

CONFORMED COPY

CREDIT NUMBER 3944-LA

Development Credit Agreement

(Road Maintenance Program (Phase 2) Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Date August 27, 2004

CREDIT NUMBER 3944-LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, date August 27, 2004, between the LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated January 10, 2001 (hereinafter the Letter of Development Program, Road Maintenance Project), describing a program designed to carry out the Borrower's "Strategic Directions for the Development of the Road Sector (2000)" to achieve sustainable preservation of road assets through the development and implementation of financing and road management systems, (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately nine years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which is the second phase of the Program, has requested the Association to assist in the financing of the Project;

(D) the Borrower intends to contract from Japan a grant under the Policy and Human Resources Development Fund (PHRD) to be administered by the Association, in an amount equivalent to four million eight hundred thousand Dollars (\$4,800,000) to assist in financing Parts B.1(a), B.2(a), B.3(a), B.3(b)(i) and B.3(e) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Association (hereinafter the PHRD Grant Agreement);

(E) the Borrower intends to contract from Swedish International Development Cooperation Association (SIDA) a grant in an amount equivalent to five million eight hundred thousand Dollars (\$5,800,000) to assist in financing Part A.2(c) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and SIDA (hereinafter the SIDA Grant Agreement);

(F) the Borrower intends to contract from Nordic Development Fund (NDF) a credit in an amount equivalent to nine million two hundred thousand Dollars (\$9,200,000) to assist in financing Parts A.3, B.2(b)(ii), B.2(c), B.3(b)(ii), B.3(f) and C.1

of the Project and parts of Part A.1(b) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NDF (hereinafter the NDF Credit Agreement); and

(G) the Borrower intends to contract from the Asian Development Bank (ADB) a loan in an amount equivalent to one million Dollars (\$1,000,000) to assist in financing part of Part A.1(b) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and ADB (hereinafter the ADB Loan Agreement);

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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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 Person” means a person who, on account of the execution of the Project, experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Affected Persons” means, collectively, the plural thereof;

(b) “Bank of Lao PDR” means the Borrower’s central bank, or any successor thereto;

(c) “DCTPC” means the Division of Communication, Transport, Post and Construction, established by the Borrower in each province under the jurisdiction of the Ministry of Communication, Transport, Post and Construction, and the term “DCTPCs” means collectively all of them;

(d) “DOR” means the Department of Roads established within the Borrower’s Ministry of Communication, Transport, Post and Construction;

(e) “DOT” means the Department of Transport established within the Borrower’s Ministry of Communication, Transport, Post and Construction;

(f) “Eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in Part 1 of Schedule 1 to this Agreement;

(g) “Environment and Social Safeguards Framework” means the framework instrument, satisfactory to the Association, duly adopted by the Borrower through its Ministry of Communication, Transport, Post and Construction on June 14, 2004 and referred to in paragraph 7(a) of Schedule 4 to this Agreement, which sets forth the principles and procedures, satisfactory to the Association, governing: (i) the environmental impact screening of works to be carried out under the Project and the environmental protection measures, if any, required to be undertaken in order to avoid or mitigate potential adverse environmental impacts resulting from such works, consistent with the Environmental Guidelines for Road Projects; (ii) land or other asset acquisition from, resettlement and rehabilitation of and compensation to Affected Persons, as well as reporting and monitoring arrangements to ensure compliance with said principles, procedures and the Resettlement and Compensation Guidelines, and for the preparation of resettlement action plans whenever required in the carrying out of Project implementation activities; and (iii) the strategy for the carrying out of the Project in areas where Ethnic Minorities are residing, cultivating, hunting and carrying out other similar

social activities; as said Framework may be revised from time to time with the prior approval of the Association.

(h) “Environmental Guidelines for Road Projects” means the Borrower’s Project specific guidelines issued by the Ministry of Communication, Transport, Post and Construction on June 14, 2004 pursuant to the Borrower’s Regulation on Environmental Impact Assessment of Road Projects approved by Ministerial Decree 2926/MCTPC dated 29 July 2003;

(i) “Ethnic Minorities” means those social groups in Lao PDR that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.

(j) “Ethnic Minority Development Policy” means the strategy, adopted by the Borrower as part of the Environment and Social Safeguards Framework, for the carrying out of the Project in areas where Ethnic Minorities are residing, cultivating, hunting and carrying out other similar social activities, acceptable to the Association;

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Fiscal Year” means the Borrower’s fiscal year starting October 1 and ending September 30;

(m) “MCTPC” means the Borrower’s Ministry of Communication, Transport, Post and Construction;

(n) “MCTPC Special Account” means the account established for the purpose of Parts A.2(b), B.1(b), B.2(b)(i), B.3(c), B.3(d), C.2 and C.3 of the Project and referred to in Section 2.02(b) of this Agreement;

(o) “Memorandum of Agreement” and the acronym “MOA” means the agreement entered into by MCTPC and each Province under the Project pursuant to the provisions of paragraph 6 of Schedule 4 to this Agreement, and the acronym MOAs means collectively all such Agreements;

(p) “Procurement Plan” means the Borrower’s procurement plan, dated June 4, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(q) “Project Monitoring Division” means the unit maintained by the Borrower’s MCTPC within the Department of Roads, referred to in paragraph 2 of Schedule 4 to this Agreement, and established for the purpose of monitoring all foreign-funded projects in the Borrower’s road sector;

(r) “Resettlement and Compensation Guidelines” means the guidelines, satisfactory to the Association, adopted by the Borrower on June 14, 2004, providing procedures, rules, and guidelines for: (i) the involuntary taking of land and other assets from Affected Persons, (ii) resettlement and rehabilitation of, and compensation to, Affected Persons, and (iii) reporting and monitoring arrangements to ensure compliance with such guidelines, as such guidelines may be amended from time to time with the prior agreement of the Association;

(s) “Road Maintenance Fund Advisory Board” and the acronym “RMFAB” mean the advisory board established by the Borrower pursuant to Decree 05/PM dated January 15, 2001, and referred to in paragraph 1 of Schedule 4 to this Agreement, having overall management of the Road Maintenance Fund, reporting to the Minister of the Ministry of Communication, Transport, Post and Construction, and comprising representatives of road users from the private sector and public sector representatives, including one representative each from the Ministry of Finance, the Ministry of Communication Transport Post and Construction, the Ministry of Commerce, the Lao National Chamber of Commerce and Industry, the Fuel Importers Group, the operators of land transport, and the operators of land transport of passengers;

(t) “Road Maintenance Fund” and the acronym “RMF” mean the fund established by Decree No. 09/PM dated January 15, 2001, to finance road maintenance through road user charges;

(u) “RMF Special Account” means the Road Maintenance Fund account established for the purpose of Parts A.1(b) and A.1(c) of the Project and referred to in Section 2.02(b) of this Agreement;

(v) “Secretariat” means the secretariat of the Road Maintenance Advisory Board; and

(w) “Special Accounts” means the RMF Special Account and the MCTPC Special Account, collectively, and the term "Special Account" means either of the Special Accounts.

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 fifteen million five hundred thousand Special Drawing Rights (SDR 15,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Parts A.1(b), A.1(c), A.2(b), B.1(b), B.2(b)(i), B.3(c), B.3(d), C.2 and C.3 of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two separate special deposit accounts (the RMF Special Account in respect of Parts A.1(b) and A.1(c) of the Project and the MCTPC Special Account in respect of Parts A.2(b), B.1(b), B.2(b)(i), B.3(c), B.3(d), C.2 and C.3 of the Project) in the Bank of Lao PDR on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2009, 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 June 15 and December 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 June 15 and December 15 commencing December 15, 2014 and ending June 15, 2044. Each installment to and including the installment payable on June 15, 2024 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 through the following departments of MCTPC: Department of Roads for Parts A, B.1 and C, Department of Transport for Part B.2, and the Department of Personnel and the relevant DCTPCs for Part B.3, all with due diligence and efficiency and in conformity with appropriate administrative, construction, financial, engineering, and public road maintenance and management practices, and social and environmental standards, acceptable to the Association, 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. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Parts A.1(b), A.1(c), A.2(b), B.1(b), B.2(b)(i), B.3(c), B.3(d), C.2 and C.3 of the Project shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation 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 a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may 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) retain, until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 18 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the

period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall, not later than March 31 in each year, commencing March 31, 2005, and until completion of the Project, have the records and accounts of the RMF, which records and accounts reflect its operations, resources and expenditures, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, and 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.

ARTICLE V

Remedies of the Association

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

(a) Either the SIDA Grant Agreement, the NDF Credit Agreement or the ADB Loan Agreement shall have failed to become effective by June 30, 2005, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for Parts A.2(c), A.3, B.2(b)(ii), B.2(c), B.3(b)(ii), B.3(f) and C.1 of the Project, and part of Part A.1(b) are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to sub-paragraph (ii) of this paragraph (b):

(A) the right of the Borrower to withdraw the proceeds of either the SIDA Grant, the NDF Credit, the ADB Loan or the PHRD Grant, 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 SIDA Grant Agreement, the NDF Credit Agreement, the ADB Loan Agreement or the PHRD Grant Agreement, as the case may be; or

- (B) either the NDF Credit or the ADB Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Sub-paragraph (i) of this paragraph (b) shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) 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 (B) 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.

(c) Any of the following instruments shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement: (i) Decree No. 09/PM establishing the Road Maintenance Fund dated January 15, 2001; (ii) Decree No.03/PM dated January 9, 2004 on "Government Procurement Of Goods, Construction, Maintenance And Service" and its Implementing Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004; (iii) the Borrower's Letter of Development Program, Road Maintenance Project dated January 10, 2001; (iv) Ministerial Decision 2926/MCTPC dated July 29, 2003; (v) the Environmental Guidelines for Road Projects; and (vi) the Environment and Social Safeguards Framework; or any part thereof.

(d) A situation has arising which shall make it improbable that the Program or a significant part thereof will be carried out; and

(e) Any of the RMF, MCTPC and DCTPCs shall have had their respective legal mandates amended, suspended, abrogated, repealed or waived, or have been dissolved, reorganized or restructured.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur, subject to the proviso therein.

(b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

(c) any of the events specified in paragraphs (c) and (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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) That the PHRD Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

(b) That MOAs in form and substance satisfactory to the Association, has been entered into between MCTPC and each Province pursuant to paragraph 6 of Schedule 4 to this Agreement.

(c) That pursuant to paragraph 16 of Schedule 4 to this Agreement an increase in fuel levy to a level of not less than one hundred Kips per liter has been adopted and its effective date announced by the Borrower, in a manner and substance satisfactory to the Association.

(d) That the Program Review Panel has been established pursuant to paragraph 4 of Schedule 4 to this Agreement.

(e) That the Project Coordination Committee has been established pursuant to paragraph 5 of Schedule 4 to this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Environment and Social Safeguards Framework, the Environmental Guidelines for Road Projects, the Ethnic Minority Development Policy, and the Resettlement and Compensation Guidelines have been duly authorized by the Borrower and are legally binding and enforceable in accordance with the applicable laws of the Lao People's Democratic Republic.

Section 6.03. The date 90 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 Minister of Finance 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:

Ministry of Finance
Post Office Box No. 46
Vientiane
Lao People's Democratic Republic

Telex:

4369
MOF LS

Facsimile:

856-21-412142
856-21-911370

For the Association:

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

Telex:

248423 (MCI)
64145 (MCI)

Facsimile:

(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 Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Somdy Douangdy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian Porter

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works:		
(a) under Parts A.1(b) and A.1(c) of the Project	7,000,000	70%
(b) under Parts A.2(b) and B.3(d)(i) of the Project	5,900,000	70%
(2) Goods	1,400,000	100% of foreign expenditures, 95% of local expenditures (ex factory cost) and 90% of local expenditures for other items procured locally
(3) Consultants' services for Parts B.1(b) and C.3	360,000	88%
(4) Incremental operating costs	110,000	40%
(5) Unallocated	730,000	
TOTAL	<u>15,500,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term “incremental operating costs” means reasonable expenditures related to the Project incurred by the MCTPC and by the DCTPCs (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel and per diem, office supplies, maintenance of office equipment, and vehicle fuel and maintenance, but excluding staff salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) contracts for civil works costing less than \$700,000 equivalent each; (ii) contracts for goods costing less than \$100,000 equivalent each; (iii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; (iv) training and workshops; and (v) 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 Project is the second phase of the Borrower's Program designed to carry out its "Strategic Directions for the Development of the Road Sector (2000)". The objective of the Project is to assist the Borrower in expanding sustainable maintenance of its road networks nationwide in order that: (a) national and local road assets are preserved to provide sustainable improved travel and access for road users and communities in most areas countrywide; and (b) sustainable financing and management of roads is operational countrywide with improved institutional capacity at central and local levels in the public and private sectors.

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: Preservation of the Road Network

1. National Roads: Carry out a program for: (a) routine maintenance of the national road network throughout the country, including emergency works of accident removal and landslide clearing, vegetation control, drainage clearing, potholes patching, edge repairs, and grading; and (b) periodic road maintenance, including regravelling, resealing, asphalt resurfacing, road safety improvements and bridge repairs, of about 1,800 kilometers of the national road network; and (c) rehabilitation of about 200 kilometers of the national road network.

2. Provincial, District and Rural Roads: Carry out a program for the: (a) routine maintenance of the provincial road network throughout the country, including emergency works, accident removal, landslide clearing, vegetation control, drainage clearing, potholes patching, edge repairs and grading on about 6,500 kilometers per year; (b) periodic maintenance, including regravelling, resealing, dust suppression, road safety improvements and bridge repairs, and rehabilitation of about 2,000 kilometers of the provincial road network; and (c) maintenance of the district and rural road networks, including routine maintenance and improvement of road structure and drainage.

3. Implementation Support: Support the supervision of routine and periodic maintenance, and rehabilitation of the national and provincial road networks, as the case may be, including the monitoring of safeguards including the provision of consultants' services to DOR and the DCPTC.

Part B: Capacity Building

1. Road Management and Financing: Carry out a program to: (a) enhance and implement sustainable procedures for planning, budgeting and implementing the preservation of road assets including roads and bridges on the national, provincial, district and rural road networks; and (b) enhance the procedures for financing the preservation of road assets through the strengthening of the operations of and the achievement of sustainable cost recovery objectives of the Road Maintenance Fund, and the development of sustainable cost-sharing arrangements for the financing of the preservation of local roads, through the provision of consultants' services.

2. Road Transport Management and Safety: Carry out a program to: (a) improve road transport and safety administration, including the provision of consultants' services to DOT on transport administration, vehicle registration and driver licensing computerized system, heavy transport management, and road safety; (b) expand on a nationwide basis the management of heavy transport control, including: (i) the provision of load control equipment, and (ii) the construction of 2 permanent weigh stations and 7 layby sites; and (c) develop and implement a series of road safety improvements.

3. Institutional Capacity Building: Carry out a program to strengthen the institutional capacity of entities involved in the Borrower's road sector through (a) improvement of the organizational functions and key business processes of MCTPC and the DCTPCs; (b) human resources development of (i) MCTPC and (ii) the DCTPCs; (c) provision of information technology and communications for MCTPC and the DCTPCs; (d) provision of (i) district office facilities, (ii) motor vehicles, (iii) motorcycles, and (iv) office equipment for MCTPC and the DCTPCs; (e) strengthening service delivery in the construction industry, transport operations and engineering consulting profession; and (f) strengthening the effectiveness of environmental and social safeguards in road programs; including the provision of consultants' services, workshops and training.

Part C: Project Administration

Carry out a program to strengthen the capacity of the DOR and the DCTPCs to administer and monitor Project activities, including

1. Project monitoring, including Project management, implementation, and reporting, and the provisions of consultants' services therefor.
2. Budgetary support for operating costs, including incremental operating costs.

3. Financial and technical audits including provisions of consultants' services therefor.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding. The procedures to be followed for National Competitive Bidding shall be those set forth in the Prime Minister Decree No.03/PM dated January 9, 2004, on "Government Procurement of Goods, Construction, Maintenance and Service" and its Implementing Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004; and

(b) Except as provided for in Section I of, Part B of paragraphs 2 and 3 of this Schedule, works shall be procured under contracts awarded on the basis of National Competitive Bidding. The procedures to be followed for National Competitive Bidding shall be those set forth in the Prime Minister Decree No.03/PM dated January 9, 2004, on "Government Procurement of Goods, Construction, Maintenance and Service" and its Implementing Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004.

2. Shopping. Goods and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.
3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.
4. Procurement from UN Agencies. All vehicles and motorcycles may be procured directly from the United Nations Inter-Agency Procurement Office in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely of national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.
3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection,

may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$100,000 or more; (b) each contract for works and services (other than consultants' services) estimated to cost the equivalent of \$700,000 or more; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and (d) all contracts for consultant services provided by individuals. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Project Management

1. The Borrower shall maintain until completion of the Program, the Road Maintenance Advisory Board and a Secretariat, with competent staff in adequate numbers, including, a Head of Secretariat, a technical manager, a financial manager, and an accountant, all with qualifications and under terms of reference acceptable to the Association.
2. The Borrower shall maintain until completion of the Program, with competent staff in adequate numbers headed by a Project Director, the following units: the Project Monitoring Division, the Road Administration Division, the Planning and Technical Division, the Environmental and Social Division, and the Disbursement Division, all of the Department of Roads, the Department of Transport, the Manpower Development Division of the Personnel Department of MCTPC and the DCTPCs, all with qualifications and under terms of reference acceptable to the Association.
3. The Borrower shall maintain in the Planning and Technical Division of the Department of Roads of MCTPC, until completion of the Program, a Road Management Team for purposes of operating a computerized system for preparation and economic analysis of road maintenance and rehabilitation programs (RMS), with competent staff in adequate numbers who possess skills in database management, mapping, road and traffic data collection highway planning and economics, routine maintenance planning monitoring and evaluation systems, and a working knowledge of the English language, with qualifications and under terms of reference acceptable to the Association.
4. The Borrower shall establish and thereafter maintain until completion of the Program, a Program Review Panel for the purposes of achieving the development objectives of the Program, mobilization of the required financial resources therefore, including cost-sharing arrangements and RMF revenues and allocations, and coordination of donors supporting the Program, comprising the Vice-Minister MCTPC Directors General of DOR, DOT and Department of Personnel, Chairman of the RMFAB, Director General of International Cooperation Department, Ministry of Foreign Affairs, Director General of External Finance Relations Department, Ministry of Finance, and at least two Provincial Vice-Governors.
5. The Borrower shall establish and thereafter maintain until completion of the Project a Project Coordination Committee responsible for the management and coordination of the various activities and implementing entities under the Project, chaired

by the Director General of DOR and comprising the Director of each MCTPC Division involved in the implementation of the Program, the Head of the RMF Secretariat, and at least three DCTPC Directors.

6. The Borrower shall, through MCTPC enter into agreements with each Province providing for the respective responsibilities in the carrying out of the Project or any part thereof, acceptable to the Association.

B. Project Implementation

Environment and Social

7. The Borrower shall:

(a) in carrying out the Project: (i) implement the Environment and Social Safeguards Framework and, in accordance with the provisions of such Framework and as may be required, prepare environmental management plans and resettlement action plans of Affected Persons; (ii) provide said plans to the Association for its prior review; and (iii) thereafter, implement in a manner satisfactory to the Association such environmental management plans and resettlement action plans as shall have been approved by the Association;

(b) in carrying out the Project, (i) avoid adverse effects on Ethnic Minorities caused or likely to be caused by the Project; (ii) apply the Ethnic Minority Development Policy in a manner and substance satisfactory to the Association; and (iii) through a process of informed participation, involve concerned Ethnic Minorities in the design and implementation of Sub-projects and works so as to ensure that the benefits received by the Ethnic Minorities under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

(c) not amend, suspend, abrogate, repeal or waive the Environment and Social Safeguards Framework, the Ethnic Minority Development Policy and the Resettlement and Compensation Guidelines, or any provision therein, without the prior agreement of the Association.

(d) furnish to the Association for its prior approval any revisions proposed to be introduced into the Environment and Social Safeguards Framework and the environmental management plans and resettlement action plans of Affected Persons prepared pursuant thereof, in order to achieve their objectives; and thereafter introduce into such management and action plans and Framework such revisions as shall have been agreed with the Association; and

(e) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said management and action plans and Framework, and the achievement of their objectives.

8. Without limitation to the obligations set forth in paragraph 4. above, the Borrower shall, in the carrying out of Parts A. 1, A.2, B.2(b)(ii) and B.3(d)(i) of the Project:

(a) at least 60 days prior to the initiation of any works, publicly disseminate to the relevant local population the Environment and Social Safeguards Framework, the Ethnic Minority Development Policy, Resettlement and Compensation Guidelines and the Environmental Guidelines for Road Projects, in form and substance acceptable to the Association; and

(b) prior to the start of any work under such Parts of the Project undertake the required environmental and social actions, and provide compensation, resettlement and rehabilitation entitlements to the Affected Persons.

Preservation of the Road Network

9. The Borrower shall, in carrying out the periodic maintenance and rehabilitation of the national road network under Parts A.1(b) and A.1(c) of the Project, and the periodic maintenance and rehabilitation of the provincial road network under Part A.2(b) of the Project:

(a) not later than March 1 of each year, commencing March 1, 2005, prepare and furnish to the Association for its review and comments, under terms of reference acceptable to the Association, an updated 3-year rolling preservation plan and an annual work program for road and bridge preservation works covering the national and provincial road networks for the succeeding calendar year, and thereafter taking into account the Association's views and comments thereon, carry out such annual work program;

(b) not later than November 1 of each year, commencing November 1, 2005 and until completion of the Project, cause its Provincial Division of Communication, Transport, Post and Construction offices to furnish to the Association a report on the actual physical operations and expenditures incurred for emergency and routine maintenance works during the previous Fiscal Year, in a manner and substance acceptable to the Association; and.

(c) avoid or minimize any acquisition of land, involuntary displacement of Affected Persons (physically and economically), and any negative environmental impact.

10. The Borrower shall, by not later than December 1, 2005, under terms of reference satisfactory to the Association, prepare and furnish to the Association for its review and comments:

(a) an assessment of the existing heavy transport load control facilities and operations, including the need for further expansion on such facilities undertaken by a qualified and experienced professional, selected in accordance with the provisions of Section III, Schedule 3 to this Agreement; and

(b) a draft time-bound action plan to implement the recommendations of such assessment, and, thereafter, finalize and implement said time-bound action plan taking into action the Association's comments, if any.

11. The Borrower shall, by June 30 of each year, commencing on June 30, 2005, and thereafter until the completion of the Project, carry out a technical audit of Project implementation in accordance with terms of reference acceptable to the Association.

12. The Borrower shall:

(a) not later than September 30, 2007, prepare and furnish to the Association, a draft long-term investment and maintenance plan to ensure sustainable preservation of the Borrower's road network, under terms of reference acceptable to the Association; and

(b) not later than December 31, 2007, taking into account the views of the Association, implement such long-term investment and maintenance plan.

Capacity Building

13. The Borrower shall, in carrying out Part B of the Project, by May 31, 2005, adopt and thereafter implement a detailed Human Resource Development Plan, including performance indicators to monitor its implementation, acceptable to the Association, and thereafter, by April 30 of each year, commencing April 30, 2006, and until completion of the Project, prepare and furnish to the Association for its approval, annual training programs and budget to be implementing commencing on October 1 of each year, the first such annual training program to be implemented commencing on October 1, 2006.

14. The Borrower shall by May 31, 2005, approve a detailed Information and Communications Technology Plan for the MCTPC and DCTPCs under the Program, including performance indicators to monitor its implementation, acceptable to the Association.

15. The Borrower shall by June 30, 2005, design and furnish to the Association for its review and comments, a draft plan for undertaking improved organizational arrangements at the MCTPC and DCTPC aimed at an efficient management of the Program, under terms of reference acceptable to the Association, and by October 1, 2005, furnish to the Association a final plan, acceptable to the Association, having taken into account the Association's views thereon; and thereafter promptly implement said plan, in a manner and substance acceptable to the Association.

16. The Borrower shall take all such action as shall be necessary to increase the revenue basis for the Road Maintenance Fund by increasing its levies on motor vehicle fuel (fuel levy) at a level of not less than Kip 100 per liter, and thereafter, by October 1 of each year, commencing October 1, 2005 until completion of the Project, review and if needed increase the revenue basis for the Road Maintenance Fund by increasing its levies on motor vehicle fuel (fuel levy) in such amounts so as to achieve annual revenue income targets acceptable to the Association, which amounts shall not be less than Kip 150 per liter by October 1, 2005 and Kip 200 per liter by October 1, 2006.

17. The Borrower shall take all such action as shall be necessary including revisions to the RMF regulations to enable (a) increase level of funding for preservation of provincial road network, (b) allocation of an appropriate portion of revenues for eligible road safety expenditures, and (c) restructuring and strengthening of the management and administration of the RMF. For such purposes the Borrower shall by not later than September 30, 2005, prepare and furnish to the Association a proposed time-bound action plan for its review and comments, and thereafter taking into account the Associations comments, if any, implement such action plan.

Monitoring and Evaluation

18. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30 and October 31 of each year,

commencing October 31, 2005, 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, promptly after furnishing each aforementioned report to the Association, or at such 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.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means, in the case of the RMF Special Account, Category (1) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement and, in the case of the MCTPC Special Account, Categories (1) (b), (2), (3) and (4) set forth in said table;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$2,000,000 in respect of the RMF Special Account and an amount equivalent to \$1,100,000 in respect of the MCTPC Special Account, to be withdrawn from the Credit Account and deposited into the respective Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation in respect of the MCTPC Special Account shall be limited to an amount equivalent to \$500,000, until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(b), (2), (3) and (4) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for the Parts of the Project related to the MCTPC Special Account shall be equal to or exceed the equivalent of SDR2,000,000.

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

3. After the Association has received evidence satisfactory to it that the 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 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:

- (a) any deposit of the Authorized Allocation into any Special Account if, at any time, the Association shall have determined that the Borrower has an unrecovered or unresolved Special Account in respect of any Grant Agreement or Development Credit Agreement with the International Development Association or Loan Agreement with the International Bank for Reconstruction and Development;

- (b) further deposits into any Special Account as replenishment or process any withdrawal application of the Borrower in connection with such Special Account:

- (i) if, at any time, the Association shall have determined that the Borrower has an unrecovered or unresolved Special Account in respect of any Grant Agreement or Development Credit Agreement with the International

Development Association or Loan Agreement with the International Bank for Reconstruction and Development;

- (ii) 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;
- (iii) 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;
- (iv) 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 Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that Special Account 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 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: (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, 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 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.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Performance Indicators

Project Development Objectives	Outcome Indicators	Use of Outcome Information
<p>(a) National and local road assets are preserved to provide sustainable improved travel and access for road users and communities in most areas countrywide; and</p> <p>(b) Sustainable financing and management of roads is operational countrywide with improved institutional capacity at central and local levels in the public and private sectors.</p>	<p>80% of the National Road Network (7,140 km) remains in excellent to good condition¹; and 30% of the Provincial Road Network (6,476 km) remains in good condition².</p> <p>Routine maintenance on at least 90 percent, and periodic maintenance and rehabilitation on at least 8 percent, of the National and Provincial Road networks are funded by domestic revenues including those recovered from road users by September of each year</p>	<p>To gauge effectiveness of the Governments program for road asset management</p>
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
<p>Component One: Road Preservation Periodic Maintenance of National and Local Roads</p>	<p>Component One: 2,000 km of National Roads and 2,000 km of Provincial Roads at the national level are subject to periodic maintenance by the end of project</p>	<p>Component One: Implementing Agency to monitor progress and make case for continued support Inform high level decision makers of outcomes</p>
<p>Component Two: Capacity Building Road Management and Financing. Road Maintenance Fund support</p> <p>Road Transport and Safety</p>	<p>Component Two : Road Maintenance Fund annual revenue reaches LAK 100 billion by September 30, 2008</p> <p>An integrated vehicle and driver registration system is established at MCTPC and the</p>	<p>Component Two: Inform high level decision makers of outcomes</p> <p>Variations from targets will be used to re-evaluate capacity building strategy on an annual basis</p>

<p>Institutional Capacity Building</p>	<p>provinces, by September 30, 2006</p> <p>Current level of compliance is retained (incidence of overloading exceeding 20 percent stays less than 10 percent) for the duration of the project</p> <p>Road safety audits are mainstreamed for the National Road Network by September 30, 2007</p> <p>A program of hazardous locations improvements is implemented by September of each year</p> <p>Performance levels in priority MCTPC / DCTPC functions attain the targets specified in the capacity building strategy, by the end of the project</p>	
<p>Component Three: Project Administration Project Monitoring</p>	<p>Component Three:</p> <p>Progress of project is kept within target at the estimated cost (related to Project Implementation Plan), every semester until the end of project</p>	<p>Component Three:</p> <p>Inform high level decision makers of outcomes and seek solutions to restraining problems</p>

For the purpose of this Schedule, the following terms have the following meanings:

1 Average International Roughness Index (IRI); defined as IRI less than or equal to 3, excellent; and IRI less than 5 and higher than 3, good.

2 Based on the condition ratings of the LRD road classification data, good condition is defined by the surface, drainage and structure condition.

<p>registration system is established at MCTPC and the provinces by September 30, 2006</p> <p>Current level of compliance is retained (incidence of overloading exceeding 20 percent stays less than 10 percent) for the duration of the project</p> <p>Road safety audits are mainstreamed for the National Road Network by September 30, 2007</p> <p>A program of hazardous locations improvements is implemented by September of each year</p> <p>Performance levels in priority MCTPC / DCTPC functions attain the targets specified in the capacity building strategy by the end of the project</p>	<p>in one province</p> <p>10%</p> <p>Ongoing for one road</p> <p>As per annual work program</p> <p>To be established by September 2005</p>								
<p>Component Three: Progress of project is kept within target at the estimated cost (related to Project Implementation Plan), every semester until the end of project</p>	<p>As per PIP</p>								

