

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4040-BHU

Development Credit Agreement

(Decentralized Rural Development Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 24, 2005



CREDIT NUMBER 4040-BHU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 24, 2005, between KINGDOM OF BHUTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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;

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 May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Dzongkhags” means administrative districts established under the Borrower’s Dzongkhag Yargye Tshogdue Chathrim, 2002;

(b) “Eligible Category” means the Category set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(d) “Environmental Assessment Report” means the report dated September 2004, prepared by the Borrower and approved by the Association, including any amendments to such report as may be agreed between the Association and the Borrower, including, *inter alia*: (i) the identification and assessment of the potential environmental impact of activities to be carried out under the Project; (ii) an evaluation of alternative measures; and (iii) the Environmental Management Framework, detailing the appropriate mitigation, monitoring, institutional and management measures under the Project;

(e) “Environmental Management Framework” means the framework contained in the Environmental Assessment Report, setting out measures to mitigate the Project’s possible adverse impact on the environment, consisting of process guidelines for the management of environmental aspects under the Project, and which includes mitigation measures in respect of cultural property, natural habitats, pest management, and forests issues;

(f) “Financial Rules and Regulations” means the Borrower’s Financial Rules and Regulations (dated July 2001, as amended to the date of this agreement, satisfactory to the Association, containing policies and procedures relating to budgeting, accounting, financial management and procurement;

(g) “Fiscal Year” means the fiscal year of the Borrower beginning on July 1 of a calendar year and ending on June 30 of the following calendar year;

(h) “Geogs” means administrative units within Dzongkhags established under the Borrower’s Geog Yargye Tshogchung Chathrim, 2002;

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “Land Act and Regulations” means the Borrower’s: (i) Land Act, 1979; and (ii) Land Compensation Rates, 1996, as amended from time to time;

(k) “MOA” means the Borrower’s Ministry of Agriculture or any successor entity thereto;

(l) “Procurement Plan” means the Borrower’s procurement plan, dated December 2004, covering the initial 18 month period of Project implementation, and as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(m) “Project Affected Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by the involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location, resulting in adverse impacts on the livelihood of such person;

(n) “Project Area” means six Dzongkhags, namely, Chhukha, Dagana, Trongsa, Tsirang, Wangduephodrang, and Zhemgang, or any other Dzongkhag acceptable to the Association;

(o) “Project Implementation Plan” means the Borrower’s Project Implementation Plan dated January 28, 2005, satisfactory and acceptable to the Association, including any amendments made to such plan, from time to time, with the Association’s approval, that sets forth the investment plan for carrying out the Project activities;

(p) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(q) “Renewal Natural Resources Centers” means centers established by MOA at the Geog level to provide support to agricultural development and serve as offices and housing for extension staff of the MOA;

(r) “Resettlement Action Plan” means any resettlement action plan prepared by the Borrower in accordance with the guidelines contained in the Resettlement Policy Framework (as hereinafter defined) and the Social Assessment Report (as hereinafter defined), in form and substance satisfactory to the Association, setting forth certain rules,

procedures and guidelines for: (i) the acquisition of land and/or other assets from the Project Affected Persons; and (ii) resettlement and rehabilitation of the Project Affected Persons and the compensation thereof;

(s) "Resettlement Policy Framework" means the framework prepared by the Borrower, contained in the Social Assessment Report (as hereinafter defined) setting forth the entitlement framework for the Project Affected Persons and plan concerning procedures and criteria for any possible land acquisition and the issue of encroachment and compensation for land, as the same may be updated from time to time, and referred to in paragraph 1(b) of Schedule 4; and

(t) "Social Assessment Report" means the report dated October 2004, prepared by the Borrower and satisfactory to the Association, including any amendments to such report as may be agreed between the Association and the Borrower, for the implementation of the Project in accordance with certain institutional, mitigating and monitoring measures contained in such report to off set, reduce to acceptable levels, or eliminate any adverse social impacts under the Project, and referred to in paragraph 4 of Schedule 4.

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 four million six hundred thousand Special Drawing Rights (SDR 4,600,000).

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 September 30, 2009, 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 (60) 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 February 1 and August 1 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 February 1 and August 1 commencing August 1, 2015 and ending February 1, 2045. Each installment to and including the installment payable on February 1, 2025, shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOA with due diligence and efficiency and in conformity with appropriate administrative, financial, technical 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. (a) 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

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 for the future operation of the Project; 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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 Report-Based Disbursements or on the basis of statements of expenditure, the Borrower shall:

- (i) retain until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 8 of Schedule 4, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

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 the Land Act and Regulations shall have been amended, waived or abrogated so as to adversely affect the implementation of the project or the achievement of the objectives thereof.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Termination

Section 6.01. 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:	Telex:	Facsimile:
Ministry of Finance Thimphu, Bhutan	890-201	323154

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

KINGDOM OF BHUTAN

By /s/ Nima Wangdi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alastair McKechnie

Country Director
Bhutan

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
Goods, equipment, works, hiring of vehicles, consultants' services, including training and workshops	4,600,000	100%
TOTAL	<u>4,600,000</u> =====	

2. 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 two hundred thousand Special Drawing Rights (SDR200,000) may be made on account of payments made for expenditures before that date but after December 15, 2004.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works costing less than \$500,000 equivalent per contract; (b) goods and equipment costing less than \$200,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training and workshops; and (f) hiring of vehicles, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a

statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in the Royal Monetary Authority on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures 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 and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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 and the Guarantor 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 and the Guarantor 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 subparagraph (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 the Credit Agreement.

Annex A

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$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 of \$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 SDR1,700,000.

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 the Eligible Category.

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
Report-based Disbursements**

1. 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 the Eligible Category.

2. 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 reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve market access and increase agricultural output for rural communities in selected areas of Bhutan.

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: Rural Infrastructure

Carrying out of:

- (i) construction of about 89 kilometers of farm roads and one motorable bridge;
- (ii) upgrading and/or realignment of mule tracks to about 114 kilometers of power tiller tracks;
- (iii) construction of about 6 suspension bridges; and
- (iv) construction of about 45 kilometers and rehabilitation of about 231 kilometers of irrigation channels.

Part B: Renewal Natural Resources Centers

1. Carrying out of construction of about 6 Renewal Natural Resources Centers in selected Geogs.
2. Provision of training and carrying out of demonstrations of high value crops, livestock-raising practices and new agricultural technologies, and farmer-to-farmer field visits in selected Geogs.

Part C: Institutional Strengthening

Carrying out of an institutional strengthening program covering, *inter alia*: (i) budgeting, financial management, procurement and project implementation; (ii) Geog planning and administration, community mobilization and reporting; (iii) environmental and social assessment and screening; and (iv) training for engineers.

* * *

The Project is expected to be completed by March 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

- (i) invitations to bid shall be advertised in at least one widely circulated national newspaper, at least thirty (30) days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

- (iii) 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;
- (iv) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (vi) 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;
- (vii) contracts shall be awarded to the lowest evaluated bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;
- (ix) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (x) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xi) re-bidding shall not be carried out without the prior concurrence of the Association;
- (xii) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xiii) 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;
- (xiv) 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:

- (A) 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
 - (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.
- (xv) 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 four weeks; and (ii) for all subsequent requests for extension irrespective of the period;
 - (xvi) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and
 - (xvii) there shall not be any restrictions on the means of submission of the bids.
2. Shopping. Goods, works and hiring of vehicles estimated to cost less than \$30,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.
3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.
4. Force Account. Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$300,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall implement the Project in accordance with the Project Implementation Plan, the Financial Rules and Regulations and the Financial Manual agreed with the Association, and except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

(b) The Borrower shall: (i) maintain each of the following in a form and substance satisfactory to the Association, namely, the Environmental Assessment Report, the Environmental Management Framework, the Social Assessment Report, the Resettlement Policy Framework and the Resettlement Action Plans; and (ii) implement the same in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein.

2. (a) The Borrower shall, appoint and thereafter maintain a Project Coordinator with qualifications and experience satisfactory to the Association to coordinate and supervise the Project activities.

(b) The Borrower shall ensure that: (i) a finance officer; (ii) an accountant; (iii) an environmental management officer; and (iv) a social development officer, will be assigned to the Project and become fully operational no later than the Effective Date, under terms of reference satisfactory to the Association.

3. For the purposes of Section 4.01 of this Agreement, the Borrower shall ensure that a financial management system, managed by suitable staff with qualification and experience satisfactory to the Association, will be maintained during the implementation of the Project.

4. (a) The Borrower shall carry out the Project in accordance with the agreed Environmental Assessment Report and the Environmental Management Framework and ensure that the environmental screening criteria are updated regularly throughout implementation of the Project and are at all times consistently and satisfactorily applied.

(b) The Borrower shall carry out the Project in accordance with the agreed Social Assessment Report and the Resettlement Policy Framework and ensure that the provisions of Social Assessment Report and Resettlement Policy Framework are all times consistently and satisfactorily applied and the Project Affected Persons are duly consulted, satisfactory to the Association, throughout the execution of the Project.

5. The Borrower shall:

(a) select the roads to be included under 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

(b) prior to undertaking civil works for any such roads, submit to the Association a report demonstrating that the proposed civil works on such roads satisfy the socio-economic criteria and the local community participatory process for undertaking civil works for such roads, in accordance with the Environmental Assessment Report and Social Assessment Report, satisfactory to the Association.

6. The Borrower shall not carry out or cause to be carried out any activities under the Project involving the Project Affected Persons unless:

(a) such activity shall be carried out in accordance with the policies, principles and procedures set forth in the Land Act and Regulations, as further elaborated in the Social Assessment Report, and the relevant Resettlement Action Plan, satisfactory to the Association;

(b) such Resettlement Action Plan referred to in clause (a) of this paragraph, shall be prepared and submitted to the Association for approval three months before the commencement of such activity; and

(c) to the extent practicable, the Borrower shall make available land for such relocation that is owned by the Borrower and is free from encumbrances and encroachments and or occupants, or shall obtain such land as may be made available to it on a voluntary basis in accordance with procedures satisfactory to the Association, provided that if compensation is to be paid, it shall be determined in accordance with the policies, principles and procedures set forth in the Land Act and Regulations, as further elaborated in the Social Assessment Report, and the relevant Resettlement Action Plan, satisfactory to the Association.

7. The Borrower shall, throughout the period of Project implementation, prepare semi-annual reports, in form and substance satisfactory to the Association, on the implementation of the reports and frameworks referred to in paragraphs 4, 5 and 6 of this schedule.

8. 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, on or about March 31, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 April 30, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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.