

CONFORMED COPY

CREDIT NUMBER 3211 VN

Project Agreement

(Three Cities Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

Cam Pha Urban Environmental Company  
Danang Urban Environmental Company  
Haiphong Sewerage and Drainage Company  
Ha Long Urban Environmental Company

Dated August 3, 1999

CREDIT NUMBER 3211 VN

PROJECT AGREEMENT

AGREEMENT, dated August 3, 1999, among the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CAM PHA URBAN ENVIRONMENTAL COMPANY, DANANG URBAN ENVIRONMENTAL COMPANY, HAIPHONG SEWERAGE AND DRAINAGE COMPANY and HA LONG URBAN ENVIRONMENTAL COMPANY (the Sanitation and Drainage Companies).

WHEREAS (A) by the Development Credit Agreement of even date herewith between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to fifty nine million four hundred thousand Special Drawing Rights (SDR 59,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Sanitation and Drainage Companies agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS (B) by the MOF Instructions the proceeds of the Credit provided for under the Development Credit Agreement will be made available to the Sanitation and Drainage Companies on the terms and conditions set forth in said MOF Instructions; and

WHEREAS the Sanitation and Drainage Companies, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) Each Sanitation and Drainage Company declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the following Parts or parts thereof of the Project: (i) the Cam Pha Urban Environmental Company shall carry out Parts A.1, A.5, B.1 and C of the Project; (ii) the Danang Urban Environmental Company shall carry out Parts A.2, A.5, B.2 and C of the Project; (iii) the Haiphong Sewerage and Drainage Company shall carry out Parts A.3, A.5, B.3 and C of the Project; and (iv) the Ha Long Environmental Sanitation and Drainage Company shall carry out Parts A.4, A.5, B.4 and C of the Project; all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, resettlement and rehabilitation of Affected Persons, and water supply practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Sanitation and Drainage Companies shall otherwise agree, each Sanitation and Drainage Company shall carry out its Respective Parts of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree: (a) procurement of the goods, works and consultants' services required for Parts A and B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement; and (b) procurement of works, goods and services for the Sanitation Sub-projects financed by IDA-Sanitation Sub-loans shall be governed by the provisions of paragraph 6(b) of Schedule 3 to the Project Agreement.

Section 2.03. (a) Each Sanitation and Drainage Company shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of its Respective Parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, each Sanitation and Drainage Company shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and such Sanitation and Drainage Company, a plan for the future operation of its Respective Parts of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with such Sanitation and Drainage Company on said plan.

Section 2.04. Each Sanitation and Drainage Company shall duly perform all its obligations under its respective MOF Instructions.

Section 2.05. (a) Each Sanitation and Drainage Company shall, at the request of the Association, exchange views with the Association with regard to the progress of its Respective Parts of the Project, the performance of its obligations under this Agreement and under its respective MOF Instructions, and other matters relating to the purposes of the Credit.

(b) Each Sanitation and Drainage Company shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of its Respective Parts of the Project, the accomplishment of the purposes of the Credit, or the performance by such Sanitation and Drainage Company of its obligations under this Agreement and under its respective MOF Instructions.

### ARTICLE III

#### Management and Operations of the Sanitation and Drainage Companies

Section 3.01. Each Sanitation and Drainage Company shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, environmental and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. Each Sanitation and Drainage Company shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. Each Sanitation and Drainage Company shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) Each Sanitation and Drainage Company shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Each Sanitation and Drainage Company shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such 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 said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable each SDCO, not later than December 31, 1999, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the

proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, each SDCO shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period in a format and substance satisfactory to the Association.

#### ARTICLE V

##### Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of the Sanitation and Drainage Companies thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) a date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Sanitation and Drainage Companies of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association and the Association:

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

Cable address:

INDEVAS

Telex:

248423 (MCI) or

Washington, D.C.

64145 (MCI)

For Cam Pha Urban Environmental Company:

Cam Pha Town Quang Ninh Province  
Vietnam

For Danang Urban Environmental Company:

253 Nui Thanh Danang City  
Vietnam

For Haiphong Sewerage and Drainage Company:

No. 1 Ly Tu Trong Str. Haiphong City  
Vietnam

For Ha Long Urban Environmental Company:

Cao Xanh Road  
Cao Xanh Block  
Ha Long City Quang Ninh Province  
Vietnam

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of:

(a) Cam Pha Urban Environmental Company may be taken or executed by its Director, or by such other person or persons as Cam Pha Urban Environmental Company shall designate in writing, and Cam Pha Urban Environmental Company shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

(b) Danang Urban Environmental Company may be taken or executed by its Director, or by such other person or persons as Danang Urban Environmental Company shall designate in writing, and Danang Urban Environmental Company shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

(c) Haiphong Sewerage and Drainage Company may be taken or executed by its Director, or by such other person or persons as Haiphong Sewerage and Drainage Company shall designate in writing, and Haiphong Sewerage and Drainage Company shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

(d) Ha Long Urban Environmental Company may be taken or executed by its Director, or by such other person or persons as Ha Long Urban Environmental Company shall designate in writing, and Ha Long Urban Environmental Company shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andrew Steer

Authorized Representative

CAM PHA URBAN ENVIRONMENTAL COMPANY

By /s/ Tran Duy Khang

Authorized Representative

DANANG URBAN ENVIRONMENTAL COMPANY

By /s/ Nguyen Tan Lien

Authorized Representative

HAIPHONG SEWERAGE AND DRAINAGE COMPANY

By /s/ Nguyen Ba Can

Authorized Representative

HA LONG URBAN ENVIRONMENTAL COMPANY

By /s/ Nguyen Manh Ha

Authorized Representative

#### SCHEDULE 1

##### Implementation Program

#### A. Parts A and B of the Project - Implementation Arrangements

1. To assist in the overall supervision of the carrying out of its Respective Parts of the Project, each Sanitation and Drainage Company shall retain the services of a Construction Management Consultant with qualifications, experience and terms of reference satisfactory to the Association; provided, however, that the employment of the construction management consultant by the Danang Urban Environmental Company shall be procured in accordance with the provisions of Section II of Schedule 2 to this Agreement.

2. Danang Urban Environmental Company and Haiphong Sewerage and Drainage Company each shall maintain at all times during the implementation of the Project its PMU, headed by a qualified manager and assigned with such functions, responsibilities and funds satisfactory to the Association, and with competent staff in adequate numbers as shall be required for carrying out its Respective Part of the Project, including a civil engineer, a professional accountant, and a procurement and project management specialist, each with qualifications, experience and terms and conditions of employment satisfactory to the Association;

3. Each of the Sanitation and Drainage Company shall:

(a) carry out its Respective Part of the Project in accordance with annual plans acceptable to the Association, and, to that end, each SDCO shall, by October 30 in each year, commencing on October 30, 1999, prepare and furnish to the Association for its concurrence a plan for the implementation of its Respective Part of the Project in the next calendar year;

(b) carry out the compensation, assistance, resettlement and rehabilitation of the Affected Persons in accordance with the provisions of its respective Resettlement Action Plan, in a manner and substance satisfactory to the Association, including furnishing to the Borrower and the Association semiannual reports, and by December 31, 1999, under terms of reference satisfactory to the Association, retain an independent monitoring agency with qualified and experienced staff to:

(i) undertake the external monitoring and supervision of the implementation of its respective Resettlement Action Plan;

(ii) prepare and furnish to the Borrower and the Association semiannual monitoring reports thereof, the first of such reports to be furnished by July 31, 2000; and

(iii) prepare and furnish to the Borrower and the Association a final evaluation report on completion of the Action Plans under Parts II and III of each of the Resettlement Action Plan, and on completion of the Quang Ninh Resettlement Action Plan;

(c) implement its respective Environmental Management Plan in a manner and substance satisfactory to the Association;

(d) establish in a manner and substance satisfactory to the Association:

(i) cost recovery of operating and maintenance costs and depreciation of movable assets for Cam Pha Urban Environmental Company, Danang Urban Environmental Company and Ha Long Urban Environmental Company, through collection of wastewater and solid waste charges, in accordance with a time-table and percentages acceptable to the Association;

(ii) cost recovery of operating and maintenance costs and depreciation of movable assets for Haiphong Sewerage and Drainage Company, through collection of wastewater charges, in accordance with a time-table and percentages acceptable to the Association; and

(iii) annual targets for the percentage by volume of septage collection and by weight of solid waste collection to be contracted out to private sector operators, in accordance with a schedule acceptable to the Association.

(e) on October 31 of each year, commencing on October 31, 2000, prepare an updated annual financial projection for the forthcoming Fiscal Year; and

(f) by October 31 of each year, commencing on October 31, 1999, prepare and furnish to the Association for approval training and technical assistance annual work plans, and thereafter, carry out such annual work plans as so approved.

4. Each Sanitation and Drainage Company shall adopt a manual on accounting and administrative policies and procedures, and an accounting system, all satisfactory to the Association.

5. Each Sanitation and Drainage Company shall:

(a) maintain policies and procedures adequate to enable each of them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of its Respective Parts 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: (i) semi-annual reports, not later than July 31 and January 31 in each calendar year, the first of such semi-annual reports to be furnished by January 31, 2000; and (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about July 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2002, or such later date as the Association shall request, the report referred to in paragraph (b) of this

Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

B. Part C of the Project - Implementation Arrangements

1. Each SDCO shall enter into arrangements satisfactory to the Association with the Women's Union in the respective Project Cities and Province, whereby the latter shall undertake the following actions and responsibilities for purposes of the carrying out of Part C of the Project:

(a) Make Sanitation Sub-loans in accordance with the procedures and terms and conditions set forth in Schedule 3 to this Agreement.

(b) Establish in each of the Project Cities and Province a Sanitation Revolving Fund to be funded with the funds generated by the repayment of the principal of the Sanitation Sub-loans, and the interest charged therein, for purposes of providing loans to finance Sanitation Sub-projects under the same terms and conditions as set forth in Schedule 3 to this Agreement, except for the post approval by the Association provided therein.

(c) Establish for each Sanitation Revolving Fund a board responsible for the overall management of the Fund including the approval of each Sanitation Sub-loan, such board to be chaired by a qualified member of the respective Women's Union and comprised of an officer and an accountant.

(d) For each Sanitation Sub-loan and each loan made out of the amounts deposited in the relevant Sanitation Revolving Fund, establish and thereafter maintain an accounting and reporting system in accordance with the provisions of Section 4.01 of this Agreement.

(e) Establish and thereafter maintain a system, satisfactory to the Association, to monitor and evaluate the implementation of the Sanitation Sub-projects.

SCHEDULE 2

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines) and (b) the following provisions of Section I of this Schedule.

2. The references in paragraphs 1.6 and 1.9 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Prequalification

Bidders for civil works shall be prequalified in accordance with the provisions



of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part B.1 hereof, the SDCOs may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraph 2.55 of the Guidelines and Appendix 2 thereto.

(d) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(e) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$430,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions 1. Procurement Planning Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Part B.2 of the Project estimated to cost less than \$50,000 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. Least-cost Selection

Services for under Part B.2 of the Project 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 3.6 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 Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (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 Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

Procedures and Terms and Conditions of Sanitation Sub-loans

1. Sanitation Sub-loans shall be made to a household or households by the relevant Women's Union in the Project Cities and Province in accordance with the Operations Manual adopted by the Sanitation and Drainage Companies pursuant to paragraph 2 below, and on the following terms and conditions:

(a) the principal amount of a Sanitation Sub-loan shall be lent and payable in Dong and shall not exceed 90% of the total estimated cost of the Sanitation Sub-Project for which said Sub-loan is made;

(b) the repayment period of the principal amount of the Sanitation Sub-loan, shall not exceed twenty four (24) months, including a grace period not to exceed six (6) months; and

(c) interest at a fixed rate per annum not to exceed 12% or at such other rate established with the prior approval of the Association.

2. The SDCOs shall prepare and furnish to the Association for its review and comment, an operations manual (the Operations Manual) setting forth the procedures and terms and conditions of Sanitation Sub-Loans, which shall include the procedures, terms and conditions set forth in this Schedule, and shall thereafter adopt said Operations Manual taking into account the Association's comments thereon.

3. Except as the Association shall otherwise agree, to qualify for a Sanitation Sub-loan, a household shall demonstrate:

(a) residence within an eligible area as determined in accordance with the Operations Manual;

(b) no outstanding loans;

(c) no previous bad debts;

(d) deposit of at least 80,000 Dong into the savings account of the participating savings and credit group and a commitment to deposit at least 10,000 Dong per month for the duration of the borrowing period; and

(e) commitment to participate in group activities in accordance with Operations Manual regulations.

4. Sanitation Sub-loans may finance only the reasonable cost of goods and works under a Sanitation Sub-project.

5. Without limitation on the provisions of paragraph 3(g) of Schedule 1 to the Development Credit Agreement, no expenditures for goods, civil works or services required for a Sanitation Sub-Project shall be eligible for financing out of the proceeds of the Credit unless the IDA-Sanitation Sub-loan shall have been approved by the board of the relevant Sanitation Revolving Fund.

6. IDA-Sanitation Sub-loans shall be made on terms whereby the Danang City Women's Union shall obtain, by written contract with the relevant household, or households or by other appropriate legal means, rights adequate to protect the interests of the Association, the Danang Urban Environmental Company and the Danang City Women's Union, including the right to:

(a) require the household to carry out the Sanitation Sub-project with due diligence and efficiency and in accordance with sound technical, environmental and sanitation standards and to maintain adequate records;

(b) require that goods and works shall be purchased at a reasonable price following the established commercial procedures, account being taken also of other relevant factors such as: (i) in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor; and (ii) in the case of works, the technical quality and the competitive cost therefor, and with respect to all such contracts the procedures set forth in

paragraph 4 of Appendix 1 to the "Guidelines for Procurement under IBRD Loans and IDA Credits" referred to in Schedule 2 to this Agreement, shall apply;

(c) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, such goods, works and installations, as the case may be, included in the Sanitation Sub-project, the operation thereof, and any relevant records and documents; and

(d) suspend or terminate the right of the household to the use of the proceeds of the IDA-Sanitation Sub-loan upon failure by such household to perform its obligations under its contract with the Danang City Women's Union.

