

CONFORMED COPY

CREDIT NUMBER 3572 VN

Development Credit Agreement

(Northern Mountains Poverty Reduction Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 6 , 2001

CREDIT NUMBER 3572 VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 6, 2001, between SOCIALIST REPUBLIC OF VIETNAM (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;

(B) the Borrower expects to receive from the United Kingdom, through its Department for International Development (DFID), a grant (the DFID Grant) in an aggregate principal amount of seven million five hundred thousand Great Britain Pounds (GBP 7,500,000) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and DFID by an Exchange of Letters (the DFID Agreement) providing therein for: (a) an amount of one million three hundred and seventy five thousand Great Britain Pounds (GBP 1,375,000) out of the proceeds of the DFID Grant to be provided directly by DFID to the Borrower to assist in financing part of Part E of the Project; and (b) an amount of six million Great Britain Pounds (GBP 6,000,000) to be provided to the Borrower on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Association as Administrator of those grant funds received from DFID (the DFID Trust Fund Grant Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

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

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

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

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

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

(a) "Affected Persons" means persons who, on account of the execution of any Sub-project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; and "Affected Person" means any of the Affected Persons.

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "CEMMA" means the Borrower's Committee on Ethnic Minorities and Mountainous Areas, and any successor thereto.

(d) "Central Project Management Unit" and "CPMU" mean the unit established within the Department of Agriculture and Rural Development of the Ministry of Planning and Investment by Decision No. 346 QD/BKH dated July 6, 2001, to manage the overall implementation of the Project, in accordance with the provisions of paragraph A (2) of Schedule 4 to this Agreement.

(e) "Central Project Steering Committee" means the committee to be established by the Borrower in accordance with the provisions of paragraph A (1)(a) of Schedule 4 to this Agreement to provide overall guidance in the implementation of the Project.

(f) "Commune Development Board" means the unit to be established in each Project Commune in accordance with the provisions of paragraph B (5) of Schedule 4 to this Agreement, responsible for developing, through consultation with village leaders and beneficiary groups within the commune, the Commune Development Plan, and for entering into sub-project agreements, on behalf of the commune, with the respective PPMU or DPMU, as the case may be, for the implementation of sub-projects selected from said Commune Development Plan.

(g) "Commune Development Plan" means a multi-year plan of development

priorities established by each Project Commune from proposals submitted by villagers and screened by the respective Commune Development Board, and from which specific investment sub-projects would be selected for financing under Parts A, B and C of the Project pursuant to the provisions of paragraph B (6) of Schedule 4 to this Agreement.

(h) "Commune People's Committee" means the local government at the commune level.

(i) "DFID" means the Department for International Development of the United Kingdom, and any successor thereto.

(j) "District People's Committee" means the local government at the district level.

(k) "District Project Management Unit" and "DPMU" mean the unit established within the Planning Section of the District People's Committee of each Project District to manage the overall implementation of the Project within said District, in accordance with the provisions of paragraph A (3) of Schedule 4 to this Agreement and the following Decisions Nos. 1153/QD-CT, 1154/QD-CT, 1155/QD-CT, 1156/QD-CT, in respect of the Project Districts in Bac Giang; 177/QD-UB, 176/QD-UB, 122/QD-UB, 159/QD-UB, 124/QD-UB, 121/QD-UB, 246/QD-UB, 126/QD-UB, 868/QD-UB, and 1005/QD-UB, in respect of the Project Districts in Hoa Binh; 1523/QD-CT, 1525/QD-CT, 1520/QD-CT, 1518/QD-CT, 1517/QD-CT, 1524/QD-CT, 1519/QD-CT, 1522/QD-CT, 1526/QD-CT, and 231/QD-UB in respect of the Project Districts in Lao Cai; 2903/QD-UB in respect of the Project Districts in Phu Tho; 1924/QD-UB, 1928/QD-UB, 1930/QD-UB, 1926/QD-UB, 1925/QD-UB, 1929/QD-UB, and 1927/QD-UB in respect of the Project Districts in Son La; 312/QD-UB, 381/QD-UB, 284/QD-UB, 69/2001/QD-UB, 221/QD-UB, 3481/QD-UB, and 169/2000/QD-UB in respect of the Project Districts in Yen Bai.

(l) "EMP" means the Environmental Management Plan dated June 2001, adopted by the Borrower through its Ministry of Planning and Investment's Decision No 487 QD/BKH of September 6, 2001, and referred to in paragraph B (9) of Schedule 4 to this Agreement, which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the agreement of the Association.

(m) "MOLISA" means the Borrower's Ministry of Labor, Invalids and Social Affairs, and any successor thereto.

(n) "MPI" means the Borrower's Ministry of Planning and Investment, and any successor thereto.

(o) "MARD" means the Borrower's Ministry of Agriculture and Rural Development, and any successor thereto.

(p) "Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons" means the policy framework dated December 2000, adopted by the Borrower through the Prime Minister's Decision No. 806/CP-QHQT and the Vice Minister of MPI's Decision No. 487 QD/BKH, dated respectively September 5, 2001 and September 6, 2001, as said policy framework may be amended from time to time with the prior concurrence of the Association.

(q) "Project Communes" means, collectively, communes within the Project Provinces selected from the lists of poor communes established by CEMMA and/or MOLISA in accordance with the Borrower's programs of hunger eradication and poverty alleviation; and "Project Commune" means any of the Project Communes.

(r) "Project Districts" means, collectively, those districts within each Project Province which have within their respective jurisdiction one or more Project Communes; and "Project District" means any of the Project Districts.

(s) "Project Implementation Manual" means the manual to be adopted by the Borrower for the implementation of the Project, in accordance with the provisions of paragraph B (4) of Schedule 4 to this Agreement, as said manual may be amended from

time to time with the prior concurrence of the Association.

(t) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement.

(u) "Project Provinces" means, collectively, the provinces of Bac Giang, Hoa Binh, Lao Cai, Phu Tho, Son La and Yen Bai in the northern mountain region of Vietnam; and "Project Province" means any of such Provinces.

(v) "Provincial People's Committee" means the local government at the provincial level.

(w) "Provincial Project Management Unit" and "PPMU" mean the unit established by each Project Province within the Department of Planning and Investment of the relevant Provincial People's Committee, in accordance with the provisions of paragraph A (3) of Schedule 4 to this Agreement and pursuant to Decisions Nos 1628/QD-CT in respect of Bac Giang, 407/QD-UB in respect of Hoa Binh, 247/QD-UB in respect of Lao Cai, 2905/QD-UB in respect of Phu Tho, 1923/QD-UB in respect of Son La, and 432/QD-UB in respect of Yen Bai, to manage the overall implementation of said Province's Respective Part of the Project.

(x) "Provincial Project Steering Committee" means each of the committees established by each Project Province in accordance with the provisions of paragraph A (1)(b) of Schedule 4 to this Agreement and pursuant to Decisions Nos 1618/QD-CT in respect of Bac Giang, 1312/QD-UB in respect of Hoa Binh, 280/2001/QD-UB in respect of Lao Cai, 2901/QD-UB in respect of Phu Tho, 01/1999/QD-UB in respect of Son La, and 431/QD-UB in respect of Yen Bai, to provide overall guidance in the implementation of said Province's Respective Part of the Project.

(y) "Respective Part of the Project" means, for: (i) each Project Province, the activities to be carried out under the Project within said Project Province, its Project Districts and Project Communes; and (ii) each Project District, the activities to be carried out under the Project within said Project District and its Project Communes.

(z) "Second Generation Special Accounts" means the accounts referred to in Section 2.02 (c) of this Agreement; and "Second Generation Special Account" means any of said Accounts.

(aa) "Special Accounts" means, collectively, the Bac Giang PPMU Special Account, the Hoa Binh PPMU Special Account, the Lao Cai PPMU Special Account, the Phu Tho PPMU Special Account, the Son La PPMU Special Account, the Yen Bai PPMU Special Account, and the CPMU Special Account, all referred to in Section 2.02(b) of this Agreement; and "Special Account" means any of said Special Accounts.

(bb) "Strategy and Action Plan for Ethnic Groups" means the plan dated November 2000, adopted by the Borrower through the Prime Minister's decision No. 806/CP-QHQT and the Vice Minister of MPI's decision No. 487 QD/BKH, dated respectively September 5, 2001 and September 6, 2001, as said strategy and action plan may be amended from time to time with the prior concurrence of the Association.

(cc) "Sub-project" means a specific investment project for the construction of small-scale infrastructure within a Project Commune or a village therein, or a Project District, or a specific program of activities within a Project Commune or a village therein, or a Project District, to increase agricultural productivity or to improve the access to drinking water or to improve the access to and use of basic education and health services for the population thereof, under Parts A, B, C and D of the Project, utilizing the proceeds of the Credit.

(dd) "Subproject Agreement" means the agreement to be entered into between a Commune Development Board and the respective District Project Management Unit, or Provincial Project Management Unit, as the case may be, in accordance with the provisions of paragraph B (6) of Schedule 4 to this Agreement.

(ee) "Vietnamese Dong" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty seven million nine hundred thousand Special Drawing Rights (SDR87,900,000).

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, and to be financed out of the proceeds of the Credit.

(b) The Borrower may open and maintain in Dollars:

- (i) a special deposit account for the purposes of Bac Giang's Respective Part of the Project (the Bac Giang PPMU Special Account);
- (ii) a special deposit account for the purposes of Hoa Binh's Respective Part of the Project (the Hoa Binh PPMU Special Account);
- (iii) a special deposit account for the purposes of Lao Cai's Respective Part of the Project (the Lao Cai PPMU Special Account);
- (iv) a special deposit account for the purposes of Phu Tho's Respective Part of the Project (the Phu Tho PPMU Special Account);
- (v) a special deposit account for the purposes of Son La's Respective Part of the Project (the Son La PPMU Special Account);
- (vi) a special deposit account for the purposes of Yen Bai's Respective Part of the Project (the Yen Bai PPMU Special Account); and
- (vii) a special deposit account for the purposes of Part E.1 of the Project (the CPMU Special Account);

each in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower may, for purposes of each Project District's Respective Part of the Project, open and maintain in Vietnamese Dong a second generation special account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Second Generation Special Accounts ("SGSAs") shall be made in accordance with the provisions of Schedule 5 to this Agreement and additional procedures that shall have been approved by the Association.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of

one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing January 15, 2012 and ending July 15, 2041. Each installment to and including the installment payable on July 15, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices and sound environmental, health and social standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts and the Second Generation Special Accounts, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

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

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than September 30, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

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

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

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

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the Borrower's decision establishing the Commune Development Boards of the Project Communes shall have been amended, suspended, abrogated or repealed so as to affect materially and adversely the capacity of the Project Communes to participate in the Project in accordance with the terms and conditions herein set forth, and to enter into sub-project agreements with the respective Provincial Project Management Units, or District Project Management Units, as the case may be; and

(b) Subject to paragraph (c) below:

(i) the right of the Borrower to withdraw the proceeds of the DFID

Grant or any other grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(c) Paragraph (b) of this Section 5.01 shall not apply if the Borrower establishes to the satisfaction of the Association that:

(i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely the event specified in paragraph (b) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has taken all necessary action to enable the Commune Development Boards to have the legal powers to participate in the Project in accordance with the terms and conditions herein set forth, and to enter into sub-project agreements with the respective Provincial Project Management Units, or District Project Management Units, as the case may be;

(b) the DFID Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(c) the Central Project Steering Committee has been established in accordance with the provisions of paragraphs (A)(1)(a) of Schedule 4 to this Agreement;

(d) the Borrower has adopted a project implementation manual satisfactory to the Association, including therein a capacity building plan and a financial management manual, in accordance with the provisions of paragraph 4 of Schedule 4 to this Agreement;

(e) the training of the accounting staff within the CPMU and PPMUs on a computerized system for the strengthening of the financial management system of the Project, has been completed in a manner satisfactory to the Association;

(f) the Borrower has established a computerized financial management system satisfactory to the Association;

(g) each Project Province has submitted an implementation plan for the Borrower's Fiscal Year 2002 under its Respective Part of the Project to the Central Project Management Unit and obtained its approval for said plan; and

(h) the Central Project Management Unit has engaged the services of an

independent agency under terms of reference satisfactory to the Association, to monitor the participatory process and evaluate the impacts of the Project in accordance with the provisions of paragraph 12 of Schedule 4 to this Agreement

Section 6.02. The following is specified as additional matters, 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:

(a) the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and the Strategy and Action Plan for Ethnic Groups have been duly authorized by the Borrower's Prime Minister and Minister or Vice Minister MPI, and are legally binding upon the Borrower in accordance with their respective terms; and

(b) the Commune Development Boards have the legal powers to participate in the Project in accordance with the terms and conditions herein set forth, and to enter into sub-project agreements with the respective Provincial Project Management Units, or District Project Management Units, as the case may be.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Governor or any Deputy Governor of the State Bank of Vietnam of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

State Bank of Vietnam
49 Ly Thai To
Hanoi
Socialist Republic of Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK Hanoi	412248 NHTWVT	(844)825-0612

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

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

SOCIALIST REPUBLIC OF VIETNAM

By /s/ Le Duc Thuy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom

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) Works for		95%
(a) Bac Giang's Respective Part of the Project	8,700,000	
(b) Hoa Binh's Respective Part of the Project	8,700,000	
(c) Lao Cai's Respective Part of the Project	15,670,000	
(d) Phu Tho's Respective Part of the Project	8,700,000	
(e) Son La's Respective Part of the Project	9,870,000	
(f) Yen Bai's Respective Part of the Project	9,870,000	
(2) Goods (other than management information system, including computers and related software, media equipment and products, equipment for cadre schools, four-wheel drive vehicles for the Project Districts and CPMU) for:		100% of foreign expenditures 100% of local, expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(a) Bac Giang's Respective Part of the Project	975,000	
(b) Hoa Binh's Respective Part of the Project	975,000	
(c) Lao Cai's Respective Part of the Project	1,750,000	

- (d) Phu Tho's Respective
Part of the Project 975,000
- (e) Son La's Respective
Part of the Project 1,100,000
- (f) Yen Bai's Respective
Part of the Project 1,100,000
- (g) Part E of the Project 240,000
- (3) Consultants' Services (other than services of management trainers at the provincial cadre schools; media and computer consultants; all services for monitoring and evaluation except on matters related to the environment, resettlement and ethnic minorities) for: 100%
- (a) Bac Giang's Respective
Part of the Project 570,000
- (b) Hoa Binh's Respective
Part of the Project 770,000
- (c) Lao Cai's Respective
Part of the Project 1,670,000
- (d) Phu Tho's Respective
Part of the Project 770,000
- (e) Son La's Respective
Part of the Project 815,000
- (f) Yen Bai's Respective
Part of the Project 815,000
- (g) Part E of the Project 1,000,000
- (4) Training for: 100%
- (a) Bac Giang's Respective
Part of the Project (other than under Part E of the Project) 515,000
- (b) Hoa Binh's Respective
Part of the Project (other than under Part E of the Project) 515,000
- (c) Lao Cai's Respective
Part of the Project (other than under Part E of the Project) 515,000
- (d) Phu Tho's Respective
Part of the Project (other than under Part E of the Project) 515,000

(e)	Son La's Respective Part of the Project (other than under Part E of the Project)	515,000	
(f)	Yen Bai's Respective Part of the Project (other than under Part E of the Project)	515,000	
(g)	Part E of the Project	120,000	
(5)	Incremental Operating Costs		
(a)	Bac Giang's Respective Part of the Project	425,000	75%
(b)	Hoa Binh's Respective Part of the Project	425,000	75%
(c)	Lao Cai's Respective Part of the Project	770,000	75%
(d)	Phu Tho's Respective Part of the Project	425,000	75%
(e)	Son La's Respective Part of the Project	480,000	75%
(f)	Yen Bai's Respective Part of the Project	480,000	75%
(g)	Part E of the Project	240,000	75%
(h)	Audit of Project accounts	95,000	100%
(6)	Unallocated	6,315,000	
	TOTAL	87,900,000	

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) "Incremental Operating Costs" means reasonable expenditures incurred by the Borrower for the audit of project accounts, the implementation of the processes of community consultation, selected participatory rural assessments and participatory monitoring, and for the program of community information, education and communication, and other reasonable expenditures incurred by the CPMU, PPMUs and DPMUs for staff travel and field allowances, office supplies and operating costs (which expenditures would not have been incurred absent the Project), excluding salaries and administrative related costs of the technical assistance to CPMU financed by the DFID Grant.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments for expenditures under Category (1) for any sub-project, except for village sub-projects under Part D of the Project, until a sub-project agreement in respect of such sub-project has been entered into between the respective Commune Development Board and District Project Management Unit, or Provincial Project

Management Unit, as the case may be.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$50,000 equivalent each; (b) works under contracts costing less than \$75,000 equivalent each; (c) services provided by (i) consulting firms under contracts costing less than \$100,000 equivalent each, and (ii) individuals under contracts costing less than \$50,000 equivalent; (d) training; and (e) Incremental Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to raise the productive capacity, and improve the food security and standard of living of the rural population of selected poorer communes in the Project Provinces, by (i) strengthening their capacity to plan and implement poverty reduction projects, and (ii) providing, and enabling them to use, small-scale infrastructure and basic social services.

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

Part A: Rural Roads and Markets

In each Project Province, carrying out of a program to improve the rural transport and markets networks through:

1. the construction and upgrading of: (a) district-to-commune roads; (b) commune-to-village and village-to-village roads and paths; and (c) bridges, spillways and culverts; and
2. the construction and upgrading of rural markets.

Part B: Irrigation, Water Supply and Agriculture Support

In each Project Province, carrying out of a program to increase agricultural productivity and improve access to drinking water through:

1. the construction, upgrading and repair of micro-irrigation systems;
2. the construction and upgrading of village and household water supply schemes;
3. the provision of applied demonstrations, training and extension services to farmers for the improvement and management of annual and perennial food and cash crops, animal husbandry, aquaculture and small agro-processing; and
4. an on-site research program on the priority needs of upland agriculture.

Part C: Basic Education and Health

In each Project Province, carrying out of a program to improve access to and use of basic education and health services through:

1. (a) construction, renovation and upgrading of commune and village classrooms and kindergartens, basic accommodations for teachers and, in more remote areas, semi-boardings facilities for students; (b) upgrading of qualifications and provision of re-training of primary school teachers, in particular teachers from ethnic minority groups; (c) provision of basic furniture, equipment and teaching aids for commune and village classrooms; (d) carrying out of measures to improve school attendance of children from the poorest households and girls from ethnic minorities; and (e) promotion of attendance by women of literacy classes; and

2. (a) construction and upgrading of commune health stations and village health clinics; (b) provision of training and re-training of commune and village health workers; (c) provision of basic equipment and medicine supply for commune health stations; (d) undertaking of a program of communication and information activities on relevant health topics for the population of the communes; and (e) provision of training for health cadres in participatory processes, management of resources and supervision.

Part D: Commune Development Budget

In each Project Province, establishment of a program of small grants to communes to support their respective development budget to fund eligible small-scale investment sub-projects at the village level.

Part E: Implementation Support

Carrying out a program of institutional development at:

1. the central level, and
2. the provincial, district and commune levels; through

the provision of technical assistance, training and equipment to: (a) strengthen the management capacity of project management units and local institutions at the respective levels, and foster institution and capacity building of the concerned local institutions; (b) support community consultation and decentralized community-based planning and management; (c) support a program of community level information, education and communication; and (d) monitor and evaluate project implementation and impacts.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

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 (the Guidelines) and (b) the provisions of the following Parts of this Section I.

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Grouping of contracts

To the extent practicable, contracts for procurement of vehicles shall be

grouped in bid packages estimated to cost \$200,000 equivalent or more each.

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods including office equipment, medical bags, school furniture and motorcycles estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,600,000 equivalent may be procured; and (b) works, estimated to cost less than \$ 200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,500,000 equivalent, except as otherwise provided in paragraphs 3, 4 and 5 of this Part C, shall be procured, under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$5,500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$48,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Direct Contracting

(a) Goods which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature and costing \$2,100,000 equivalent or less in the aggregate, and (b) works located in remote areas, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$11,000,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Community Participation

Works for the construction of water supply systems and village roads which are labor-intensive, and agricultural demonstrations, estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$12,600,000 equivalent, shall be procured in accordance with procedures acceptable to the Association.

6. Force Account

Works in remote areas, which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$4,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract for works estimated to cost the equivalent of \$75,000 or more and each contract for goods estimated to cost the equivalent of \$50,000 or more; (ii) the first three contracts for works to be procured in accordance with the provisions of Paragraph C (5) of this Section I; and (iii) for each Project Province, each year, the first contracts for works procured in accordance with the provisions of Paragraphs C (3), (4) and (5), and the first contracts for goods procured in accordance with the provisions of Paragraphs C (1) and (2); the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) In respect of contracts referred to in clauses (ii) and (iii) of sub-paragraph (a) above procured in accordance with the provisions of Paragraphs (C) (2), (3) and (4), the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures or the execution of any contract for procurement of small works, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping or procurement of small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 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

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

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

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for engineering design estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for agricultural on-site demonstrations under Part B.3 of the Project, audit of project accounts, and for training, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for supervision of works, training of farmers, village health workers and teachers, and agricultural research, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for community consultation and participatory rural assessment to develop village sub-projects and commune development plans, for construction supervision of works procured under paragraphs C(4) and C(5) of Section I of this Schedule, and other tasks that meet the requirements set forth in paragraph 5.1 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 \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the

procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Project Management

1. To ensure consistency and coordination among all Project components the Borrower shall, throughout the period of implementation of the Project:

(a) maintain the Central Project Steering Committee with membership acceptable to the Association, to provide overall guidance in the implementation of the Project; and

(b) cause each Project Province to maintain its respective steering committee, with membership acceptable to the Association, to provide overall guidance in the implementation of the relevant Provinces' Respective Part of the Project.

2. The Borrower shall, throughout the period of implementation of the Project, maintain the Central Project Management Unit within the Department of Agriculture and Rural Development of MPI, managed and staffed with qualified personnel in sufficient number, including a chief accountant, an internal auditor, an environment coordinator, a project monitoring and evaluation officer, a procurement specialist, and a training coordinator, all under terms of reference satisfactory to the Association, and provided with adequate resources; said Unit to be responsible for overall management and coordination of the Project, and monitoring and evaluation of its impacts.

3. The Borrower shall cause each Project Province and each Project District to maintain throughout the period of implementation of the Project, its respective Provincial Project Management Unit and District Project Management Unit, managed and staffed with qualified personnel, in sufficient number, including accounting staff and internal auditors, monitoring and evaluation officers, training and information coordinators, environment and procurement officers, and necessary technical specialists, all under terms of reference satisfactory to the Association, and provided with adequate resources. The PPMUs and DPMUs shall be responsible for assisting the Project Communes in their assessment and prioritization of their needs, the development of their respective commune development plans, and the carrying out of procurement activities necessary for their respective sub-projects. The DPMUs shall be further responsible for carrying out the assessment of social services needs, and developing and implementing training activities in health, education and agricultural extension, at the district level.

B. Implementation

4. The Borrower shall:

(a) for purposes of implementation of the Project, prepare a project implementation manual satisfactory to the Association, which shall provide, inter alia for:

(i) (A) procedures for conducting community assessments; (B) guidelines for the development of commune development plans, including processes of obtaining approval at the village and commune levels, and at the district and provincial levels, and process of review by an external panel; (C) eligibility criteria for investment sub-projects, including the targeting of more vulnerable and disadvantaged groups within the Project Communes, and the assumption of responsibility for operation and maintenance; (D) guidelines and criteria for the operation of the Commune Development Budget and the approval by the commune development boards of village sub-projects to be supported under the Commune Development Budget; (E) measures required under the Strategy and Action Plan for Ethnic Groups and the Policy Framework for Compensation, Resettlement and Rehabilitation of

Project Affected Persons; (F) measures required under the Environmental Management Plan, including the environmental screening procedures and criteria; (G) procurement procedures; and (H) monitoring requirements and processes, including monitoring by the beneficiaries, and reporting;

- (ii) a capacity building plan satisfactory to the Association, including: (A) a strategy and action plan to develop and strengthen the management capacity of the Project Communes, and at the central, provincial and district levels, and (B) mechanisms and processes for planning and managing policies and services in support of the poor in the remote upland areas; and
- (iii) a financial management manual satisfactory to the Association, setting forth, inter alia, fund flow arrangements, financial management, accounting, reporting and internal control mechanisms and procedures, including the management, control and auditing of Special Accounts and Second Generation Special Accounts; and

(b) put into effect said project implementation manual, including the capacity building plan and the financial management manual, and shall not amend, abrogate or waive any provision of said project implementation manual without the prior concurrence of the Association.

5. The Borrower shall ensure that each Project Commune establish a commune development board with membership satisfactory to the Association, including representatives from the Commune people's committee and people's council, mass associations, village leaders, and beneficiary groups, to: (a) undertake a community assessment in order to (i) solicit and screen proposals on development priorities and sub-projects from the population of the Commune, and (ii) prepare the commune development plan, and seek approval therefor from the respective Provincial Project Management Unit, or District Project Management Unit, as the case may be; (b) annually undertake a participatory review process to define the annual implementation program under the commune development plan; (c) on behalf of the Commune enter into sub-project agreements with the respective District Project Management Unit or Provincial Project Management Unit, as the case may be, for the implementation of the commune sub-projects; and (d) manage the grant made to the Commune under the Commune Development Budget through the review, approval and supervision of selected sub-projects proposed and implemented by the villages within the Commune.

6. For each eligible sub-project within a Commune Development Plan, the Borrower shall cause the respective Commune Development Board to enter into a sub-project agreement with the respective District Project Management Unit, or Provincial Project Management Unit, as the case may be, satisfactory to the Association, to record the mutual rights and obligations of the Commune Development Board on behalf of the respective Commune, and the respective DPMU, or PPMU, as the case may be, in regard to the execution of the sub-project, including the detailed design, engagement of contractors, contribution by beneficiaries and arrangement for the operation and maintenance of the sub-project after its completion.

7. Without limitation to the provisions of Section 6.01(g) of this Agreement, the Borrower shall: (a) prepare and, by December 31 of each year commencing in 2002 furnish to the Association for its review an annual work plan, including proposed budget therefor based on the commune development plans submitted by the Project Communes; and (b) thereafter implement, or cause to be implemented, said annual work plan taking into consideration the Association's comments thereon.

8. The Borrower:

(a) shall implement, or cause to be implemented, the Strategy and Action Plan for Ethnic Groups in a manner satisfactory to the Association, to: (i) provide full consultation with, and informed participation of, ethnic minority groups within the Project Communes in the formulation of the Commune Development Plan and the implementation thereof; and (ii) ensure that the selection and design of investment sub-projects as well as the provision of social services adequately address the needs, cultural practices and preferences of such groups; and

(b) shall not amend, waive or modify the provisions of said Strategy and Action Plan without the prior concurrence of the Association and the Project Communes.

9. The Borrower shall:

(a) carry out the Environment Management Plan in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; and

(b) in respect of sub-projects under Part A.1 of the Project in particular, cause the relevant Project District or Project Province, as the case may be, to: (i) carry out an environmental screening and, if necessary on the basis of such screening, carry out a full environmental impact assessment, in accordance with the guidelines of the Project Implementation Manual; and thereafter (ii) incorporate adequate mitigation measures into the relevant sub-project.

10. In respect of any proposed investment sub-projects which would give rise to Affected Persons, the Borrower shall ensure that the PPMU of the relevant Project Province, in coordination with the relevant Project District or Project Commune: (a) follow the principles, guidelines and procedures set forth in the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons; (b) prepare a resettlement action plan satisfactory to the Association; and (c) carry out such resettlement action plan as so approved, prior to the commencement of any works under such investment sub-project.

Monitoring and Reporting

11. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof.

12. For purposes of paragraph 11 above, the Borrower shall, inter alia, appoint an independent agency under terms of reference satisfactory to the Association, to carry out the process monitoring, including the quality of community participation, quality and effect of training, and impact of micro-irrigation systems.

13. The Borrower shall:

(a) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about March 31 and September 30 of each year, commencing on September 31, 2002 a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 11 above, on the progress achieved carrying out the Project during the calendar semester preceding the date of said report (or in the case of the last such report furnished for each calendar year, during the preceding two calendar semesters) 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 calendar semester;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about March 31, 2004, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 11 above, 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 remainder of the project period; and

(c) promptly review with the Association, each such report referred to in sub-paragraphs (a) and (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) Categories (1)(a), (2)(a), (3)(a), (4)(a) and (5)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Bac Giang's Respective Part of the Project; (ii) Categories (1)(b), (2)(b), (3)(b), (4)(b) and (5)(b) set forth in said table in respect of Hoa Binh's Respective Part of the Project; (iii) Categories (1)(c), (2)(c), (3)(c), (4)(c) and (5)(c) set forth in said table in respect of Lao Cai's Respective Part of the Project; (iv) Categories (1)(d), (2)(d), (3)(d), (4)(d) and (5)(d) set forth in said table in respect of Phu Tho's Respective Part of the Project; (v) Categories (1)(e), (2)(e), (3)(e), (4)(e) and (5)(e) set forth in said table in respect of Son La's Respective Part of the Project; (vi) Categories (1)(f), (2)(f), (3)(f), (4)(f) and (5)(f) set forth in said table in respect of Yen Bai's Respective Part of the Project; and (vii) Categories (2)(g), (3)(g), (4)(g), (5)(g) and 5(h) in respect of Part E of the Project;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Bac Giang, Hoa Binh, Lao Cai, Phu Tho, Son La, Yen Bai's Respective Parts of the Project and for Part E of the Project, 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:

- (i) \$900,000 in respect of the Bac Giang PPMU Special Account;
- (ii) \$900,000 in respect of the Hoa Binh PPMU Special Account;
- (iii) \$900,000 in respect of the Lao Cai PPMU Special Account;
- (iv) \$900,000 in respect of the Phu Tho PPMU Special Account;
- (v) \$900,000 in respect of the Son La PPMU Special Account;
- (vi) \$900,000 in respect of the Yen Bai PPMU Special Account; and
- (vii) \$400,000 in respect of the CPMU Special Account;

in each case to be withdrawn from the Credit Account and deposited into the respective Special Account pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the respective Special Account shall be made either (i) for eligible expenditures, or (ii) into the SGSAs of the Project Districts within the respective Project Province, for payments of eligible expenditures, in accordance with the provisions of this Schedule.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have

requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective Special Account and/or the SGSAs of the Project Districts of the respective Project Province 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 respective 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 any 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 Accounts and the SGSAs;

(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 for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Respective Part of 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 for the Respective Part of the Project 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 respective Special Account and/or the SGSAs of the Project Districts of the respective Project Province 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 any Special Account or SGSA: (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 respective Special Account, or the respective SGSA, where relevant, (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 any 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 any Special Account or SGSA 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 Accounts or the SGSAs.

(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 Condition.

