

CONFORMED COPY

CREDIT NUMBER 2739 KH

Development Credit Agreement

(Social Fund Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 10, 1995

CREDIT NUMBER 2739 KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 10, 1995, between KINGDOM OF CAMBODIA (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

WHEREAS: (A) The Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS: (B) 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 last sentence of Section 3.02 deleted (the "General Conditions") constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms, wherever used in this Agreement, have the following meanings:

(a) "Administrative Manual" means the manual to be adopted by the SFKC pursuant to the provisions of Section 6.01 (b) of this Agreement, setting out the financial and administrative procedures for the day-to-day operation and administration of the SFKC;

(b) "Applicant" means any local community group or local public or private entity who shall have applied to the SFKC for the financing and carrying out of a Sub-project, within any province of the Borrower, and who shall have entered into a Sub-grant Agreement, and the term "Applicants" means, collectively, more than one Applicant;

(c) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's or the SFKC's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(d) "Fund Agreement" means the agreement to be entered into between the Borrower and the SFKC, pursuant to the provisions of Section 3.02 of this Agreement;

(e) "NBC" means the National Bank of Cambodia, the Borrower's central bank;

(f) "NGO" means a non-governmental organization, and the term "NGOs" means, collectively, more than one NGO;

(g) "Operational Manual" means the manual to be adopted by the SFKC pursuant to the provisions of Section 6.01 (b) of this Agreement, setting out the operational and administrative procedures of the SFKC in respect of the preparation, appraisal, processing, approval, financing, implementation and supervision of Sub-projects;

(h) "Riel" means the unit of currency of the Borrower;

(i) "Royal Decree" means the Borrower's Royal Decree No. RD/1294/20, dated December 29, 1994, establishing the SFKC, and the term Royal Decree includes the statutes of the SFKC in the form and substance attached thereto;

(j) "SFKC" means the Social Fund for the Kingdom of Cambodia, established by the Royal Decree as a separate autonomous public institution with independent social legal status, and possessing full juridical personality as well as administrative, managerial, technical and financial autonomy under the Borrower's laws and regulations;

(k) "Sponsor" means any legal entity or group of entities (such as public ministries, local governments, community groups or NGOs) eligible to sponsor an Applicant before the SFKC for a Sub-project, under the Borrower's laws and regulations and pursuant to the provisions of this Agreement, and the term "Sponsors" means, collectively, more than one Sponsor;

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

(m) "Sub-grant" means a grant made or proposed to be made out of the proceeds of the Credit by the SFKC under a Sub-grant Agreement, pursuant to the provisions of Section 3.03 of this Agreement, to finance the carrying out of the corresponding Sub-project, and the term "Sub-grants" means, collectively, more than one Sub-grant;

(n) "Sub-grant Agreement" means the agreement to be entered into between the SFKC, Applicant, Sponsor and Sub-project Implementing Agency, as the case may be, in respect of a Sub-project to be financed by a Sub-grant;

(o) "Sub-project" means any sub-project eligible for financing by the proceeds of the Credit through the SFKC, in accordance with the provisions of this Agreement; and

(p) "Sub-project Implementing Agency" means a duly qualified legal entity responsible for implementing a Sub-Project, and the term "Sub-project Implementing Agencies" means, collectively, more than one Sub-project Implementing Agency.

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 four hundred thousand Special Drawing Rights (SDR 13,400,000).

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 the NBC 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 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 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 designated or selected pursuant to the provisions of that Section.

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each Fiscal 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 1 and December 1 commencing on December 1, 2005, and ending June 1, 2035. Each installment to and including the installment payable on June 1, 2015, 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 gross national product per capita, as determined by the Association, shall have exceeded seven hundred ninety dollars (\$790) in constant 1985 dollars for five (5) consecutive years; 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 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. 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 cause the SFKC to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, managerial and environmental practices, shall take or cause to be taken all action, including the provision of funds (including foreign exchange), facilities, services and other resources, necessary or appropriate to enable the SFKC to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the SFKC.

Section 3.02. (a) The Borrower shall make the entire proceeds of the Credit available, on a non-reimbursable grant basis, to the SFKC pursuant to a Fund Agreement to be entered into between the Borrower and the SFKC, under terms and conditions which shall have been approved by the Association and which shall include, inter alia, the terms and conditions set forth in Part A of Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights under the Fund Agreement in such a manner so as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the objectives of the SFKC, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Fund Agreement, or any provision thereof.

Section 3.03. (a) In respect of each Sub-project, the Borrower shall cause the SFKC to enter into a Sub-grant Agreement, under terms and conditions acceptable to the Association, including those set forth in Part B of Schedule 5 to this Agreement, providing for the transfer, on a grant basis, of part of the proceeds of Credit allocated to the corresponding Sub-project, and the obligation of the parties thereto to carry out their respective obligations and exercise their respective rights for implementing the corresponding Sub-project and achieving its objectives.

(b) The Borrower shall cause the SFKC to exercise its rights under each Sub-grant Agreement in such a manner as to protect the interests of the Borrower, the SFKC and the Association, and to accomplish the purposes of the Credit and the objectives of the Project, and, except as the Association shall otherwise agree, the Borrower shall cause the SFKC not to assign, amend, abrogate or waive any Sub-grant Agreement, or any provision thereof.

Section 3.04. The Borrower shall cause the SFKC to:

(a) Carry out and otherwise coordinate and supervise the overall

implementation of the Project;

(b) Submit to both the Borrower and the Association a monthly progress report on the implementation of the Project, of such scope and in such detail as the Association shall reasonably request;

(c) Organize and carry out joint annual review meetings with the Borrower and the Association, and prepare an annual progress report on the implementation of the Project, of such scope and in such detail as the Association shall reasonably request, to be reviewed at these meetings. As part of each said review, the SFKC shall prepare a program of action, satisfactory to the Association, to remedy any deficiencies in Project implementation identified during such review; and

(d) Promptly after each such review, take all necessary action required for the implementation of the program of action referred to in Paragraph (c) of this Section.

Section 3.05. The Borrower shall cause the SFKC to:

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

(b) Prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than September 30, 1997, a mid-term Project report integrating the results of the monitoring and evaluation activities performed pursuant to Paragraph (a) of this Section, on the progress achieved in carrying out 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 Borrower and the Association, not later than December 31, 1997, 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 said report and the Association's views on the matter.

Section 3.06. 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.

Section 3.07. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and separate accounts adequate to reflect in accordance with sound accounting practices: (i) the operations, resources and expenditures of the departments or agencies of the Borrower responsible for carrying out the Project, or any part thereof; and (ii) the operations and financial condition of the SFKC.

(b) The Borrower shall:

(i) have 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 Association;

(ii) furnish to the Association as soon as available, but in any case not later than four (4) months after the end of each such Fiscal Year: (A) certified copies of its financial statements 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 Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records, accounts, financial 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 cause the SFKC to:

(i) maintain, in accordance with Paragraph(a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one (1) year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account or payment out of the Special 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 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 the SFKC shall have failed to perform any of their respective obligations under the Fund Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower or the SFKC will be able to perform any of their respective obligations under either this Agreement or the Fund Agreement.

(c) Any of the following shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower or the SFKC to implement the Project in accordance with this Agreement: (i) the Royal Decree; (ii) the Fund Agreement; (iii) the Operational Manual; and (iv) the Administrative Manual.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the SFKC, or for the suspension of any of its operations.

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

(a) Any event specified in Paragraphs(a), (b) and (c) of Section 5.01 of this

Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) The event specified in Paragraph (d) 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 this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Fund Agreement shall have been signed between the Borrower and the SFKC and shall have entered into effect, pursuant to the provisions of Section 3.02 of this Agreement.

(b) The Operational Manual and the Administrative Manual shall have been duly adopted by the SFKC and shall have entered into effect, pursuant to the provisions of Paragraph A (3) of Schedule 5 to this Agreement; and

(c) The management information system referred to in Paragraph A (5) (b) of Schedule 5 to this Agreement shall have been established by the SFKC, satisfactory to the Association, and shall have become fully operational.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association; namely, that the Fund Agreement has been duly authorized or ratified by the Borrower and the SFKC, and is otherwise legally binding on the Borrower and the SFKC in accordance with its terms.

Section 6.03. 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 6.04. The obligations of the Borrower under Articles III, IV and V of this Agreement shall cease on the date on which this Agreement shall terminate, or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economy and Finance of the Borrower is hereby designated as the 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 Economy and Finance
92nd. Street, Sangkat Wat Phnom
Phnom Penh
Kingdom of Cambodia

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (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 Phnom Penh, Kingdom of Cambodia, as of the day and year first above written.

KINGDOM OF CAMBODIA

By /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christopher Chamberlain

Authorized Representative

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. Sub-grants	11,249,000	100% of amounts disbursed by the SFKC
2. Consultants' services (local and international) and training under Part B of the Project	335,000	100%
3. Goods (including vehicles) under Part B (1) of the Project	160,000	100% of foreign expenditures 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
4. SFKC operational costs		
(a) Operation and maintenance	244,000	80%
(b) Salaries	742,000	100%
5. Unallocated	670,000	
TOTAL	13,400,000	

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 "SFKC operational costs" means payments made for expenditures on account of SFKC staff salaries and official travel, as well as on account of the operation and maintenance of SFKC utilities, vehicles, buildings and office equipment under the Project.

3. Notwithstanding the provisions of Paragraph 1 hereinabove, 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 to exceed the equivalent of seven hundred thousand Special Drawing Rights (SDR 700,000), may be made on account of payments made for expenditures under Category (1) in respect of Part A of the Project, before that date but after March 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) civil works not exceeding the equivalent of one hundred thousand dollars (\$100,000); (b) goods not exceeding the equivalent of fifty thousand dollars (\$50,000); (c) consulting firms not exceeding the equivalent of one hundred thousand dollars (\$100,000); (d) individual consultants not exceeding the equivalent of fifty thousand dollars (\$50,000); and (e) all training and incremental operational costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

1. The objectives of the Project are to assist the Borrower in its efforts to alleviate poverty within its territory by inter alia: (a) financing small-scale social and economic infrastructure activities, and other socially productive endeavors; (b) creating short term employment opportunities; (c) expanding opportunities for local communities to identify local development needs; and (d) developing appropriate infrastructural design costing and investment criteria.

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: Sub-projects

Financing of Sub-projects for purposes of carrying out small-scale projects for rehabilitating social and economic infrastructure, and for other socially productive activities within the territory of the Borrower.

Part B: Institutional Support to SFKC and NGOs

(1) Supporting the SFKC to strengthen its overall administrative, managerial and operational capacities, as well as its ability to coordinate and monitor the overall implementation of the Project.

(2) Strengthening the capacity of the SFKC to, inter alia: (i) process, appraise, finance and supervise the implementation of Sub-projects; and (ii) carry out Beneficiary, Sponsor and Sub-project Implementing Agencies assessments, financial planning and management, procurement, disbursements and promotional activities through the provision of consultants' services.

(3) Strengthening the capacity of the SFKC to assess and evaluate the feasibility of future potential revolving fund micro-enterprise programs of selected NGOs through the provision of consultants' services.

* * * * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines"), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of Paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1(a) of this Section, the Association's prior approval will be required for:

- (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and
- (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A. hereof, goods manufactured within the territory of the Borrower may be granted a margin of preference in accordance with, and subject to, the provisions of Paragraphs 2.55 and 2.56 of the Guidelines and Paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Local Competitive Bidding:

Works estimated to cost the equivalent of two hundred and fifty thousand dollars (\$250,000) but more than the equivalent of one hundred thousand dollars (\$100,000) per contract, and goods estimated to cost the equivalent of one hundred thousand dollars (\$100,000) but more than the equivalent of fifty thousand dollars (\$50,000) per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Association.

2. Local Shopping:

Works estimated to cost the equivalent of one hundred thousand dollars (\$100,000) per contract but more than the equivalent of fifty thousand dollars (\$50,000), up to and aggregate amount not to exceed the equivalent of three million fifteen thousand dollars (\$3,015,000), and goods estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) per contract, up to and aggregate amount not to exceed the equivalent of three million one hundred fifty thousand dollars (\$3,150,000), may be procured on the basis of comparison of price quotations obtained from at least three (3) suppliers or contractors eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Direct Contracting:

Works estimated to cost the equivalent of less than fifty thousand dollars (\$50,000) per Sub-project, up to an aggregate amount not to exceed the equivalent of five million five hundred fifteen thousand dollars (\$5,515,000), may be awarded after

direct negotiations with contractors, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works estimated to cost more than the equivalent of one hundred thousand dollars (\$100,000), and each contract for goods estimated to cost more than the equivalent of fifty thousand dollars (\$50,000), the procedures set forth in Paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two (2) conformed copies of the contract required to be furnished to the Association pursuant to said Paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding Paragraph, the procedures set forth in Paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said Paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to Paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding Sub-paragraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of fifteen percent (15%) is hereby specified for purposes of Paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower and the SFKC in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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 the equivalent of one hundred thousand dollars (\$100,000) per contract, or (b) contracts for the employment of individuals estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) per contract. However, this exception 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 the equivalent of one hundred thousand dollars (\$100,000) or above; or (v) amendments to contracts for the employment of individual consultants raising the contract value to the equivalent of fifty thousand dollars (\$50,000) or above.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2), (3) and (4) 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 two million dollars (\$2,000,000) to be withdrawn from the Credit Account and deposited in 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 one million dollars (\$1,000,000) 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 two million seven hundred thousand Special Drawing Rights.

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 in 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.

SCHEDULE 5

Terms and Conditions of the Fund and Sub-grant Agreements

A. Terms and Conditions of the Fund Agreement

The Fund Agreement shall be valid for a period of at least five (5) years, and shall include, inter alia, the following terms and conditions satisfactory to the Association:

1. The obligation of the Borrower to transfer the proceeds of the Credit, required for the implementation of the Project, to the SFKC on a non-reimbursable grant basis, and to otherwise take all action necessary to permit the SFKC to carry out the Project and ensure the achievement of the objectives thereof.

2. The obligation of the Borrower to ensure that its ministries and departments responsible for reviewing and approving the Sub-projects shall provide their no-objection or explanation for objection, as the case may be, in respect of said Sub-projects within five (5) working days of receipt of the necessary documentation from the SFKC.

3. The obligation of the SFKC to at all times carry out its operations in accordance with the following manuals, which manuals at all times shall be in form and substance acceptable to the Association, namely: (a) an Operational Manual which (i) sets out the operational procedures of the SFKC, including Sub-project eligibility,

financing and appraisal criteria, as well as performance indicators, procurement, disbursement and supervision procedures, (ii) ensures that no single Sub-grant shall exceed the amount of two hundred and fifty thousand dollars equivalent (\$250,000), and (iii) requires that all Sub-projects estimated to cost the equivalent of one hundred thousand dollars (\$100,000), or more, shall be subject to the prior written approval of the Association; and (b) an Administrative Manual which sets out the financial and administrative procedures of the SFKC, including its accounting, financial and auditing procedures.

4. The obligation of the SFKC to carry out the Project in accordance with this Agreement, the Fund Agreement, the Operational Manual and the Administrative Manual, and to at all times ensure that only Sub-projects that comply with the Fund Agreement and said manuals will be financed from the proceeds of the Credit.

5. The obligation of the SFKC to:

(a) Comply with the record keeping, accounting, auditing and reporting requirements set forth in Article IV of this Agreement; and

(b) Establish and maintain, for the duration of the Project, a management information system capable of generating detailed reports regarding, inter alia, Sub-project implementation and impact data, including a unit cost data base for Sub-project appraisal and financing.

6. The obligation of the SFKC to comply with the provisions for the procurement of goods, works and consultants' services referred to in Section 3.07 of this Agreement.

7. The obligation of the SFKC to carry on its operations and conduct its affairs in accordance with sound administrative, economic, engineering, financial, managerial and environmental practices, under the supervision of qualified and experienced managerial personnel assisted by competent staff in adequate numbers; and the SFKC's undertaking that all staff appointments and replacements, at the department head level or above, shall be subject to the prior written approval of the Association.

8. The obligation of the SFKC to promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the implementation of the Project and the achievement of the objectives thereof.

9. The obligation of the SFKC to, at the request of the Association, exchange views with the Association with regard to the progress of the Project and the achievement of the objectives thereof, and the SFKC's performance of its obligations under the Fund Agreement.

10. The obligation of the SFKC to:

(a) Prepare and submit work programs, budgets and reports and fully cooperate and participate in the Project annual reviews and mid-term review, in accordance with the provisions of Sections 3.04 (c) and 3.05 (b) of this Agreement;

(b) Provide all relevant information required for the proper monitoring and evaluation of the Project; and

(c) Promptly implement the work program referred to in said Section 3.04 (c).

11. The obligation of the SFKC to ensure that each Sub-project is carried out in its entirety on public land, and that at all times the ownership of the goods, works and services under each Sub-project shall remain in the public domain or otherwise revert to the Borrower.

12. The obligation of the SFKC to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate business practices.

13. The mutual obligation of the Borrower and the SFKC to: (a) ensure that each Sub-project appraised includes a detailed analysis of any potential adverse environmental effects and/or resettlement of persons arising from the implementation of said Sub-project; (b) that in the event of the existence of any such effects and/or resettlement, such Sub-project shall include an environmental action plan and/or a resettlement action plan therefor, as the case may be, which shall be carried out in a manner acceptable to the Association and monitored on a regular basis by both the Borrower and the SFKC; (c) take all measures necessary to ensure that all persons

whose livelihood is affected as a result any such effects and/or resettlement shall be rehabilitated and compensated in a manner acceptable to the Association and designed to further improve the living standards of those persons; and (d) at all times maintain operational procedures fully adequate to enable both the Borrower and the SFKC to monitor and evaluate, on a regular basis and based on indicators acceptable to the Association, the prompt carrying out of each of the foregoing.

14. The obligation of the SFKC to promptly refund to the Borrower any proceeds from the Credit not used for purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner which does not comply with the provisions of this Agreement.

15. A provision stipulating that:

(a) The prior written approval of the Association shall be required for any revisions to the Fund Agreement, the Operational Manual, or the Administrative Manual that relates to any change in: (i) Sub-project types or eligibility criteria; (ii) Sub-project cost limits; (iii) maximum contract amounts that can be awarded to any single Sub-project Implementing Agency through direct contracting procedures; (iv) the deadlines set for the submission of the Borrower's comments on any proposed Sub-project; or (v) the threshold for prior review of Sub-projects by the Association; and

(b) In case of conflict between any of the provisions contained in the Fund Agreement, the Operational Manual or the Administrative Manual and those set forth in this Agreement, the provisions of this Agreement shall at all times prevail.

B. Terms and Conditions of the Sub-grant Agreement

Each Sub-grant Agreement shall include, inter alia, the following terms and conditions satisfactory to the Association:

1. Each Applicant, Sponsor and Sub-project Implementing Agency shall be required to carry out and operate their corresponding Sub-project(s) with due diligence and efficiency, and in accordance with sound administrative, economic, engineering, financial, managerial and environmental standards and practices.

2. Each Applicant, Sponsor and Sub-project Implementing Agency shall have the obligation to ensure at all times that: (a) the goods, works and consultants' services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (b) such goods, works and consultants' services shall be used exclusively for implementing Sub-projects and achieving the objectives of the Project.

3. The corresponding Sub-project shall be carried out entirely on public land, and at all times the ownership of the goods, works and services thereunder shall remain in the Borrower's public domain or otherwise revert to the Borrower.

4. The SFKC shall have the right to inspect, by itself or jointly with representatives of the Association and/or the Borrower, if the Association shall so request, the goods, works and services included in the Sub-project, the operation thereof and any relevant records and documents and obtain any report in connection therewith, of such scope and in such detail as the Association shall reasonably request.

5. Each Applicant, Sponsor and Sub-project Implementing Agency shall take out and maintain with responsible insurers, or make other satisfactory provision for, insurance against such risks and in such amounts as shall be consistent with appropriate business practices.

6. The SFKC shall have the right to obtain all such information as the Association shall reasonably request relating to the foregoing, and to the administration, operations and financial condition of each Applicant, Sponsor and Sub-project Implementing Agency, and to the benefits derived from the Sub-projects.

7. The right of any Applicant, Sponsor and Sub-project Implementing Agency to the use of the proceeds of the Credit, or any part thereof, shall be promptly suspended upon failure by such Applicant, Sponsor or Sub-project Implementing Agency to perform any of its respective obligations under the Sub-grant Agreement.

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