

CONFORMED COPY

CREDIT NUMBER 3509 LA

Development Credit Agreement
(Agricultural Development Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 02, 2001

CREDIT NUMBER 3509 LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 02, 2001, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (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 October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association

determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Affected Person" means a person who, on account of the execution of Parts A and B of the Project, has or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected;

(b) "Development Strategy for Ethnic Minorities" means the strategy, adopted by the Borrower as part of the Implementation Manual, for the carrying out of the Project in areas where Ethnic Minorities are present, acceptable to the Association;

(c) "District Committee" means the existing committee or the committee to be established to carry out the technical review of Sub-projects under Part B of the Project;

(d) "Ethnic Minorities" means those social groups in the Lao PDR that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;

(e) "Fiscal Year" and "FY" mean the Borrower's fiscal year starting October 1 and ending September 30;

(f) "Grant" means a grant made available by the Borrower out of the proceeds of the Credit to a Village for a Sub-project under Part B of the Project;

(g) "Implementation Manual" means the manual to assist the Project Coordination Office and the Provincial Project Implementation Office in each Project Province in the implementation of Parts A, B and C of the Project, and to assist Villages in the implementation of Sub-projects under Part B of the Project, through the description of, inter alia, procurement procedures and standard documentation, reporting requirements, manual and computerized accounting procedures, Project performance indicators, environmental criteria and the Development Strategy for Ethnic Minorities applicable to Sub-project design, maintenance provisions for works to be carried out under the Sub-project and criteria for the selection of Sub-projects, as such manual may be amended from time to time with the agreement of the Association;

(h) "Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons" means the framework adopted by the Borrower on February 5, 2001, acceptable to the Association;

(i) "Project Districts" means the districts in the Project Provinces selected by the Borrower, in consultation with the Association, for participation in the Project;

(j) "Project Management Report" means each report prepared in accordance with

Section 4.02 of this Agreement;

(k) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives as set forth in Schedule 5 to this Agreement;

(l) "Project Provinces" means the Borrower's provinces of Attapeu, Champasak, Khammouane and Saravanne;

(m) "Second Generation Special Accounts" means the accounts referred to in Section 2.02 (c) of this Agreement;

(n) "Sub-project" means a specific investment project carried out under Part B of the Project and utilizing the proceeds of a Grant;

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

(p) "Village" means a sub-unit of a District.

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 thirteen million two hundred thousand Special Drawing Rights (SDR 13,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement: (i) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of a Grant made under Part B of the Project to meet the reasonable cost of goods and services required for a Sub-project and in respect of which the withdrawal from the Credit account is requested, and (ii) 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a separate special deposit account in Bank of the Lao People's Democratic Republic (the Borrower's Central Bank) on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a Second Generation Special Account in each of the Project Provinces in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each of the Second Generation Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement and additional procedures that shall have been approved by the Association.

Section 2.03. The Closing Date shall be June 30, 2007, 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 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 semi-annually on January 15 and July 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 semi-annual installments payable on each January 15 and July 15 commencing July 15, 2011, and ending January 15, 2041. Each installment to and including the installment payable on January 15, 2021, 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through its Ministry of Agriculture and Forestry and the Provincial Government of each of the Project Provinces, with due diligence and efficiency and in conformity with appropriate administrative, agriculture, engineering, environmental, financial and social 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 or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of 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 and accounts referred to in paragraph (a) of this Section including those for the Special Account and the Second Generation Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

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

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 accounts reflecting such expenditures;

(ii) retain, 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 Section 4.01, in order to enable the Borrower, not later than December 31, 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

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Implementation Manual, acceptable to the Association, has been issued by the Borrower;

(b) a procurement specialist has been employed in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) a chart of accounts for the Project has been designed and an accounting software for the Project, acceptable to IDA, has been installed; and

(d) the Project accountant and the accountant clerks in the Central Project Coordination Office have been trained in the use of the Project accounting software and in the Project accounting and computer procedures set out in the Implementation Manual.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Post Office Box No. 46
Vientiane
Lao People's Democratic Republic

Cable address:	Telex:	Facsimile:
MINFINANCE VIENTIANE	4369 MOF LS	856-21-412142

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 the District of Columbia, United States of America, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Vang Rattanavong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Zafar Ahmed

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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	6,340,000	90%
(2) Goods	870,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expen- diture for other items procured locally
(3) Grants	870,000	100% of Grant amount disbursed
(4) Incremental operating costs	1,190,000	95% in FY 2001/2002, FY 2002/2003 and FY 2003/2004, 80% in FY 2004/2005, 70% in FY 2005/2006 and 60% thereafter
(5) Consultants' services	1,660,000	100%
(6) Training	950,000	100%
(7) Unallocated	1,320,000	
TOTAL	13,200,000	

2. For the purposes of this Schedule:

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

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

(c) the term "incremental operating costs" means expenditures for Project staff travel and per diem, office supplies, maintenance of office equipment, and operation and maintenance of vehicles for the Central Project Steering Committee, the Central Project Coordination Office, the Provincial Project Steering Committees, the Provincial Project Implementation Offices, and the District Agriculture and Forestry Offices responsible for Project implementation, but excluding salaries.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for (i) contracts for civil works costing less than \$150,000 equivalent each; (ii) contracts for goods costing less than \$50,000

equivalent each; (iii) Grants; (iv) incremental operating costs; (v) training; and (vi) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in reducing rural poverty in the Project Provinces through the improvement of, and the increase in, agricultural production.

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

1. Irrigation Infrastructure Rehabilitation

Rehabilitation of about twenty two irrigation schemes, including (i) rehabilitation of gravity and pump-based schemes, (ii) completion of works on selected schemes under construction, (iii) expansion of irrigation canals, and (iv) conversion of diesel pumps to electric pumps, in the Project Provinces, including provision of related equipment.

2. Rural Access Tracks

Rehabilitation of about 165 kilometers of access tracks in the Project Provinces linking irrigation schemes rehabilitated under the Project to Villages and to the road network, including construction of about 85 Irish crossings.

3. Village Water Supply and Sanitation

(a) Installation of hand pumps and construction of open wells and gravity pipe systems for Villages in the Project Provinces.

(b) Installation of sanitary pits and carrying out of a health and hygiene awareness educational campaign and related training in Villages in the Project Provinces.

Part B: Village Investment for the Poor

Carrying out of small infrastructure investment projects and income-generating and other productive agricultural investment projects in Villages in the Project Provinces through the provision of Grants to Villages through the Districts.

Part C: Institutional Strengthening and Implementation Support

1. Institutional Strengthening for Agricultural Services

(a) Strengthening the capacity of the Provincial Agriculture and Forestry Service Office in each of the Project Provinces in providing technical support services to farmers, through the provision of vehicles, equipment, related staff training, and technical assistance.

(b) Strengthening the capacity of the District Agriculture and Forestry Office in each of the Project Districts in the Project Provinces and of the farming system extension workers in providing technical services to farmers and in implementing Part B of the Project, through the provision of vehicles, equipment and

relevant staff training.

(c) Carrying out of a program of on-farm adaptive research and demonstrations which links the activities of the National Agriculture and Forestry Research Institute with those of the Provincial Agriculture and Forestry Service Offices and the District Agriculture and Forestry Offices in the Project Provinces, based on the priority needs identified by farmers in the Project Provinces.

(d) Establishment and strengthening of water users associations in the Project Provinces, including upgrading of technical skills of extension staff and provision of vehicles and technical assistance.

2. Environmental Management

Strengthening the capacity of the Provincial Agriculture and Forestry Service Offices and the offices of the Science, Technology and Environment Agency in the Project Provinces to monitor the environmental aspects of the Project and to provide appropriate guidance to provincial staff, district staff and farmers on improved environmental management.

3. Strengthening Implementation Arrangements

(a) Strengthening the Central Project Steering Committee, the Central Project Coordination Office and the Central Extension Training Unit, through the provision of vehicles, equipment, staff training and the provision of technical assistance.

(b) Strengthening the Provincial Project Steering Committee and Provincial Project Implementation Office in each of the Project Provinces through the provision of vehicles, equipment, staff training and the provision of technical assistance.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) 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 (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International 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 Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Civil works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$7,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the provisions of sub-paragraph (b) of this paragraph.

(b) The procedures to be followed for national competitive bidding under sub-paragraph (a) of this paragraph, shall be those set forth in the Decree No. 95/PM dated December 5, 1995 on Government Procurement of Goods, Works [Construction, Repairs] and Services (hereinafter Decree 95/PM) and Implementing Rules and Regulations [Labieb] No. 1639/MOF dated December 22, 1998 on Government Procurement of Goods, Works [Construction, Repairs] and Services (hereinafter IRRs 1639/MOF) of the Lao People's Democratic Republic, with the following clarifications required for compliance with the Guidelines:

- (i) in connection with any contract to be financed in whole or in part by the Credit, under National Competitive Bidding procedures no preference whatsoever will be given to a domestic bidder over foreign bidders or to a state company over a non-state company and goods may be purchased from abroad at a competitive price, even if domestic goods of the same quality are available; and
- (ii) in connection with any contract to be financed in whole or in part by the Credit, bids will not be automatically rejected for lack of effective competition solely on the basis of the number of bidders or because all bid prices substantially exceed the budget allocated and the provisions of paragraph (j) of Article 4 of the IRRs 1639/MOF will apply only as modified by the provisions on rejections of bids set forth in paragraphs 2.59-2.62 of the Guidelines.

2. International Shopping

Vehicles, survey and hydrologic gauging equipment, and office equipment, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$270,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Locally manufactured equipment estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$46,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods and works required under Parts A.3 and B of the Project and estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed

\$1,500,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement from UN Agencies

Vehicles may be procured from the United Nation's Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

6. Community Participation

Goods and works required for Part B of the Project may be procured in accordance with procedures acceptable to the Association.

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

With respect to each contract for works estimated to cost the equivalent of \$150,000 or more, each contract for goods estimated to cost the equivalent of \$50,000 or more, the first contract for works in each year in each Project Province, and the first two contracts for goods, the procedures set forth in paragraphs 2 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

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

Services for an irrigation/procurement engineer and an adviser for the Village investment for the poor under Parts A and B of the Project, respectively, in an aggregate amount of about \$200,000 equivalent, 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 individual consultants estimated to cost the equivalent of \$50,000 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

1. The Borrower shall, for purposes of periodically reviewing the implementation performance of the Project and providing guidance to the implementation agencies, maintain until completion of the Project, a Central Project Steering Committee, in its Ministry of Agriculture and Forestry, chaired by the Vice Minister of the Ministry of Agriculture and Forestry and including representatives from:

(a) the Ministry of Finance; the Ministry of Foreign Affairs; the Office of International Cooperation in the Prime Minister's Office; the State Planning Committee; the Ministry of Health; the Ministry of Communication, Transport, Post and Construction; the Leading Committee for Rural Development; the Science, Technology and Environmental Agency; and the Lao Women's Union;

(b) the following departments of the Ministry of Agriculture and Forestry: Irrigation, Agriculture, Livestock and Fisheries, Forestry, and Planning;

(c) the following agencies of the Ministry of Agriculture and Forestry: the National Agriculture and Forestry Research Institute and the Living Aquatic Resources Research Center; and

(d) the Provincial Agriculture and Forestry Service Office of each Project Province.

2. The Borrower shall, for purposes of coordinating Project implementation and reporting, maintain until completion of the Project, a Central Project Coordination Office in the Department of Planning of the Borrower's Ministry of Agriculture and Forestry, headed by a National Project Coordinator and comprising:

(a) an Irrigation Section, including a Coordinator for irrigation rehabilitation, a Coordinator for Water Users Association development, and a Coordinator for procurement;

(b) an Extension Training Unit/Agricultural Services Section, including a Coordinator, specialists nominated from each of the Departments of Crops, Livestock, Fisheries and Forestry of the Ministry of Agriculture and Forestry, and a representative from the National Agriculture and Forestry Research Institute;

(c) a Section for the Village Investment for the Poor component, including a Coordinator;

(d) a Monitoring and Evaluation Section, including a Monitoring Officer and two technical staff; and

(e) a Finance Section, including a Project Accountant and an accounting clerk.

3. The Borrower shall, for purposes of periodically reviewing implementation performance at the provincial level, maintain until completion of the Project, a Provincial Project Steering Committee in each of the Project Provinces, chaired by the Vice Governor of the province and including:

(a) the head of the Provincial Agriculture and Forestry Service Office, and the heads of each of its sections;

(b) the heads of the Provincial Departments of Finance, Public Health, Bridges and Roads, Rural Development, and the Science, Technology and Environment Agency;

(c) a representative of the Lao Women's Union; and

(d) the Head of the Provincial Project Implementation Office.

4. The Borrower shall, for purposes of coordinating Project implementation and reporting at the provincial level, maintain until completion of the Project, a Provincial Project Implementation Office in the Office of the Director of the Provincial Agriculture and Forestry Office, in each of the Project Provinces, with competent staff in adequate numbers, including a Provincial Project Coordinator and:

(a) an Irrigation Section, including coordinators for irrigation rehabilitation, Water Users Associations, and procurement;

(b) an Extension Training Unit, including at least five staff with specialization that includes crops, livestock, fisheries, forestry, water management and integrated pest management;

(c) a Section for the Village Investment for the Poor component, including a Coordinator;

(d) a Monitoring and Evaluation Section, including a Monitoring Officer and two technical staff;

(e) a Finance Section, including a Project Accountant and an accounting

clerk;

(f) a representative from the Provincial Department of Roads as coordinator of Part A.2 of the Project;

(g) a representative from the Provincial Department of Public Health as coordinator of Part A.3 of the Project; and

(h) a representative of the Science, Technology and Environment Agency, as coordinator of Part C.2 of the Project.

5. In the carrying out of the activities in each Project irrigation scheme under Part A.1 of the Project, the Borrower shall ensure: (i) that a Water Users Association is in existence or is established prior to the start of the rehabilitation works; and (ii) that such Association collects sufficient irrigation service fees to meet the cost of operation and maintenance of such irrigation scheme.

6. In carrying out Part A.2 of the Project, the Borrower shall, prior to the commencement of works on an access track, cause an agreement, acceptable to the Association, to be entered into between the relevant Village and the Provincial Department of Roads, for the provision of labor by the Village for the routine maintenance of the access track.

7. In carrying out Part A.3 of the Project, the Borrower shall, prior to the commencement of works in a Village, cause an agreement, acceptable to the Association, to be entered into between the relevant Village and the Provincial Health Office, for the provision of labor by the Village for the installation and, thereafter, the operation and maintenance, of the water supply schemes and the sanitary pits, and the payment of a yearly fee for the maintenance and replacement of the schemes.

8. In carrying out Parts A and B of the Project, the Borrower shall:

(a) avoid adverse effects on Ethnic Minorities caused or likely to be caused by the Project;

(b) apply the Development Strategy for Ethnic Minorities in a manner and substance acceptable to the Association; and

(c) through a process of informed participation, involve concerned Ethnic Minorities in the design and implementation of Sub-projects and works so as to ensure that the benefits received by the Ethnic Minorities under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

9. In carrying out Parts A and B of the Project, the Borrower shall:

(a) take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers;

(b) where the acquisition of land or assets or the displacement of villagers is unavoidable under proposed works or a proposed Sub-project, ensure that the Village shall, before carrying out the works which would result in such acquisition or displacement, make available to such villagers, compensation and rehabilitation measures in accordance with the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons; and

(c) in the event that two hundred or more villagers are adversely affected by a Sub-project:

(i) prepare a resettlement plan in accordance with the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and furnish such plan to the Association for approval; and

(ii) prior to the carrying out of the works or Sub-project, ensure that

all Affected Persons shall have been compensated and provided with other rehabilitation measures in accordance with the provisions of said plan.

10. In carrying out Part B of the Project, the Borrower shall, for purposes of appraising Sub-projects proposals, maintain or establish and thereafter maintain, a District Committee in each District carrying out Part B of the Project, such Committee to include the District Head or his Deputy, the District Agriculture and Forestry Office Coordinator for Part B of the Project, the District Treasurer or the Finance Officer, a Rural Development Committee member, a representative of the Lao Women's Union, and a technical resource person from the farming systems extension workers of the District Agriculture and Forestry Office.

11. In carrying out Part B of the Project, the Borrower shall select Sub-projects in accordance with the following criteria:

(a) each Sub-project proposed shall be an infrastructure investment project, an income-generating investment project or an otherwise productive agricultural investment project which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it;

(b) no Sub-project shall include a Grant of more than \$1,500 equivalent;

(c) each Sub-project shall include a contribution by villagers, in cash or in kind, equal to at least 10% of the estimated cost of the Sub-project; and

(d) no Sub-project shall: (i) include expenditures intended for a military or paramilitary purpose; (ii) relate to the manufacture or use of environmentally hazardous goods (including asbestos and pesticides), arms or drugs; or (iii) include the financing of government salaries.

12. In carrying out Part B of the Project the Borrower shall, through the relevant District Agriculture and Forestry Office, ensure that, prior to the carrying out of works under a Sub-project, the District Committee shall have completed a technical review of such Sub-project and shall have confirmed the following:

(a) the criteria described in paragraph 11 of this Schedule have been complied with;

(b) necessary funding to fully finance the proposed Sub-project has been obtained, including a Grant and a contribution by villagers, in cash or in kind, equal to at least 10% of estimated cost of the Sub-project;

(c) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Affected Persons have been considered in the design of the Sub-project in accordance with the Implementation Manual;

(d) the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and the resettlement plan, as the case may be, has been complied with, and, if applicable, appropriate compensation and rehabilitation arrangements have been completed and are acceptable to the Affected Persons as set forth under the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and paragraph 9 of this Schedule;

(e) a Sub-project agreement has been entered into and an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Implementation Manual; and

(f) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with terms acceptable to the Association and has been included in the Sub-project agreement, which shall include assignment of maintenance responsibilities in the respective Village, the preparation of training programs to strengthen the maintenance capabilities of the Village, and the

identification of available sources of financing to carry out such programs.

13. In carrying out Part C.1 of the Project the Borrower shall:

(a) maintain the Central Extension Training Unit with competent staff in adequate numbers;

(b) maintain the Provincial Extension Training Unit in each of the Project Provinces with competent staff in adequate numbers;

(c) appoint and thereafter maintain in the District Agriculture and Forestry Office in each Participating District at least five farming systems extension workers; and

(d) by January 1, 2002, nominate at least one staff each from the Science, Technology and Environment Agency and the Provincial Agriculture and Forestry Service Office in each Project Province to be trained as trainers and thereafter coordinate the implementation of Part C.2 of the Project.

14. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, 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 1, 2004, 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 July 1, 2004, 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.

Schedule 5

Outcome/Impact Indicator	Performance by Project Closing	Monitoring and Evaluation Tools
Increased agricultural productivity In Project supported irrigation		Baseline survey; and evaluation at mid-term and at Schemes: project closing
- Cropping intensity		Increased by at least 20% over levels in years 2000 and 2001
- Paddy yields		Increased by at least 15% over levels in agricultural year 2000/2001
Improved access to basic Agricultural services (advice access From extension staff) in the Project areas. agricultural		At least 50% of households in Project Baseline survey and Villages reporting improved evaluation at mid-term and and adopting improved at project closing
Increase in household incomes		Net farm income to increase by

100%	Baseline and evaluation surveys	in participating households (over level in agricultural year 2000/2001) two years after completion of irrigation rehabilitation work
Part A:	Rural Infrastructure	Irrigation schemes rehabilitated
-		7,070 ha areas in Hectares
	Water User Groups established, and Taken up operation and maintenance responsibility	100% presence in all Project schemes
	to	Number of households with access
		At least 60% of households in safe water Project Villages
Part B:	Village Investment for the	Ratio of
	households involved in village	At least 50% of the total
	Poor	program - either as beneficiaries
or		in households in Project Villages
		decision making
minorities		Share of women and ethnic
amount of		in At least 30% of total
		total number and amount of
approved		Grants allocated
subprojects		
Part C.1:	Strengthening of Agricultural	Establishment of Extension
Training	Services	1 Central ETU and 4
provincial		Units (ETU)
		ETUs established and all trainers
		Adequately trained. Appointment
		of Farming System Extension
		Workers in Project supported
		District Agriculture Offices
Part C.2:	Environmental Management	Ration of Provincial agricultural
Provincial		staff At least 50% of all
		Engaged in irrigation development
		irrigation staff have had
issues		with improved understanding
seminars		training or attended
Part C.3:	Implementation Arrangements	Implementation Manual applied
		Baseline, mid term, end of
		Monitoring and evaluation system
		Project evaluations completed
		Functioning

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$600,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 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 be equal to or exceed the equivalent of SDR 1,200,000.

2. Payments out of the Special Account shall be made either (i) for eligible expenditures, or (ii) into the Second Generation Special Accounts for payments for eligible expenditures, all in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule 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 and/or the Second Generation Special Accounts for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account and/or the Second Generation Special Accounts, 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

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

(b) 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 the records and accounts for the Special Account and the Second Generation Special Accounts;

(c) 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 the provisions of Section 6.02 of the General

Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account and/or the Second Generation Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account or out of any Second Generation Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, or shall cause the Provincial Project Implementation Office, promptly upon notice from the Association, to: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account or cause the relevant Provincial Project Implementation Office to deposit into the respective Second Generation Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account or in any of the Second Generation Special Accounts will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(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 or in any of the Second Generation Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

