

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF023406

Global Environment Facility
Trust Fund Grant Agreement

(Water Utilization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
Acting as an Implementing Agency of the
Global Environment Facility

and

MEKONG RIVER COMMISSION

Dated February 29, 2000

GEF TRUST FUND GRANT NUMBER TF023406

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated February 29, 2000, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF and the MEKONG RIVER COMMISSION, an international body created by Treaty referred to in Section 1.02(1) of this Agreement (the Recipient).

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) the countries signatories of the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin executed on April 5, 1995, which are at present the Kingdom of Cambodia, Lao People's Democratic Republic, Kingdom of Thailand, and Socialist Republic of Vietnam (the Mekong River Commission Countries),

having satisfied themselves as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), have requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2;

(E) each of the Mekong River Commission Countries has addressed a letter to the Bank, requesting the Bank to make the proceeds of the GEF Trust Fund directly available to the Recipient and has undertaken, inter alia, to take all action necessary to assist the Recipient in the carrying out of its obligations under this Agreement; and

(F) the Recipient and the Republic of Finland (Finland) intend to enter into an agreement (the Finnish Grant Agreement), in an aggregate principal amount equivalent to \$1,200,000 to assist in financing part of the Project on the terms and conditions set forth in the Finnish Grant Agreement;

(G) the Recipient and the Republic of France (France) intend to enter into an agreement (the French Grant Agreement), whereby France will make a grant to the Recipient in an aggregate principal amount equivalent to \$600,000 to assist in financing part of the Project on the terms and conditions set forth in the French Grant Agreement; and

(H) the Recipient and Japan intend to enter into an agreement (the Japanese Grant Agreement), whereby Japan will make a grant to the Recipient in an aggregate principal amount equivalent to \$1,000,000 to assist in financing part of the Project on the terms and conditions set forth in the Japanese Grant Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient 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. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, as amended through December 2, 1997, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (16), (18), (19) and (20); Sections 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (g), (i), (j), (k), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and

- (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
 - (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
 - (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
 - (iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
 - (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
 - (v) the term "Loan" and "loan", wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (vi) the term "Loan Account", wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
 - (vii) a new subparagraph (q) is added after subparagraph (p) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF".

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 wherever used in this Agreement have the following meanings:

- (a) "Basin" means the Mekong River Basin;
- (b) "Eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (c) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;
- (d) "Management Team" means the Team to be appointed pursuant to paragraph 1(a) of Schedule 4 to this Agreement;
- (e) "MRCS" means the Mekong River Commission Secretariat;
- (f) "National Line Agencies" means Agencies of Mekong River Commission Countries with day-to-day responsibility for national participation in the Project;
- (g) "National Mekong Committees" means the committees that provide policy and project coordination between National Line Agencies from each of the Mekong River Commission Countries and the Recipient;
- (h) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (i) "National WUP Unit" means each of the National WUP Units to be appointed and maintained pursuant to paragraph 1(c) of Schedule 4 to this Agreement;
- (j) "MRCS WUP Unit" means the WUP Unit in the Secretariat of the Recipient to

be appointed and maintained pursuant to paragraph 1(b) of Schedule 4 to this Agreement;

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

(l) "Treaty" means the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin, and Protocol among the Governments of the Kingdom of Cambodia, Lao People's Democratic Republic, Kingdom of Thailand and Socialist Republic of Vietnam, both dated April 5, 1995, establishing the Recipient, and registered with the Secretary General of the United Nations, as amended to the date of this Agreement; and

(m) "WUP" means the Water Utilization Project for which the GEF Trust Fund Grant is made, as described in Schedule 2 to this Agreement; and

(n) "Water Utilization Rules" means the Rules for Water Utilization and Inter-Basin Diversions referred to in Article 26 of the Treaty.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to eight million Special Drawing Rights (SDR 8,000,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank 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 GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 administrative, financial, engineering, practices and with due regard to ecological factors, 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 Bank and the Recipient shall otherwise agree, the Recipient 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 Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement .

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as

may be agreed for this purpose between the Bank and the Recipient, a plan to achieve the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of the Recipient and to register separately the operations, resources and expenditures in respect of the Project.

(b) The Recipient shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient 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 Bank has received the audit report for the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank'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 or Project Management reports 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 Bank for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than June 30, 2000 or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the

Bank, 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 Grant during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Grant 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 Grant, 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 Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Other Covenants

Section 5.01. The Recipient shall:

- (a) take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (b) carry on its operations and conduct its affairs in accordance with sound administrative, financial, and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) The Treaty shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to carry out the Project.
- (b) Any of the Mekong River Commission Countries shall have failed to afford a reasonable opportunity for representatives of the Bank to visit any part of their territory for purposes related to the Project.
- (c) The Japanese Grant Agreement shall have failed to become effective by December 31, 2000, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations

of the Recipient under this Agreement.

(d) The Finnish Grant Agreement shall have failed to become effective by December 31, 2000 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(e) The French Grant Agreement shall have failed to become effective by December 31, 2000, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VII

Effectiveness; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the GEF Grant Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Management Team shall have been appointed in accordance with Paragraph 1 (a) of Schedule 4 to this Agreement;

(b) that the National WUP Units shall have been appointed by each of the National Mekong Committees;

(c) that Working Groups in Basin Modeling and Knowledge Base; Environmental, Soci-Economic and Transboundary Analysis; and Rules Formulation shall have been established in accordance with Paragraph 1(d) of Schedule 4 to this Agreement; and

(d) that an independent auditor acceptable to the Bank shall have been appointed in accordance with Paragraph (b)(i) of Section 4.01 of this Agreement.

Section 7.02. 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.

Section 7.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VIII

Representative of the Recipient; Addresses

Section 8.01. The Chief Executive Officer of the MRCS is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction & Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD

Telex:

248423 (MCI) or

Washington, D.C.

64145 (MCI)

For the Recipient:

Mekong River commission Secretariat
364 M.V. Preah Monivong
Sangkat Phsar Doerm Thkouv
Khan Chamkar Mon
P.O. Box 1112, Phnom Penh, Cambodia

Facsimile

855 23 720972

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

MEKONG RIVER COMMISSION

By /s/ Joern Kristensen

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

As an Implementing Agency of the Global Environment Facility

By /s/ Bradley Babson

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the GEF Trust Fund Grant, the allocation of the amounts of the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Consultants' services	4,500,000	100%
(2) Goods	500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items pro- cured locally
(3) Training, Study Tours and Workshops	1,700,000	100%
(4) Incremental Operating Costs	600,000	100% through 2000 75% in 2001

50% in 2002
25% in 2003

(5)	Unallocated	700,000
	TOTAL	8,000,000

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 Mekong River Commission Countries for goods or services supplied from the territory of any country other than that of the Mekong River Commission Countries;

(b) the term "local expenditures" means expenditures in the currency of any of the Mekong River Commission Countries or for goods or services supplied from the territory of the Mekong River Commission Countries; and

(c) the term "Incremental Operating Costs" means compensation for additional staff, honoraria for staff, operating costs for equipment, additional administrative support, printing and travel cost of Project staff.

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 \$500,000, may be made on account of payments made for expenditures before that date but after May 1, 1999;

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods under contracts costing less than \$150,000 equivalent;

(b) services provided by consulting firms under contracts costing less than \$100,000 equivalent;

(c) services provided by individual consultants under contracts costing less than \$50,000 equivalent;

(d) training, study tours and workshops, under such terms and conditions as the Bank shall specify by notice to the Recipient; and

(e) Incremental Operating Costs.

B. Special Account

1. The Recipient shall open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank including appropriate protection against set-off, seizure and attachment.

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

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

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Recipient for withdrawal on the basis of Project Management Reports, all further withdrawals shall

be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

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

(b) if the Bank determines at any time that all further withdrawals should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank 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 Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

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

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

Annex A to SCHEDULE 1

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

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$500,000

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

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

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

1. Except as the Bank may otherwise specify by notice to the Recipient, all withdrawals from the GEF Trust Fund Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Account under one or more of the Special Account's Eligible Categories.

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

3. Upon receipt of each application for withdrawal of an amount of the Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,200,000.

Description of the Project

The objective of the Project is to assist the Recipient to promote and improve coordinated and sustainable water management in the Basin, including reasonable and equitable water utilization by the Mekong River Commission Countries and protection of the environment, aquatic life and the ecological balance of the Basin.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Recipient may agree upon from time to time to achieve such objectives:

Part A: Basin Model Package and Knowledge Base

1. Strengthening management of the Basin, through development of analytic tools for improved understanding of the interaction between the physical, biological, and socio-economic features of the Basin, and the changes that may occur due to human activities, including development of shared information systems and a knowledge base of data and information about physical, biological, social and economic characteristics.
2. Design of an information system for Basin simulation, including selection and preparation of software, design of data structures, hardware and communications systems, the development of procedures for data base development and maintenance, and use of the models to identify and analyze transboundary environmental, social and economic impacts of proposed actions on the aquatic ecosystem and global environment.
3. Review of the legal and institutional framework of Mekong River Commission Countries for, and assessment of the institutional capacity of National Mekong Committees and national agencies for, Basin management, and formulation and implementation of Rules.
4. Carrying out of an assessment of the quality of water in the Basin, including increased erosion and sedimentation, salinization, local acidification and eutrophication, municipal, industrial and agricultural pollution; and other significant threats.
5. Carrying out assessments of linkages and impacts of proposed actions and transboundary environmental, economic and social needs and concerns in the Basin, and identifying and filling data gaps.

Part B: Rules Formulation

1. Provision of assistance for the preparation and adoption of rules and procedures, including: (a) information exchange, flow and water use monitoring, (b) notification in the wet season and prior consultation in the dry season of intra-Basin use, (c) prior consultation in the wet season, and agreement in the dry season of inter-Basin diversions, through use of analytical tools, and (d) facilitating consultations among riparian countries.
2. Provision of assistance for the preparation and adoption of Water Utilization Rules for maintenance of flows on the mainstream, rules and procedures for: (a) establishing the time frame for the wet and dry seasons; (b) establishing the location of hydrological stations, and determining and maintaining the flow level requirements at each station including: (i) establishment of acceptable minimum monthly natural flow in each month of the dry season, (ii) establishment of acceptable natural flows of the Tonle Sap, and (iii) prevention of excessive peak flows during the flood season; (c) setting out criteria for determining surplus quantities of water during the dry season on the mainstream (d) improving upon the mechanism to monitor intra-basin use; and (e) setting up a mechanism to monitor inter-basin diversions from the mainstream, through provision of analytical tools, strengthening the capacity of the Recipient and facilitating consultations among Mekong River Commission Countries.
3. Strengthening the capacity of the Recipient and facilitating consultations among Mekong River Commission Countries for the preparation and adoption of rules relating to water quality to avoid, minimize and mitigate harmful effects to the environment, aquatic eco-system conditions, the ecological balance of the river system, and to other water users, through provision of analytical tools.

Part C: Institutional Capacity

1. Strengthening the capacities of the Recipient, National Mekong Committees and National Line Agencies in Basin planning and management, participation and public awareness, financial and procurement management, and provision of related training, workshops and study tours for staff of the Recipient, National Mekong Committees and National Line Agencies.
2. Establishment of a monitoring and evaluation system to monitor key performance indicators.
3. Provision of support, including training, study tours, equipment and workshops for collection and sharing of information and consultation with upper riparians.
4. Participation of the Recipient in (i) distance learning and experience sharing with other international basin arrangements; and (ii) GEF global and regional exchange programs on international waters.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

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

Part B: Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$ 780,000 equivalent, shall 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.

Part C: Review by the Bank 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 Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first contract, and each contract procured under the provisions of paragraph B.1 above estimated to cost the equivalent of \$150,000 or more, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures the Recipient shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Recipient shall provide to the Bank a copy of the

specifications and the draft contract; and

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications.

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection.

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants.

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank 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 Bank

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 Bank, 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000 the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after 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. (a) The Recipient shall establish and thereafter maintain a Management Team directed by the Chief Executive Officer of the MCRS to monitor the progress of the Project and to coordinate its components, with functions and staffing satisfactory to the Bank, including the members of the MRCSWUP Unit and heads of the four National WUP Units referred to in paragraph (c) below. Each of the members of the Management Team shall have qualifications and experience satisfactory to the Bank.

(b) The Recipient shall establish and thereafter maintain a MRCS WUP Unit, with organization, staffing and terms of reference satisfactory to the Bank, and shall consist of the Team Leader and three specialists selected from each of the Mekong River Commission Countries, and supporting staff. The specialists will head the Working Groups referred to in paragraph (d) below.

(c) Each National WUP Unit shall be provided with such functions, staffing, responsibilities, funds and other facilities as shall be required to enable it to coordinate between National Line Agencies and the Recipient and for management and administration of Project implementation;

(d) The Recipient shall appoint and thereafter maintain Working Groups consisting of staff from the Recipient; National Mekong Committees, and Line Agencies, on Basin Modeling and Knowledge Base; Environmental and Transboundary Analysis; and Rules Formulation; with organization and terms of reference satisfactory to the Bank.

2. (a) by October 31, 2003, the Recipient shall have completed development of the integrated modeling package in accordance with standards and criteria satisfactory to the Bank.

(b) by December 31, 2003, the Recipient shall have completed development, installation and testing of a functional and integrated knowledge base and information system in accordance with standards and criteria satisfactory to the Bank.

3. (a) By July 31, 2004, the Recipient shall have approved preliminary procedures on: (i) Data and Information Exchange; (ii) Notification, Consultation and

Agreement; and (iii) Water Use Monitoring pursuant to Articles 5 and 26 of the Treaty.

(b) By July 31, 2005, the Recipient shall have approved provisional Rules for Maintenance of Minimum Flows and Water Utilization pursuant to Articles 6 and 26 of the Treaty.

(c) By July 31, 2006, the Recipient shall have approved water quality guidelines.

4. The Recipient shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2003, 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 in an action plan 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 Bank, by June 30, 2003, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

