

CONFORMED COPY

CREDIT NUMBER 3747 -KH

Development Credit Agreement

(Rural Investment and Local Governance Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 18, 2003

CREDIT NUMBER 3747-KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 18, 2003, between KINGDOM OF CAMBODIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) for financing the Seila Program, including Part B(1) of the Project, the Borrower has received grants from the United Kingdom of Great Britain and Northern Ireland through its Department for International Development (DFID) in an amount of US\$18,000,000 equivalent (the DFID Grant), United Nations Development Programme (UNDP) in an amount of US\$3,636,364 (the UNDP Grant), and the Kingdom of Sweden through its Swedish International Development Cooperation Agency (SIDA) in an amount of SEK140,000,000 (the SIDA Grant). The first tranche of the DFID Grant in an amount of £6,900,000, the UNDP Grant and the SIDA Grant are administered by UNDP through its Partnership For Local Governance Project. The balance of the proceeds of the DFID Grant in an amount of about £6,400,000 (hereinafter referred to as the Second Tranche) will be disbursed to cover expenditures under Part B(1) of the Project incurred by the Borrower in Fiscal Years 2004 and 2005; 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) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiary” means any commune determined to be eligible for a Sub-project Grant (as hereinafter defined) in accordance with the eligibility criteria in the Project Implementation Manual (as hereinafter defined) and to whom, or for whose benefit, a Sub-project Grant is made or proposed to be made;

(b) “Commune Council” means the body representing the citizens in its Commune (Khum-Sangkat) which has a mission to serve the general interests of its Commune (Khum-Sangkat) pursuant to the Borrower’s Law on Administration of Communes (Khum-Sangkat) No. 0301/05 dated March 19, 2001 and referred to in paragraph 1(e) of Schedule 4 to this Agreement, and the term “Commune Councils” means more than one Commune Council;

(c) "Commune/Sangkat Fund" means the Fund established under the Borrower’s Law on Administration of Communes (Khum-Sangkat) No. 0301/05 dated March 19, 2001, through which national revenues and other revenues are transferred to the budget of the Communes (Khum-Sangkat);

(d) “Displaced Person” means a person who, on account of the execution of a Sub-project, has 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 of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, all such Displaced Persons;

(e) “Environmental Analysis and Sub-project Review Procedures” means the environmental analysis and procedures governing the Sub-projects under Part A(2) of the Project, dated March 11, 2003, adopted by the Borrower, and referred to in paragraph 7 (iii) of Schedule 4 to this Agreement, which sets forth measures to mitigate any adverse environmental impact that may result from the implementation of the Sub-projects, as said document may be amended from time to time with the prior agreement of the Association;

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

(g) “Fiscal Year” and the acronym “FY” mean the Borrower’s fiscal year which starts on January 1 and ends on December 31;

(h) “Framework for Land Acquisition Policy and Procedures” means the policy framework for compensation, resettlement and rehabilitation of Displaced Persons, dated March 11, 2003, adopted by the Borrower and referred to in paragraph 7 (iv) of Schedule 4 to this Agreement, as said Framework may be amended from time to time with the prior agreement of the Association;

(i) “Highland People” means for purposes of the Project, the social groups residing or engaged in livelihood activities in the Project Provinces, including: Brao, Jarai, Kachak, Kavet, Knoung, Krao/Kroy, Kreung, Kuy, Lun, Mei, Phnong, Por, Soiy, Stieng, Tampuan, and Thmun and any other social groups therein as determined by the Association, in consultation with the Borrower, from time to time; each of which possesses a distinct social and cultural identity that makes it vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics:

- (i) a close attachment to ancestral territories and to the natural resources in these areas;
- (ii) self-identification and identification by others as members of a distinct cultural group;
- (iii) a language, often different from the Khmer language;
- (iv) presence of customary social and political institutions; and
- (v) primarily subsistence-oriented production;

(j) “Highland People’s Development Plan” means the plan, dated March 11, 2003, satisfactory to the Association, adopted by the Borrower, for the carrying out of the Project in areas where Highland People are present, as said plan may be revised from time to time with the prior approval of the Association;

(k) “Initial Deposit” means the deposit referred to in Section 3.02 (b) of this Agreement;

(l) “NBC” means the National Bank of Cambodia, the Borrower’s Central Bank and any successor thereto;

(m) “Partnership for Local Governance” and the acronym “PLG” mean the project through which UNDP and multiple donors provide advisory services and financial resources for the implementation of the Borrower’s Seila Program;

(n) “POU of the Seila Task Force Secretariat” means the operations unit referred to in paragraph 1(b) of Schedule 4 to this Agreement;

(o) “Project Account” means the account referred to in Section 3.02 (a) of this Agreement;

(p) “Project Implementation Manual” and the acronym “PIM” mean the manual as described in paragraph 3(a) of Schedule 4 to this Agreement , as the same may be amended from time to time with the prior agreement of the Association, and such term shall include any schedules, tables and annexes to the PIM;

(q) “Project Provinces” means those provinces and Pailin Municipality of the Borrower under Part A (2) of the Project, listed in the Annex to Schedule 2 to this Agreement, as said Annex may be amended from time to time by mutual agreement between the Borrower and the Association, and a “Project Province” means Pailin Municipality or any of said Project Provinces;

(r) “Provincial/Municipal Rural Development Committee” and the acronym “PRDC” mean the committee established under the Borrower’s Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program, No. 292 STF, dated November 8, 2002, to manage the Seila Program at Provincial/Municipal level, referred to in paragraph 1(c) of Schedule 4 to this Agreement;

(s) “PRDC Executive Committee” means the executive committee established under the Borrower’s Prakas on Establishment of Structure, Roles and Responsibilities of the Provincial/Municipal Rural Development Committee of the Seila Program, No. 292 STF, dated November 8, 2002, to assist the day-to-day work of the PRDC, and referred to in paragraph 1(c) of Schedule 4 to this Agreement;

(t) “Provincial Treasury” means the treasury referred to in paragraph 1(d) of Schedule 4 to this Agreement;

(u) “Seila Program” means the Borrower’s program that aims to contribute to poverty alleviation and strengthen local governance through implementation of decentralization and deconcentration policy;

(v) “Seila Task Force” means the inter-ministerial task force established under the Borrower’s Sub-Decree on Establishment and Operations of Seila Task Force, No.57 ANKR.BK dated June 28, 2001, to manage the Borrower’s Seila Program, referred to in paragraph 1(a) of Schedule 4 to this Agreement;

(w) “Seila Task Force Secretariat” means the body within the Seila Task Force facilitating the operations of the Seila Task Force and executing the Seila Program pursuant to the Borrower’s Sub-Decree on Establishment and Operations of Seila Task

Force, No. 57 ANKR.BK dated June 28, 2001 and referred to in paragraph 1(b) of Schedule 4 to this Agreement;

(x) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(y) “Sub-project” means a specific community-based small-scale infrastructure project included in the positive list of eligible activities set forth in the Project Implementation Manual financed or to be financed in part out of the proceeds of the Credit under Part A(2) of the Project, and the term “Sub-projects” means more than one Sub-project; and

(z) “Sub-project Grant” means a grant made or proposed to be made by the Borrower to Beneficiaries for the purpose of financing part of the cost of a Sub-project under Part A(2) of the Project, and the term “Sub-project Grants” means more than one Sub-project Grant.

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 sixteen million one hundred thousand Special Drawing Rights (SDR 16,100,000).

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: (i) 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 Part B of the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of a Beneficiary to meet the reasonable costs of eligible expenditures relating to a Sub-project under Part A(2) of the Project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of Part B of the Project, open and maintain in a separate special deposit account at the National Bank of Cambodia or in a commercial bank on terms and conditions satisfactory to the Association, and in the case of a commercial bank, these terms and conditions include appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 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 March 1 and September 1 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 March 1 and September 1 commencing September 1, 2013 and ending March 1, 2043. Each installment to and including the installment payable on March 1, 2023 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 Seila Task Force Secretariat with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices, and sound environmental and social 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. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, for purposes of financing its contribution to expenditures under the Project:

(a) open an account at the National Bank of Cambodia (the Project Account) and, thereafter, maintain said Project Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Project Account, out of its own resources, an initial amount equivalent to thirty five thousand Dollars (US\$35,000);

(c) thereafter, out of its own resources, replenish the Project Account on a quarterly basis by depositing therein the amounts needed in accordance with annual work plans and budgets referred to in paragraph 4 of Schedule 4 to this Agreement;

(d) ensure that funds deposited into the Project Account in accordance with paragraphs (b) and (c) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit, the SIDA Grant, the DFID Grant and the UNDP Grant; and

(e) for purposes of this Section, the term "own resources" referred to in paragraphs (b) and (c) of this Section means resources of the Borrower other than those

derived from the proceeds of the Credit, the SIDA Grant, the DFID Grant and the UNDP Grant.

Section 3.03. 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 3.04. 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 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 a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report

of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Borrower's progress reporting obligations set out in paragraph 6 of Schedule 4 to this Agreement, the Borrower shall prepare or cause to 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 Financial Monitoring Report 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 Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

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) (i) Subject to subparagraph (ii) of this paragraph: the right of the Borrower to withdraw the proceeds of the DFID Grant, the UNDP Grant and the SIDA Grant or any other grant made to the Borrower for the financing of the Project or part thereof, as the case may be, shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; and
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination 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.

(b) DFID has failed to enter into arrangements with the Borrower, or UNDP, or another third party to disburse the Second Tranche of the DFID Grant by January 1, 2004; 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 carrying out of Part B(1) of the Project during Fiscal Years 2004 and 2005 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 events are specified:

(a) any cancellation or termination of any grant made to the Borrower for the financing of the Project or any part thereof, as specified in paragraph (a)(i) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (a)(ii) of that Section.

(b) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur subject to the provision therein.

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 made the initial deposit into the Project Account in accordance with the provisions of Section 3.02(b) of this Agreement;

(b) the Borrower has appointed: (i) a project manager for the Project; and (ii) a financial management officer, two assistant accountants and a procurement officer to the POU of the Seila Task Force Secretariat, in accordance with paragraph 2 of Schedule 4 to this Agreement;

(c) the Borrower has: (i) established at the POU of the Seila Task Force Secretariat a computerized financial management system for the Project, including design of the chart of accounts and installation of a specialized financial management software to, inter alia, produce financial monitoring reports, all in a form and substance satisfactory to the Association, and (ii) provided training to the staff of the POU of the Seila Task Force Secretariat, of each Provincial Treasury and the PLG provincial financial advisor at each Project Province in the above-mentioned financial management system and in the Association's Credit disbursement procedures, all in a manner and substance satisfactory to the Association;

(d) the Borrower has adopted the Project Implementation Manual, including a financial management manual, in accordance with paragraph 3 of Schedule 4 to this Agreement;

(e) the Borrower has formally issued a Prakas on Commune/Sangkat procurement guidelines, in form and substance satisfactory to the Association; and

(f) the Borrower has formally issued regulations on Commune/Sangkat external audit guidelines, in form and substance satisfactory to the Association.

Section 6.02. The following are 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) that the Environmental Analysis and Sub-project Review Procedures, the Framework for Land Acquisition Policy and Procedures, and the Highland People's Development Plan have been duly authorized by the Borrower and are legally binding and enforceable in accordance with Cambodian law.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economy and 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 Economy and Finance
92nd Street
Sangkat Wat Phnom, Khan Daun Penh
Phnom Penh
Kingdom of Cambodia

Facsimile:

(855- 23) 427-798

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)

(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 the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF CAMBODIA

By /s/ Roland Eng

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jemal-Ud-Din Kassum

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 under Part B(2) of the Project	150,000	90%
(2) Goods under Part B (2) of the Project	650,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' Services		
(i) under Part B(1) of the Project	550,000	95% for expenditures incurred in FY 2006 and thereafter
(ii) under Part B(2) of the Project	460,000	95%
(4) Workshops under Part B(2) of the Project	30,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Sub-project Grants under Part A(2) of the Project	13,850,000	100% of amounts disbursed
(6) Operating Costs under Part B(1) of the Project	410,000	50% for expenditures incurred in FY2006 and thereafter
 TOTAL	<u>16,100,000</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;

(c) the term “workshops” means reasonable expenditures incurred by the Borrower for the workshops, including travel costs, lodging and travel per diem for workshop participants, preparation, translation and duplication of workshop materials, rental of audio-visual and other workshop-related equipment, rental of workshop venues, and consumables, but excluding fees paid to consultants and excluding salaries and salaries supplements, which expenditures would not have been incurred absent the Project; and

(d) the term “operating costs” means the reasonable costs of incremental expenditures incurred by the Borrower on account of implementation of Part B(1) of the Project, for coordination, supervision, monitoring and evaluation activities, including transportation and accommodations for the Project staff in carrying out monitoring and supervision activities, office supplies and consumables, communications and printing costs, and costs for operation and maintenance of the Project vehicles, which expenditures would not have been incurred absent the Project, but excluding salaries or salary supplements.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 730,000, may be made in respect of Category (5) on account of payments made for expenditures before that date but after April 1, 2003.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works; (b) goods under contracts costing less than \$50,000 equivalent each; (c) consultants' services under contracts awarded to individual consultants costing less than 50,000 equivalent each; (d) workshops; (e) Sub-project Grants and (f) 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 objectives of the Project are to assist the Borrower in its rural development and poverty reduction efforts through supporting provision of priority public goods and infrastructure at the commune level, as well as promoting good local governance through support of decentralized and deconcentrated participatory local governance systems at the commune and provincial levels.

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: The Local Planning and Investment

1. Provision of support to the decentralized planning process at the commune level, through development of five year Commune/Sangkat Development Plans, three year rolling Commune/Sangkat Investment Programs and annual commune budgets for implementing said plans.
2. Provision of Sub-project Grants for small-scale rural infrastructure investment projects at the commune level in fifteen (15) Project Provinces identified and prioritized through the participatory local planning process.

Part B: Policy Support and Project Management

1. Strengthening of the Borrower's institutions at all levels to enable them to implement, supervise, monitor and evaluate the Project and achieve its objectives, through provision of capacity building, technical assistance, logistical and operational support.
2. Carrying out a Program for support of policy reform and project management, through: (a) undertaking strategic studies on decentralization and deconcentration; (b) conducting surveys on monitoring the socio-economic impacts of the Sub-projects; (c) monitoring procurement support to respective Commune Councils in the Project Provinces; (d) conducting the mid-term and final Project evaluations; (e) conducting annual external audits of the Project accounts; (f) conducting national-level workshops on periodic reviews of the Project; (g) rehabilitating respective PRDC Executive Committee's office buildings in about five (5) Project Provinces and constructing one new office building in Preah Vihear Province; and (h) equipping PRDC Executive

Committees and Provincial Treasuries in the Project Provinces with office equipment, furniture and transportation vehicles.

* * *

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

ANNEX TO SCHEDULE 2

Project Provinces

Battambang

Banteay Meanchey

Siem Reap

Otdar Meanchey

Pailin

Pursat

Ratanakiri

Kompong Cham

Prey Veng

Takeo

Kompong Speu

Kompong Chhnang

Svay Rieng

Kratie

Preah Vihear

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost more than \$50,000 but less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under this paragraph 1, Part C, shall further follow those set forth in the Annex to this Schedule 3.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 of the Guidelines.

3. Procurement from UN Agencies

Vehicles and motorcycles up to an aggregate amount not to exceed \$600,000 may be procured from the United Nations Inter-Agency Procurement Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Community Participation

Goods and works required for Part A(2) of the Project shall be procured in accordance with community participation procedures acceptable to the Association as set forth in the Project Implementation Manual, including the Borrower's Prakas on the Commune/Sangkat Procurement Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 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.

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) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) every contract for goods procured in accordance with the procedures set forth in Part B above; (ii) each contract for goods

procured in accordance with the procedures set forth in paragraph 1 of Part C above; (iii) the first two contracts for works procured in accordance with the procedures set forth in paragraph 5 of Part C above; and (iv) the contracts for goods and works procured in accordance with the procedures set forth in paragraph 4 of Part C above for the first Sub-project each year in each Project Province.

(b) With respect to the first contract for goods procured in accordance with the procedures set forth in paragraph 2 of Section C above, the following procedures shall apply:

- (i) prior to the selection of the supplier, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of the contract, 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

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Part B(2) of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and services for studies on decentralization and deconcentration policies under Part B(2) of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval by the Association.

Part C: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to every contract for the employment of consulting firms, the procedures set forth in paragraphs 2, 3 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 report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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.

Annex to Schedule 3

Additional Procurement Provisions

The following provisions shall apply in respect of: (i) contracts for goods and works financed under the Project and procured according to national competitive bidding procedures; and (ii) contracts for consultants' services financed under the Project.

A. Contracts for goods and works

(a) Foreign suppliers and contractors from eligible countries shall be allowed to participate, if interested, without first requiring them to associate or joint venture with a local partner;

(b) Contractors shall be required to be registered with any province before being permitted to bid;

(c) When pre-qualification is required, the evaluation methodology shall be based on pass/fail criteria relating to the firm's experience, technical, financial, physical and human resource capacities;

(d) The public bid opening ceremony, during which bids shall be opened and read in public and in the presence of bidders' representatives who wish to attend, shall take place immediately after the deadline for presentation of bids, with no time lag;

(e) In all cases, award shall be made to the lowest evaluated responsive and complying bid and, without prior concurrence of the Association, negotiations shall not take place with any bidder prior to award, even when all bids exceed the cost estimates;

(f) Bidding documents shall allow for price adjustment formula for contracts with a duration longer than 18 months;

(g) Bidders who disagree with arithmetic corrections done by the evaluating committee during the evaluation stage, shall not be allowed to withdraw their bids without forfeiting their bid security; and

(h) A provision shall be included in all NCB works and goods contracts financed by the Association requiring suppliers and contractors to permit the Association to inspect their accounts and records relating to the performance of the contract, and to have them audited by auditors appointed by the Association.

B. Contracts for Consultants' Services:

(a) Subject to the prior review of the Association, price may be used as a factor in the evaluation of consultancy proposals;

(b) If the negotiation with a selected consulting firm ranked first does not result in a contract, the owner shall terminate its negotiation with that firm and immediately invite the next ranked firm for negotiation.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall maintain:

(a) the Seila Task Force, consisting of the representatives of, inter alia, the Borrower's Ministry of Economy and Finance, Ministry of Water Resources and Meteorology, Ministry of Rural Development, Ministry of Planning, Ministry of Agriculture, Forestry and Fisheries, Ministry of Women's and Veterans' Affairs, Ministry of Social Affairs and Labor, Ministry of Interior, and the Council for Administration Reform, with such functions and responsibilities, satisfactory to the Association, for the overall coordination and oversight of the Project.

(b) the POU of the Seila Task Force Secretariat, assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, for the day-to-day implementation and management of the Project at the national level, including, inter alia: (i) coordination and facilitation of the operations of the Project, (ii) implementation of monitoring, evaluation and reporting activities, (iii) managing accounting and financial management, including preparing annual budget and work plans, financial monitoring reports and the Project's financial statements, and (iv) managing procurement activities at the national and provincial levels.

(c) the Executive Committee of the Provincial Rural Development Committee at each Project Province, each assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, for the day-to-day implementation and management of the Project at the provincial level, including, inter alia, (i) assisting respective Commune Council in preparing Sub-project proposals and carrying out Sub-project feasibility studies, (ii) assisting respective Commune Council in administering contracts and managing procurement activities, (iii) monitoring and evaluation of implementation of the Sub-projects, and (iv) providing technical advice on matters relating to the implementation of the Sub-projects.

(d) the Provincial Treasury at each Project Province, each assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, for performing accounting and cashier functions in the management of the Commune/Sangkat Fund, including, inter alia: (i) coordinating with the Seila Task Force Secretariat on reporting provincial disbursements and reimbursement requests, (ii) maintaining records and documentations relating to the

reimbursement of eligible expenditures for the Sub-projects, and (iii) initiating and effecting payments for the Sub-projects from the Commune/Sangkat Fund.

(e) the Commune Council at each participating Commune, each assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, for the day-to-day implementation and management of the Project at the commune level, inter alia, (i) review and approval of Sub-project proposals, and (ii) managing procurement activities at the commune level.

2. The Borrower shall appoint and maintain: (i) a project manager for the Project; and (ii) a financial management officer, two assistant accountants, and a procurement officer to the POU of the Seila Task Force Secretariat, each with experience, qualifications and terms of reference, acceptable to the Association.

Project Implementation

3. The Borrower shall:

(a) adopt the Project Implementation Manual including a financial management manual, in a manner and substance satisfactory to the Association which shall include, inter alia: (i) a financial management manual incorporating policy and procedures regarding accounting, reporting and internal control mechanisms and procedures, including the management, control and auditing of the Special Account, with due regard to Sections 4.01 and 4.02 of this Agreement; (ii) implementation arrangements; (iii) measures required under the Highland People's Development Plan, the Framework for Land Acquisition Policy and Procedures, and the Environmental Analysis and Sub-project Review Procedures; (iv) training arrangements for implementation of said measures referred to in subparagraph (iii) above; (v) procurement procedures, as set forth in Schedule 3 to this Agreement; (vi) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; (vii) the project performance indicators set forth in a supplemental letter of even date herewith; (viii) monitoring and evaluation requirements and processes; (ix) a list of eligible and non-eligible activities under the Sub-projects; and (x) the Prakas on Commune/Sangkat procurement guidelines and the regulations on Commune/Sangkat external audit guidelines referred to in paragraphs (e) and (f) of Section 6.01 of this Agreement;

(b) carry out the Project in accordance with the Project Implementation Manual; and

(c) not amend, abrogate or waive any provision of said Project Implementation Manual without the prior concurrence of the Association.

4. The Borrower shall, not later than December 7 of each year, beginning December 7, 2003, furnish to the Association, for its review and concurrence, proposed annual work plans and budgets for the forthcoming Fiscal Year, giving details of proposed disbursement estimates, proposed procurement activities, and such other particulars as the Association may require.

5. The Borrower shall, six months prior to the mid-term review and final Project review, carry out studies on the socio-economic impacts of the Sub-projects.

Monitoring and Reporting

6. The Borrower shall:

(a) 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;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 15, 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, by March 15, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Sub-projects and Sub-project Grants

7. The Borrower shall ensure that no Sub-projects shall be eligible for financing out of the proceeds of the Sub-project Grants under Part A(2) of the Project, unless (a) Sub-project Grants have been provided in accordance with the procedures, terms and conditions set forth in the Project Implementation Manual and in the relevant provisions of this Schedule; (b) the institutional arrangements with adequate capacity for implementing the Sub-projects, satisfactory to the Association, have been established and maintained; and (c) the Sub-projects satisfy the eligibility criteria specified below and in more detail in the Project Implementation Manual which shall include, inter alia, the following:

- (i) each Sub-project shall be a specific community-based infrastructure project which is technically and financially viable, and environmentally and socially sound;
- (ii) each Sub-project shall be in compliance with the standards set forth in the applicable laws of the Borrower relating to engineering, health, safety and environmental and social protections;
- (iii) an analysis of the environmental effects of such Sub-project has been prepared; and if applicable, an environmental assessment, satisfactory to the Association, has been undertaken and mitigation measures designed, on the basis of environmental standards acceptable to the Association, in accordance with the Environmental Analysis and Sub-project Review Procedures set forth in the Project Implementation Manual;
- (iv) a resettlement action plan (land acquisition report) has been prepared in accordance with the Framework for Land Acquisition Policy and Procedures, and such plan has been approved by the Provincial Office of Local Administration at respective Project Province, with adequate institutional capacity satisfactory to the Association, if a proposed Sub-project involves Displaced Persons;
- (v) the Highland People's Development Plan has been carried out by the Borrower, in form and substance satisfactory to the Association, if the proposed Sub-project involves communities with Highland People;
- (vi) goods and works required for the purposes of financing Sub-projects have been procured in accordance with the procedures set forth in Schedule 3 to this Agreement and in the Project Implementation Manual, and such goods and works shall have been used exclusively in the carrying out of the Sub-project; and
- (vii) each Sub-project shall not include the financing of government salaries, costs of land or any taxes or duties levied on or in respect of eligible expenditures relating to a Sub-project, or any part thereof.

8. Each Sub-project shall be carried out in accordance with the Borrower's laws and regulations related to development of Communes/Sangkats and use of Commune/Sangkat Fund and the Borrower shall reserve the right to require the Beneficiary to:

- (i) carry out a Sub-project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to social and environmental factors, and to maintain adequate records to reflect, in accordance with sound accounting practices, the

operations, resources and expenditures in respect of the Sub-project;

- (ii) where applicable, to carry out the resettlement action plan (land acquisition report), environmental mitigation measures or the Highland People's Development Plan agreed upon for purposes of the Sub-project;
- (iii) upon completion of the Sub-project, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;
- (iv) to inspect by itself, or jointly with the Association, if the Association shall so request, the equipment, sites, services and training, included in the Sub-project, the operations thereof and any relevant records and documents;
- (v) obtain all such information as the Association or the Borrower shall reasonably request relating to the administration, operation and financial conditions of the Sub-project; and
- (vi) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Sub-project Grant upon failure by such Beneficiary to perform its obligations under this paragraph, or such failure to be determined by external audits carried out in accordance with the Project Implementation Manual.

Commune/Sangkat Fund

9. The Borrower shall take all such actions as shall be necessary to ensure at all times the timely allocation of funds from its national treasury to the Commune/Sangkat Fund, in accordance with the Borrower's Sub-Decree on the Establishment of the Commune/Sangkat Fund No. 16 dated February 25, 2002.

10. The Borrower shall establish and maintain a financial management system, including records and accounts, for its Commune/Sangkat Fund, satisfactory to the Association, and have the records and accounts of such Fund for each fiscal year audited, in accordance with the Borrower's regulations on Commune/Sangkat external audit guidelines referred to in paragraph (f) of Section 6.01 of this Agreement, in form and substance satisfactory to the Association.

11. The Borrower shall cause each PLG provincial financial advisor at respective Project Province to carry out their financial management oversight functions set forth in the Borrower's Prakas on the Terms of Reference for Provincial/Municipal Financial Advisors of PLG for the Seila Program No. 089 dated March 11, 2003.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for Part A(2) and Part B of 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 \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR750,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the 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 Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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 the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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