent.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to (i) each contract for works estimated to cost the equivalent of \$300,000 or more, (ii) the first contract for works estimated to cost the equivalent of \$25,000 or more but less than the equivalent of \$300,000 and (iii) each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to (i) the first contract for goods to be procured under shopping procedures under paragraph 1 of Part C above, (ii) the first contract for goods to be procured by direct contracting under paragraph 1 of Part C above and (iii) the first contract for works to be procured by direct contracting or three-quotation procedures under paragraph 2 of Part C above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping or three-quotation procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping, three-quotation or direct contracting procedures, the Borrower

shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the provisions of the following Parts of this Section II.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Single Source Selection

Services for training, Participatory Activities and resettlement and rehabilitation activities which are estimated to cost less than \$25,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

### Part D: Review by the Association of the Selection of Consultants

#### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

#### 2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second

subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## SCHEDULE 4

### Implementation Program

#### Project Implementation Plan

1. The Borrower shall carry out the Project in accordance with the Project Implementation Plan.

#### Project Cell

2. The Borrower shall, by March 31, 2000 complete the appointment of, and thereafter maintain, an adequate number of professional staff in the Project Cell with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation (i) a Project Manager, (ii) an Assistant Project Manager, (iii) two Section Officers in the DOR head office, (iv) an Environmental Engineer, (v) a Procurement Officer, (vi) a Finance Officer, (vii) a Project Accountant, (viii) a Site Engineer in each Project District and (ix) two Section Officers in each Project District.

3. The Borrower shall ensure that, to the extent possible, the key staff in the Project Cell listed in the preceding paragraph will not be transferred to other positions during the period of Project implementation (and in the case of the Finance Officer, for the additional six months following the Closing Date).

#### Technical Assistance and Training

4. By March 31, 2000, the Borrower shall appoint, with skills, qualifications, experience and terms of reference satisfactory to the Association, a Technical Assistance and Training Team consisting of (i) a Team Leader, (ii) a Project Management Assistant Team (including a Senior Roads Engineer, an Environmental Engineer and a Roads Engineer) and (iii) short-term experts for purposes of assisting DOR with remaining Project designs, Project supervision, monitoring and on-the-job training, with particular emphasis on environmentally friendly design and construction practices.

5. During the period of Project implementation, the Borrower shall appoint, with skills, qualifications, experience and terms of reference satisfactory to the Association, technical assistance consultants for purposes of assisting DOR with environmental assessments, social assessments, institutional support and follow-up project preparation.

#### Environmentally Friendly Road Construction Methods

6. The Borrower shall implement environmentally friendly methods of road construction and related bio-engineering for roads included in the Project in a manner satisfactory to the Association.

7. By December 31, 2000, the Borrower shall complete the training, with terms of reference satisfactory to the Association, of an adequate number of planning, design and supervisory staff of DOR on environmentally friendly methods of road construction and related bio-engineering; such training shall also be extended to road works contractors.

#### Road Maintenance Planning and Management

8. The Borrower shall: (i) conduct a review of ways to improve the efficiency of

its road maintenance systems, including without limitation ways to mobilize adequate maintenance funding and to increase the utilization of local community involvement in maintenance planning and management; (ii) by October 31, 2001, submit to the Association an action plan, based on such review and satisfactory to the Association, for improving the efficiency of its road maintenance systems; and (iii) thereafter implement such action plan in a manner and with a timetable satisfactory to the Association.

#### Pilot Program for Road Maintenance with Local Road Users and Community Participation

9. Without limitation on the preceding paragraph, the Borrower shall: (i) by December 31, 2000, initiate a pilot program for the maintenance of roads included in the Project with the scope and content satisfactory to the Association and with the participation of local road users and communities; (ii) by December 31, 2002, prepare a report, satisfactory to the Association, on the effectiveness of such pilot program and the further expansion of coverage of such pilot program to other roads; (iii) by June 30, 2003, appoint consultants to conduct an independent review of the lessons learned from such pilot program; (iv) by October 31, 2003, formulate a program, satisfactory to the Association, for involving local road users and communities in the maintenance of feeder roads of the Borrower; and (v) thereafter implement such program in a manner and with a timetable satisfactory to the Association.

#### Selection of Roads for Part A.1 of the Project

10. The Borrower shall: (i) select the roads to be included in Part A.1 of the Project with the prior approval of the Association and in accordance with the socio-economic criteria and the local community participatory process satisfactory to the Association; and (ii) prior to undertaking civil works for any such roads, submit to the Association documentation satisfactory to the Association for undertaking civil works for such roads, including without limitation an EA, an EMP, a RAP and a report demonstrating that the proposed civil works on such roads satisfy the socio-economic criteria and the local community participatory process referred to in this paragraph.

#### Environmental Codes of Practice

11. By April 30, 2000, the Borrower shall submit to the Association a final version of the Environmental Codes of Practice satisfactory to the Association.

#### Environmental Assessments and Environmental Management Plans

12. The Borrower shall:

(a) submit to the Association an EA and EMP, satisfactory to the Association, for each of the roads included in the Project for which such EA and EMP had not been completed as of July 1999, before bids relating to works for such roads are invited or, if no bidding process is involved, before a contractor for works for such roads is selected in accordance with the provisions of Schedule 3 to this Agreement; and

(b) implement the environmental mitigation, monitoring and evaluation and all other activities set forth in each EA and EMP, including without limitation each EA and EMP referred to in the preceding subparagraph, in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein and shall not take any action which would prevent or interfere with such implementation.

13. The Borrower shall ensure that all civil works contracts, bid documents and bills of quantities for the roads included in the Project will include the environmental mitigation measures set forth in the relevant EA, EMP and the Environmental Codes of Practice.

#### Resettlement Action Plans

14. By April 30, 2000, the Borrower shall appoint independent social assessment consultants, with qualifications, experience and terms of reference satisfactory to the Association, for the preparation and monitoring of RAPs for roads included in the Project.

15. The Borrower shall:

(a) submit to the Association a RAP, satisfactory to the Association, for each of the roads included in the Project for which such RAP had not been completed as of September 1999, before bids relating to works for such roads are invited or, if no bidding process is involved, before a contractor for works for such roads is selected

in accordance with the provisions of Schedule 3 to this Agreement; and

(b) implement the resettlement and rehabilitation, monitoring and evaluation and all other activities set forth in each RAP, including without limitation each RAP referred to in the preceding subparagraph, in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein and shall not take any action which would prevent or interfere with such implementation.

16. The Borrower shall: (i) by June 30, 2003, appoint independent social assessment consultants, with qualifications, experience and terms of reference satisfactory to the Association, to conduct a socio-economic assessment of impacts on Project beneficiaries of the road works and resettlement and rehabilitation activities carried out under the Project, with the beneficiary participation in data collection and impact monitoring; and (ii) by March 31, 2004, submit to the Association a report, satisfactory to the Association, of such assessment.

#### Quarterly Reports

17. The Borrower shall, within forty-five (45) days after the end of each calendar quarter, provide to the Association a quarterly report setting forth (i) the progress of the Project implementation and the achievement of the indicators referred to in paragraph 18 below and (ii) proposed action plans for each Part of the Project for the following calendar quarter. Monitoring and Evaluation; Mid-Term Review

18. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by January 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2002, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

