

CONFORMED COPY

CREDIT NUMBER 2760-MOG

DEVELOPMENT CREDIT AGREEMENT

(Poverty Alleviation for Vulnerable Groups Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 19, 1995

CREDIT NUMBER 2760-MOG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 19, 1995, between MONGOLIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower has adopted a National Poverty Alleviation Program in 1994 in pursuance of which, among others, a Local Development Fund has been established with a view to alleviating obstacles to socio-economic development and create employment opportunities;

(B) 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;

(C) the Borrower intends to obtain a grant from United Nations Development Programme (UNDP) in an aggregate amount equivalent to \$385,000 to assist in the financing of the Borrower's National Poverty Alleviation Program under an

agreement to be entered into between the Borrower and UNDP (the UNDP Project Document); 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, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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 have the respective meanings therein set forth and the following additional terms, wherever used in this Agreement, have the following meanings:

- (a) "Aimag" means a province of the Borrower. For the purpose of this Agreement, Ulaanbaatar is considered to be an Aimag.
- (b) "APAC" means Aimag Poverty Alleviation Council as established in each Aimag by the Aimag governor in pursuance of Resolution 104. For the purpose of this Agreement, the Ulaanbaatar Poverty Alleviation Council - established in accordance with Resolution 104 - is considered to be an APAC.
- (c) "Implementing Agencies" means the following agencies and entities that are responsible for the implementation of the Project or any aspect thereof: NPAC, PAPMU, APACs, SPACs, Aimags, Sums, as well as VGOs.
- (d) "Implementing Legislation" means a legislative instrument that:
  - (i) instructs Sum governors to establish SPACs in their Sums;
  - (ii) gives PAPMU, APACs and SPACs the capacity to enter into agreements and open and maintain bank accounts in the context of the implementation of the Project; and
  - (iii) ensures that the Implementing Agencies (with the exception of VGOs) shall implement the Project in accordance with this Agreement and

the Project Implementation Manual.

(e) "Mongol Bank" means the central bank of the Borrower.

(f) "NPAC" means the National Poverty Alleviation Committee, as established by the Borrower's Resolution 104.

(g) "PAPMU" means the Poverty Alleviation Program Management Unit, a unit established under the Borrower's Minister of Population Policy and Labor that is responsible for the coordination and day to day management of the Borrower's Poverty Alleviation Program, in accordance with the Borrower's Resolution 230.

(h) "Poverty Alleviation Fund Account" is the account in which the Borrower's contributions to the financing of the Project are deposited as provided for in paragraph 7(b) of Schedule 4 to this Agreement.

(i) "Project Implementation Manual" means the manual, adopted in accordance with paragraph 3 of Schedule 4 to this Agreement, setting out the operational, financial and administrative procedures covering the implementation of the Project, as this manual may be revised from time to time.

(j) "Resolution 104" means the Borrower's resolution dated May 25, 1994, that establishes NPAC and instructs governors of Aimags to establish local poverty alleviation councils.

(k) "Resolution 230" means the Borrower's resolution dated December 28, 1994, establishing, inter alia, PAPMU.

(l) "SPAC" means Sum Poverty Alleviation Council as established in each Sum by the Sum governor in pursuance of the Implementing Legislation. For the purpose of this Agreement each Dureg Poverty Alleviation Council that is established in a Dureg (a district of Ulaanbaatar) in accordance with the Implementing Legislation, is considered to be a SPAC.

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(n) "Sum" means a provincial district of the Borrower. For the purpose of this Agreement, a Dureg (a district of Ulaanbaatar) is considered to be a Sum.

(o) "Sub-project" means a sub-project in one of the categories set out in Part B of the Project which meets the requirements set out in the Project Implementation Manual and this Agreement.

(p) "VGO" means Vulnerable Group Organization, an organization established as a legal entity under Mongolian law, that will implement one or more productive activities Sub-projects under Part B (a) (ii) of the Project.

## 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 equi-valent to Six Million Five Hundred Thousand Special Drawing Rights (SDR 6,500,000).

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 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 described in Schedule 2 to this Agreement 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 dollars a special deposit account in Mongol Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 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 cancelled; and
- (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 design-ated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2005 and ending June 15, 2035. Each installment to and including the installment payable on June 15, 2015 shall be one

percent (1%) of such principal amount, and each installment there-after shall be two percent (2%) of such principal amount.

(b) Whenever:

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

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial and administrative 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. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare 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, of such scope and in such detail as the Association shall reasonably request, for the future operation

of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 as well as the Implementing Agencies responsible for carrying out the Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial state-ments (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appro-priate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other informa-tion concerning such records, accounts, finan-cial statements and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, 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 Loan Account or payment out of the Special Account was made, all records (con-tracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during

such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

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

(a) The Borrower or any of the Implementing Agencies shall have failed to comply with the provisions of the Project Implementation Manual.

(b) Any of the following shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the implementation of the Project in accordance with this Agreement:

- (i) Resolution 104, Resolution 230 or the Implementing Legislation; and
- (ii) the Project Implementation Manual.

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

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

(b) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

## ARTICLE VI

### Effective Date; Termination

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

(a) The Project Implementation Manual shall have been adopted by NPAC and shall have entered into effect.

(b) The UNDP Project Document and the contractual arrangements referred to in paragraph 6 of Schedule 4 to this Agreement, shall have entered into effect.

(c) The Implementing Legislation shall have been adopted by the Borrower and entered into effect.

Section 6.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representatives of the Borrower; Addresses

Section 7.01. The minister of the Borrower at the time responsible for finance 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  
Oktyabriin 7  
Ulaanbaatar 11  
Mongolia

Telex:

719-79241

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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.

MONGOLIA

By /s/ Jalbuu Choinhor  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell Cheetham  
Regional Vice President  
East Asia and Pacific

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:

Amount of the Credit Allocated (Expressed in	% of Expenditures
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Category	SDR Equivalent	to be Financed
1. Sub-project financing (Part B of the Project)		100%
a) income generation	3,690,000	
b) basic education	1,300,000	
c) rural health services	1,300,000	
d) Support to the disabled	140,000	
2. Consultants' services (Part A of the Project)	70,000	100%
	AAAAAAAA	
TOTAL:	6,500,000	
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2. For the purposes of this Schedule, the term "Sub-project financing" means amounts made available out of the proceeds of the Credit to finance Sub-projects, in accordance with this Agreement and the Project Implementation Manual.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 97,000, may be made in respect of Category 1 on account of payments made for expenditures before that date but after June 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for:

(a) expenditures for Sub-project financing not exceeding \$50,000 equivalent;

(b) expenditures for services under contracts not exceeding \$100,000 equivalent for firms and \$50,000 equivalent for individuals, under such terms and conditions as the Association shall specify by notice to the Borrower.

#### SCHEDULE 2

##### Description of the Project

1. The objective of the Project is to mitigate the adverse effects of the Borrower's economic transition on the poor segments of vulnerable groups.

2. 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: Institutional Support

The strengthening of the management, implementation and monitoring capacity of the Implementing Agencies in such areas as, the identification, appraisal, supervision and evaluation of Sub-projects, and management information systems, through provision of training, related consultants' services and operating costs.

Part B: Sub-projects

The financing of Sub-projects in:

(a) income generation, through the carrying out of:

- (i) public works; and
- (ii) productive activities;

(b) basic education, which would aim at the reduction of the dropout and non-enrollment rates, including the installation and repair of heating systems, the renovation of schools and the provision of teaching materials;

(c) rural health services, which would aim at the reduction of maternal mortality, including the provision of transport services, the installation of heating systems, the supply of medical equipment and the training of health staff; and

(d) support to the disabled, including the provision of specialized equipment and teaching materials to organizations providing education, training and employment opportunities to the physically disabled and mentally retarded.

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The Project is expected to be completed by December 31, 1998.

### SCHEDULE 3

#### Procurement and Consultants' Services

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

###### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

###### Part B: Procurement Procedures

1. Works estimated to cost between \$4,000 and \$10,000 equivalent per contract and \$5,780,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of a comparison of price quotations obtained from at least three contractors, in accordance with procedures acceptable to the Association.

2. Works estimated to cost less than \$4,000 equivalent per contract and \$3,560,000 equivalent in the aggregate may be procured under contracts on the basis of negotiations with contractors, in accordance with procedures acceptable to the Association.

###### International Shopping

3. Goods estimated to cost between \$50,000 and \$200,000 equivalent per contract and \$500,000 equivalent in the aggregate, 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.

###### National Shopping

4. Goods estimated to cost less than \$50,000 equivalent per contract and \$300,000 equivalent in the aggregate, 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.

###### Part C: Review by the Association of Procurement Decisions

###### 1. Procurement Planning

Prior to September 30, 1995, 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.

## 2. Post Review

With respect to all contracts to be procured in accordance with Part B of this Schedule, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to:

(a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or

(b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to:

- (i) the terms of reference for such contracts;
- (ii) single-source selection of consulting firms;
- (iii) assignments of a critical nature, as reasonably determined by the Association;
- (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or
- (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## SCHEDULE 4

### Implementation Program

1. (a) The Borrower shall implement the Project through the Implementing Agencies. NPAC shall have overall responsibility for the implementation of the Project, while PAPMU shall act as secretariat to NPAC and shall be responsible for day to day management of the Project.

(b) The Borrower shall ensure that throughout the implementation of the Project, PAPMU shall be staffed by competent staff in adequate numbers, including a full-time director whose qualifications and experience shall be acceptable to the Association.

2. Sub-project financing shall be made available from the proceeds of the Credit as follows :

(a) up to 96% of total Sub-project cost (net of taxes) for Sub-projects for income generation under Part B (a) of the Project; up to 100% of total Sub-project cost (net of taxes) for all other Sub-projects;

(b) financing of Sub-projects from the proceeds of the Credit shall be made available on a non-reimbursable basis, except that the principal amount of financing made available from the proceeds of the Credit for the implementation of Sub-projects for productive activities under Part B (a) (ii) of the Project, shall be repaid on terms and conditions acceptable to the Association, including, a repayment period not exceeding four years, including a one year grace period and no interest, unless agreed otherwise by the Association; and

(c) financing for Sub-projects for productive activities under Part B (a) (ii) of the Project shall be made available in local currency only.

3. The Borrower shall cause NPAC to adopt, in form and substance acceptable to the Association, a Project Implementation Manual setting out the operational, financial and administrative procedures governing the implementation of the Project, including, inter alia, Sub-project eligibility and appraisal criteria, performance indicators, procurement, disbursement, supervision accounting and audit procedures, as well as provisions:

(a) describing the membership, responsibilities and decision making procedures of each of the Implementing Agencies;

(b) stipulating that Sub-projects for productive activities under Part B (a) (ii) of the Project shall be carried out by VGOs, and that for each such Sub-project the VGO and APAC concerned shall enter into an agreement for the implementation of said Sub-project, including an obligation for the VGO to implement the Sub-project in accordance with this Agreement and the Project Implementation Manual;

(c) ensuring the involvement of Sub-project beneficiaries and non governmental organizations in the identification, implementation and supervision of Sub-projects; and

(d) ensuring that APACs and SPACs shall make appropriate arrangements for the supervision of Sub-projects and shall provide adequate facilities for field visits.

4. The Borrower shall ensure that only Sub-projects that comply with this Agreement and the Project Implementation Manual will be financed from the Credit.

5. (a) Any amendment to the Project Implementation Manual that concern any change in:

- (i) Sub-project types, eligibility or appraisal criteria;
- (ii) the criteria for the allocation of Credit funds to Aimag and Sums; and
- (iii) procurement and disbursement procedures, shall be subject to the prior approval of the Association.

(b) In case of conflict between the Project Implementation Manual and this Agreement, the last-mentioned shall prevail.

6. In order to assist the Borrower with the recruitment and supervision of consultants required for Part A of the Project,

the Borrower shall employ an agency acceptable to the Association, under contractual arrangements satisfactory to the Association.

7. The Borrower shall:

(a) provide in its budget amounts sufficient to cover its contributions to the costs of the Project;

(b) open and maintain an account (the Poverty Alleviation Fund Account) in Mongol Bank on terms and conditions acceptable to the Association;

(c) deposit into the Poverty Alleviation Fund Account amounts as follows:

(i) an amount equivalent to \$85,500 not later than January 10, 1996;

(ii) an amount equivalent to \$132,500 not later than January 10 in each of the following years: 1997, 1998 and 1999; and

(d) ensure that the amounts deposited in the Poverty Alleviation Fund Account will be used exclusively for the Borrower's expenditures under the Project and are included in the Borrower's public expenditure program.

8. The Borrower shall cause PAPMU to establish (in PAPMU and the APACs), not later than November 30, 1995, and maintain thereafter, a management information system acceptable to the Association and capable of generating, inter alia, detailed reports regarding Sub-Project identification, appraisal, implementation, supervision and impact, throughout the implementation of the Project.

9. The Borrower shall develop a strategy for providing social services on a sustainable basis over the period 1996 to 2000, and shall submit a draft of that strategy to the Association for review not later than December 31, 1995.

10. The Borrower shall:

(a) cause the APACs to submit quarterly Project progress reports and accounts to PAPMU;

(b) cause PAPMU to monitor the implementation of the Project and, within four weeks from the end of each six-month interval as of the date of this Agreement, to submit to the Association a semi-annual progress report on the implementation of the Project, in a format approved by the Association, including a set of key progress indicators monitoring the delivery of inputs and the achievement of Project outputs, as well as key development impact indicators, acceptable to the Association;

(c) cause PAPMU to organize and carry out annual reviews by September 30 of each year, starting in 1996, and, as part of each review, to prepare a program of action, satisfactory to the Association, to deal with deficiencies in Project implementation identified during the review; and

(d) take, or cause NPAC and PAPMU to take, promptly after each review mentioned in paragraph (c) above, all necessary action required for the implementation of the program of action referred to in said paragraph.

#### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category 1 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 \$700,000 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 \$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 be equal to or exceed the equivalent of \$1,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 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, 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;

(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, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall 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 as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account:

(i) was made for 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, promptly upon notice from the Association:

(A) provide such additional evidence as the Association may request; or

(B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. 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 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.

(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.

