

CONFORMED COPY

CREDIT NUMBER 3239-MAI

Development Credit Agreement

(Road Maintenance and Rehabilitation Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 1999

CREDIT NUMBER 3239-MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 30, 1999, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter, dated May 10, 1999, from the Borrower describing a program of actions, objectives and policies for its roads sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from the Nordic Development Fund (NDF) a loan in an amount equivalent to SDR 5,000,000 (the NDF Loan) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NDF; 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 December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

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

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

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

(a) "DDLGA" means the Borrower's Department of District and Local Government Administration in the Borrower's Office of the President and Cabinet;

(b) "FY" means the Borrower's Fiscal Year, from July 1 to June 30 of the following year;

(c) "MOT" means the Borrower's Ministry of Transport;

(d) "MOWS" means the Borrower's Ministry of Works and Supplies;

(e) "NCIC" means the National Construction Industry Council of Malawi, established by the Borrower and operating pursuant to the National Construction Industry Act, 1996;

(f) "NRA Act" means the Borrower's National Roads Authority Act, 1997;

(g) "NRA" means the National Roads Authority, established by the Borrower and operating pursuant to the NRA Act;

(h) "PIP" means the Project Implementation Plan and Manual referred to in paragraph 1 of Schedule 4 to this Agreement containing, inter alia, workplans, training plans, monitoring and performance indicators and procedures to be used for the purposes of implementation of the Project, as they may be amended from time to time, in consultation with the Association, and such item includes any schedules to the PIP;

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

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to letters from the Association, dated February 24, 1997 and November 3, 1998, respectively and confirmed by the Borrower on March 6, 1997 and November 11, 1998, respectively;

(k) "Roads Fund" means the fund established by the Borrower pursuant to the NRA Act, for the purposes of financing road maintenance and related expenditures as provided for in the NRA Act; and

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

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 twenty-two million two hundred thousand Special Drawing Rights (SDR 22,200,000).

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

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be March 31, 2005, 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 1 and December 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 June 1 and December 1 commencing December 1, 2009, and ending June 1, 2039. Each installment to and including the installment payable on June 1, 2019, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the

repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

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

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

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall: (a) open and thereafter maintain, until completion of the Project, an account (the Project Account) in a bank on terms and conditions acceptable to the Association;

(b) deposit an initial amount of \$ 125,000 equivalent into the Project Account and thereafter, at quarterly intervals, deposit into the Project Account the estimated amount required for expenditures which shall not be financed from the proceeds of the Credit in the following quarter, or any other amount required for the Project, as agreed between the Borrower and the Association in each annual work program to be established in accordance with the provisions of paragraph 2(e) of Schedule 4 to this Agreement; and

(c) ensure that the amounts deposited into the Project Account in accordance with paragraphs (a) and (b) of this Section be used exclusively for the Borrower's counterpart expenditures under the Project and not otherwise financed out of the proceeds of the Credit.

Section 3.04. For the purposes of Section 9.07 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.

Section 3.05. The Borrower shall:

(a) by January in each year review with the Association the funding requirements for the Roads Fund and by March in each year prepare and furnish to the Association a funding strategy for the Roads Fund, satisfactory to the Association, for the following year; and

(b) ensure that the following minimum amounts are allocated to the Roads Fund, \$9,500,000 in FY 1999/2000, \$12,000,000 in FY 2000/2001, \$12,900,000 in FY 2001/2002, \$13,800,000 in FY 2002/2003 and \$15,300,000 in FY 2003/2004.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

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

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than July 1, 2000, or such later date as

the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

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

(a) a situation has arisen which shall make it improbable that the program, or a significant part thereof, will be carried out;

(b) the NRA Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NRA to perform any of its obligations under the Project, or to abolish the Roads Fund.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

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

(ii) Subparagraph (i) of this paragraph 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.

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

(a) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur; and

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

ARTICLE VI

Effective Date; Termination

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

(a) the NDF Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(b) The Borrower has adopted the PIP in form and substance acceptable to the Association.

(c) the Borrower has issued tenders for the detailed engineering design services for civil works to be carried out during the second year of Project Implementation;

(d) the Borrower has submitted to the Association its evaluation for the award of tenders for civil works and engineering services to be carried out during the first year of Project Implementation;

(e) the Borrower has adopted a Financial Management and Accounting System for the Project acceptable to the Association; and

(f) the Borrower has deposited into the Project Account the initial amount referred to in Section 3.03 (b) of this Agreement.

Section 6.02. 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 the Borrower at the time responsible for finance 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
P. O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address:

FINANCE
Lilongwe

Telex:

44407 MI

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

REPUBLIC OF MALAWI

By /s/ Cassim Chilumpha

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works		90%
(a) Periodic maintenance	5,200,000	
(b) Rehabilitation	5,400,000	
(c) Upgrading	3,700,000	
(2) Equipment, vehicles and computers	800,000	90%
(3) Consultants' services, engineering services and studies	2,400,000	100%
(4) Training		100%
(a) Under Part A of the Project	350,000	
(b) Under Part B of the Project	350,000	
(5) Refunding of Project Preparation Advance	1,100,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	2,900,000	
TOTAL	22,200,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this

Agreement; and (b) payments made for expenditures under Category (4) (b), until the Borrower has established criteria acceptable to the Association, for the selection of local contractors to be trained under Part B of the Project;

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure: (a) for expenditures under contracts for works and goods not exceeding \$250,000 equivalent each; (b) for expenditures under contracts for consultants' services provided by firms not exceeding \$100,000 equivalent each; (c) for expenditures under contracts for consultants services provided by individuals not exceeding \$50,000 equivalent each; and (d) for expenditures for training, 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 bring about sustainable improvements to the quality of the Borrower's road infrastructure through: (i) the strengthening and restructuring of the institutional framework for the road sector, with a view to improving the effectiveness of sector management and enhancing planning and programming of road works; (ii) supporting the reform of road sector financing to ensure sustainability; and (iii) addressing the backlog of road maintenance and rehabilitation.

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: Strengthening Road Sector Institutional Framework

1. Strengthening the capacity of NRA, DDLGA and selected local authorities to undertake road sector activities through the provision of training, technical advisory services and the acquisition of equipment.
2. Development of financial management systems, procurement systems, monitoring and evaluation procedures and development of environmental review and management capacity in NRA, DDLGA and selected local authorities through the provision of technical advisory services and training.
3. Formulation of appropriate road sector policies, including updating the national transport policy framework, carrying out a study on vehicle operating costs, carrying out a study on reclassification of roads and carrying out an analysis of sources of revenue for the Road Fund, adjustment formulae and collection and accounting procedures.
4. Development of the road sector institutional framework, including the carrying out of periodic assessments of the impact of institutional reforms, development of a medium-term framework for road sector management and options for private sector participation in contract management, through the provision of technical advisory services.
5. Development of a framework for the management and financing of rural roads, including an assessment of the institutional requirements for the management of rural roads, development of cost sharing and financing options for rural road maintenance and a rural transport needs assessment, through the provision of technical advisory services.
6. Restructuring MOWS and MOT and the development of their capacity for regulation and policy making in the road sector through the provision of technical advisory services and training.

Part B: Development of the Construction and Consulting Industries

1. Strengthening the capacity of NCIC to develop local contractors and consultants through the provision of technical advisory services and training, and acquisition of equipment.
2. Carrying out training for local contractors and consultants, including the acquisition of equipment and refurbishment of facilities for training activities, development of training materials and curricula, and the provision of technical advisory services for training needs assessments and carrying out the training

activities.

3. Carrying out studies into the financing and equipment constraints faced by local contractors, and the development of options and pilot schemes to address these constraints.

Part C: Periodic Maintenance of Roads

1. Carrying out a program of periodic maintenance of selected main, secondary, tertiary, urban and district roads, including resealing and resurfacing of paved roads and regravelling of gravel roads and minor spot repairs.

2. Provision of engineering and supervision services for the above-mentioned roads.

Part D: Rehabilitation and Upgrading of Roads

1. Carrying out a program of rehabilitation and reconstruction of main, secondary, tertiary, urban and district roads.

2. Carrying out a program of upgrading of selected main, secondary, tertiary, urban and district roads.

3. Provision of engineering and supervision services for the above-mentioned roads.

* * *

The Project is expected to be completed by September 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each and contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more.

(b) Preference for domestic manufacturers and contractors

The provisions of paragraphs 2.55 of the Guidelines and Appendix 2 thereto shall apply to works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods and works estimated to cost less than \$250,000 and \$500,000 equivalent

respectively per contract, up to aggregate amounts not to exceed \$800,000 and \$4,500,000 equivalent respectively, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works under Parts C and D of the Project, estimated to cost the equivalent of \$50,000 or less per contract up to an aggregate amount not to exceed \$1,000,000 may be awarded after direct negotiations with contractors in accordance with procedures acceptable to the Association and on the basis of prices established by an independent consultant in the case of contractors who have completed the training program described under Part B.2 of the Project and who have not previously been awarded a contract financed under this Credit under international or national competitive bidding procedures.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for works and goods estimated to cost the equivalent of \$50,000 or less, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

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

"Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract for consulting firms, and less than \$50,000 equivalent per contract for individual consultants may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

SCHEDULE 4

Implementation Program

1. Except as the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the provisions of the PIP and in accordance with the annual work programs to be established in accordance with the provisions of paragraph 2 (d) of this Schedule. Such PIP shall not be amended or waived, in whole or in part, in a manner which in the opinion of the Association, would materially and adversely affect the execution of the Project or the achievement of its objectives.

2. 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 January 31 in each year, 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;

(c) review with the Association, by March 31 in each year, 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;

(d) furnish to the Association by January 31 of each year a draft annual work program; and

(e) review with the Association by March 31 of each year such annual work program and carry out the Project in accordance with the annual work program as agreed with the Association.

3. The Borrower shall:

(a) not later than June 30, 2002, carry out jointly with the Association a mid-term review. Such review shall assess the following: (i) the overall progress in the implementation of the Project; (ii) the results of the monitoring and evaluation activities; and (iii) the progress achieved in addressing the objectives of the Project with regard to improved road management and sustainable road financing.

(b) three months before such review, prepare and furnish to the Association reports, in scope and detail satisfactory to the Association, needed to undertake the review, including preparation of a program of action, to deal with deficiencies in Project implementation identified prior to such review; and

(c) based on such review promptly prepare an action plan, satisfactory to the Association, for the further implementation of the Project, and shall thereafter implement such action plan.

4. The Borrower shall carry out the studies under Parts A and B of the Project in accordance with a timetable agreed with the Association.

5. The Borrower shall annually review the funding requirements of the Roads Fund, based on the proposed road maintenance program for the fiscal year concerned, and by March in each year prepare a funding strategy for the following fiscal year.

6. The Borrower shall: (a) adopt and maintain regulations and procedures acceptable to the Association for the collection, allocation and disbursement of road user charges proceeds into the Roads Fund; and (b) by June 30, 2000, adopt and maintain procedures and policies acceptable to the Association, for the periodic review and adjustment of the level and composition of road user charges.

7. The Borrower shall: (a) by June 30, 2000, carry out a review of the impact of the institutional reforms being carried out in the road sector, in accordance with terms of reference acceptable to the Association; and (b) by March 31, 2001, prepare and furnish to the Association an action plan for carrying out further reforms in the road sector.

8. The Borrower shall: (a) not later than December 31, 1999, carry out an assessment of the capacity of NRA, DDLGA and selected local authorities to implement a rehabilitation and upgrading program; and (b) adopt recommendations based on such review, taking into account the Association's comments.

9. The Borrower shall by March 31 in each year, carry out reviews with the

Association on the effectiveness of the measures to be taken to promote the local construction industry in the road sector.

10. The Borrower shall by March 31, 2000, develop and adopt an action plan for the improvement of environmental management in the road sector and thereafter review the implementation of such plan by March 31 in each year.

11. The Borrower shall: (a) by December 31, 2000, carry out an exercise to reclassify its public road network on the basis of economic, traffic and engineering considerations, in accordance with terms of reference acceptable to the Association; and (b) by June 30, 2001, prepare legal and institutional changes based on the recommendations of such exercise.

12. Roads Selection Criteria

Road works to be carried out under Parts C and D of the Project shall be selected on the basis of cost benefit analysis and a methodology, acceptable to the Association and set out in detail in the PIP.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 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 \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 8,000,000.

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 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 paragraph 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

1. Routine Maintenance funded by Roads Fund
 - 100% of core network by 2000/01 (9,400 km)
 - 100% of public network by 2003/04 (15,100 km)
2. Road user revenues deposited into the Roads Fund at least:

\$9,500,000 in 1999/2000
\$12,000,000 in 2000/2001
\$12,900,000 in 2001/2002
\$13,800,000 in 2002/2003
\$15,300,000 in 2003/2004

3. Administrative costs as a percentage of Roads Fund revenues fall from
10% in 1999/2000 to
5% in 2003/2004.
4. 900 km of roads periodically maintained 1999/2000 to 2003/2004
450 km of roads resealed with financing from the Credit by 2002/2003
5. 800 km of roads rehabilitated or upgraded 1999/2000 to 2003/2004
230 km of roads rehabilitated with financing from the Credit by 2002/2003
6. By end 2004 for the public roads network, the following are the target quality indicators:
 - 50% good condition
 - 30% in fair condition
 - 20% in poor condition
7. Indicators for construction industry development:
 - 20 local maintenance contractors trained in each year of the Project
 - 30 small scale contractors upgraded to higher categories by 2004
 - 10 medium scale contractors upgraded to unlimited category by 2004
 - 10 local consultants trained in each year of the Project
8. Indicators for institutional development and reform:
 - NRA assumes responsibility for axle load control by December 2000
 - Transition plan fully executed by June 2001 including but not limited to:
 - (Transfer of operational functions of MOWS to NRA
 - (Transfer of policy and regulatory functions of MOWS to MOT
 - (Transfer of training centers to NCIC

