

CONFORMED COPY

CREDIT NUMBER 3211 VN

Development Credit Agreement
(Three Cities Sanitation Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 3, 1999

CREDIT NUMBER 3211 VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 3, 1999, between the SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Cam Pha Urban Environmental Company, the Danang Urban Environmental Company, the Haiphong Sewerage and Drainage Company, and the Ha Long Urban Environmental Company (hereinafter "the Sanitation and Drainage Companies") with the assistance of the Borrower and the Project Cities and Province, and as part of such assistance, the Borrower will make available to the Sanitation and Drainage Companies part of the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to contract from the Government of the Kingdom of Denmark (Denmark) a grant (the Danish Grant) in an aggregate principal amount of up to eighty one million nine hundred thousand Danish Kroners (Danish Kroner 81,900,000) to assist in financing the Project on the terms and conditions set forth in the agreement to be entered into between Denmark and the Borrower (the Danish Grant Agreement), providing therein for: (1) an amount out of the proceeds of the Danish Grant equivalent to Danish Kroner 37,100,000 to be provided directly by Denmark to the Borrower to assist in financing Parts B.1 and B.4 of the Project; and (2) an

aggregate amount of Danish Kroner 44,800,000 to be provided to the Borrower on the terms and conditions set forth in the agreement to be entered into between the Borrower and the Association as administrator of those grant funds received from Denmark (the Danish Trust Fund Grant Agreement), and to be earmarked as follows: (a) an amount out of the proceeds of the Danish Grant equivalent to Danish Kroner 37,800,000 to be earmarked to assist in financing Parts A.1 and A.4 of the Project; and (b) an amount out of the proceeds of the Danish Grant equivalent to Danish Kroner 7,000,000 to be earmarked to assist in financing the Danida-Sanitation Sub-loans under Part C of the Project.

(D) the Borrower intends to contract from the Government of Finland (Finland) a grant (the Finnish Grant) in an aggregate principal amount equivalent to Finish Mark 32,000,000 to assist in financing Parts B.3 and the Finnida-Sanitation Sub-projects under Part C of the Project on the terms and conditions set forth in an agreement (the Finnish Grant Agreement) to be entered into between the Borrower and Finland; and

(E) the Borrower intends to contract from the Australian Agency for International Development (AusAID) a grant (the Australian Grant) in an aggregate principal amount equivalent to Australian Dollars 2,000,000 to assist in financing Part B.2 of the Project on the terms and conditions set forth in an agreement (the Australian Grant Agreement) to be entered into between the Borrower and AusAID; 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 and in the Project Agreement of even date herewith between the Association and the Sanitation and Drainage Companies;

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 the '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 purposes 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 wherever used in this Agreement:

(a) "Affected Person" means a person who on account of the execution of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land), or right in annual or perennial

crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected temporarily or permanently, and "Affected Persons" means, collectively, all persons who qualify as an Affected Person.

(b) "Cam Pha Urban Environmental Company" means the Cam Pha Urban Environmental Company, a state enterprise established and operating under the Borrower's State Enterprise Law of 1994, and the Decision No. 1800 QD/UB of the Quang Ninh Provincial People's Committee City dated June 4, 1997, and any successor thereto.

(c) "Category" means a category set out in the table in paragraph 1 of Schedule 1 to this Agreement.

(d) "Constituent Document" means, for each Sanitation and Drainage Company, the Decision of the People's Committees establishing said Sanitation and Drainage Company, as referred to in Section 1.02 (b), (h), (n) and (p) of this Agreement.

(e) "Danang Project Management Unit" and "Danang PMU" mean the project management unit established by the Danang City People's Committee on June 12, 1997, and thereafter assigned to the Danang Urban Environmental Company for the purpose of managing Danang Urban Environmental Company's Respective Part of the Project.

(f) "Danang Resettlement Action Plan" and "Danang RAP" mean the Plan for the resettlement and rehabilitation of the Affected Persons under Part A.2 of the Project, satisfactory to the Association, prepared by the Danang Urban Environmental Company and approved by the People's Committee of Danang City on March 16, 1999, by the Prime Minister's Decisions No. 397/CP-CN dated April 20, 1999 and by the Decision No. 1837-QD-UB dated April 20, 1999 issued by Chairman of the People's Committee of Danang City as such Plan may be amended from time to time by agreement among the Borrower, the Association, the People's Committee of Danang City and the Danang Urban Environmental Company.

(g) "Danang Parts A and B Special Account" means the account referred to in Section 2.02 (b)(i) of this Agreement, and "Danang Part C Special Account" means the account referred to in Section 2.02 (b)(ii) of this Agreement.

(h) "Danang Urban Environmental Company" means the Danang Urban Environmental Company, a state enterprise established and operating pursuant under the Borrower's State Enterprise Law of 1994 and the Decision No. 37/1999//QD-UB of the Danang People's Committee dated March 16, 1999, and any successor thereto.

(i) "Dong" means the currency of the Borrower.

(j) "Environmental Management Plan" means each of the environmental management plans setting out measures to mitigate adverse environmental affects of the implementation of the Project: (i) for Parts A1. and A.4 of the Project (Cam Pha and Halong) dated December 1998; (ii) for Part A.2 of the Project (Danang) dated February 1999; (iii) for Part A.3 of the Project (Haiphong) dated December 1998, as each such plan may be amended from time to time by agreement between the Association and the respective Sanitation and Drainage Company.

(k) "Fiscal Year" means the Borrower's fiscal year commencing on January 1 and ending December 31.

(l) "Haiphong Project Management Unit" and "Haiphong PMU" mean the project management unit established by the Haiphong City People's Committee on March 8, 1997, and thereafter assigned to the Haiphong Sewerage and Drainage Company for the purpose of managing Haiphong Sewerage and Drainage Company's Respective Part of the Project.

(m) "Haiphong Resettlement Action Plan" and "Haiphong RAP" mean the Plan for the resettlement and rehabilitation of the Affected Persons under Part A.3 of the Project, satisfactory to the Association, prepared by the Haiphong Sewerage and Drainage Company and approved by the People's Committee of Haiphong City on February 27, 1999, by the Prime Minister's Decision No. 398/CP-CN dated April 20, 1999 and by the Decision No. 649-QD-UB dated April 21, 1999 issued by the Vice-Chairman of the People's Committee of Haiphong City, as such Plan may be amended from time to time by

agreement among the Borrower, the Association, the People's Committee of Haiphong City and the Haiphong Sewerage and Drainage Company.

(n) "Haiphong Sewerage and Drainage Company" means the Haiphong Sewerage and Drainage Company, a state enterprise of the Borrower, established and operating under the Borrower's State Enterprise Law of 1994 and Decision No. 524/QD-UB of the People's Committee of Haiphong City dated March 30, 1999, and any successor thereto.

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

(p) "Ha Long Urban Environmental Company" means the Ha Long Urban Environmental Company, a state enterprise of the Borrower, established and operating under the Borrower's State Enterprise Law of 1994, and the Decision No. 1798 QD/UB of the Quang Ninh Provincial People's Committee City dated June 4, 1997, and any successor thereto.

(q) "Ministry of Finance" and the acronym "MOF" mean the Borrower's Ministry of Finance, and any successor thereto.

(r) "MOF Instructions" means the instructions issued by MOF to the Sanitation and Drainage Companies, as provided for in Section 3.01(b) of this Agreement.

(s) "Project Agreement" means the agreement among the Association and the Cam Pha Urban Environmental Company, the Danang Urban Environmental Company, the Haiphong Sewerage and Drainage Company, and the Ha Long Urban Environmental Company, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(t) "Project Cities and Province" means the Borrower's Cities of Danang and Haiphong and the Borrower's Province of Quang Ninh.

(u) "Project Management Units" and the acronym "PMUs" mean, collectively, the Danang PMU, the Haiphong PMU and the Quang Ninh PMU, and "Project Management Unit" and the acronym "PMU" means any one of them.

(v) "Quang Ninh Project Management Unit" and "Quang Ninh PMU" mean the project management unit established by the Quang Ninh Provincial People's Committee on February 3, 1999, assigned to the Cam Pha Urban Environmental Company and Halong Urban Environmental Company, and maintained in accordance with Section 3.05 of this Agreement and for the purposes therein set forth.

(w) "Quang Ninh Special Account" means the account referred to in Section 2.02 (b)(iv) of this Agreement.

(x) "Quang Ninh Resettlement Action Plan" and "Quang Ninh RAP" mean the Plan for the resettlement and rehabilitation of the Affected Persons under Parts A.1 and A.4 of the Project, satisfactory to the Association, prepared by the Cam Pha Urban Environmental Company and Halong Urban Environmental Company and approved by the Quang Ninh Provincial People's Committee on March 12, 1999, by the Prime Minister's Decision No. 399/CP-CP dated April 20, 1999 and by the Decision No. 912 QD-UB dated April 21, 1999 issued by the Vice-Chairman of the Quang Ninh Provincial People's Committee, as such Plan may be amended from time to time by agreement among the Borrower, the Association, the Quang Ninh Provincial People's Committee and the Cam Pha Urban Environmental Company and Halong Urban Environmental Company.

(y) "Resettlement Action Plans" means, collectively, the Danang Resettlement Action Plan, the Haiphong Resettlement Action Plan and the Quang Ninh Resettlement Action Plan.

(z) "Resettlement Committees" means each of the Committees established by the People's Committees of the Project Cities and Province pursuant to each of the Resettlement Action Plans for purposes of planning and implementing such Action Plans.

(aa) "Respective Parts of the Project" means, for each SDCO, the parts of the Project or portions thereof, which such SDCO shall carry out in accordance with

Section 2.01(a) of the Project Agreement.

(bb) "Sanitation and Drainage Companies" and the acronym "SDCOs" mean, collectively, the Danang Urban Environmental Company, the Haiphong Sewerage and Drainage Company, the Ha Long Urban Environmental Company and the Cam Pha Urban Environmental Company, and "Sanitation and Drainage Company" means any of the SDCOs.

(cc) "Sanitation Revolving Fund" means collectively the Cam Pha Sanitation Revolving Fund, the Danang Sanitation Revolving Fund, the Haiphong Sanitation Revolving Fund, and the Halong Sanitation Revolving Fund, all established pursuant to paragraph 1 of Schedule 1 to the Project Agreement.

(dd) "IDA-Sanitation Sub-loan" means a loan in Dong made or proposed to be made by the Danang Urban Environmental Company, through the Danang City Women's Union, to a household or households, residing in Danang, for a Sanitation Sub-project out of the proceeds of the Credit made available to the Danang Urban Environmental Company pursuant to Section 3.01(b) of this Agreement, and from the proceeds of the Danang Sanitation Revolving Fund, and the term "IDA-Sanitation Sub-loans" means, collectively, all of such IDA-Sanitation Sub-loans.

(ee) "DANIDA-Sanitation Sub-loan" means a loan in Dong made or proposed to be made by the Quang Ninh PMU, through the Quang Ninh Provincial Women's Union, to a household or households, residing in either Cam Pha or Ha Long, for a Sanitation Sub-project out of the proceeds of the Danish Grant made available to the Quang Ninh PMU pursuant to the Danish Trust Fund Grant Agreement, and the term "DANIDA-Sanitation Sub-loans" means, collectively, all of such DANIDA-Sanitation Sub-loans.

(ff) "FINNIDA-Sanitation Sub-loan" means a loan in Dong made or proposed to be made by the Haiphong Sewerage and Drainage Company, through the Haiphong City Women's Union, to a household or households, residing in Haiphong for a Sanitation Sub-project out of the proceeds of the Finish Grant made available to the Haiphong Sewerage and Drainage Company pursuant to the provisions of the Finish Grant Agreement, and the term "FINNIDA-Sanitation Sub-loans" means, collectively, all of such FINNIDA-Sanitation Sub-loans.

(gg) "Sanitation Sub-loans" means, collectively, the IDA-Sanitation Sub-loans, the DANIDA-Sanitation Sub-loans and the FINNIDA-Sanitation Sub-loans.

(hh) "Sanitation Sub-project" means an investment project to construct on-site sanitation facilities, including toilets, septic tanks and connections to existing combined public sewers/drains, to be carried out by a household or households residing in either Danang, Cam Pha, Halong or Haiphong utilizing the proceeds of an IDA-Sanitation Sub-loan, DANIDA-Sanitation Sub-loan, or FINNIDA-Sanitation Sub-loan, respectively, and the term "Sanitation Sub-projects" means, collectively, all of such Sanitation Sub-projects.

(ii) "Special Accounts" means, collectively, the Danang Parts A and B Special Account, the Danang Part C Special Account, the Haiphong Special Account, and the Quang Ninh Special Account; and "Special Account" means any of the Special Accounts.

(jj) "Danang City Women's Union", "Haiphong City Women's Union", and "Quang Ninh Province Women's Union", and any successor thereto, mean the Vietnam Women's Union in the Project Cities and Province; and the term "Vietnam Women's Union" means the social organization established on October 20, 1950.

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 fifty nine million four hundred thousand Special Drawing Rights (SDR 59,400,000).

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 the following four special deposit accounts, each in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment: (i) one for purposes of Danang Respective Parts A and B of the Project (the Danang Parts A and B Special Account); (ii) one for purposes of Danang Respective Part C of the Project (the Danang Part C Special Account); (iii) one for purposes of Haiphong Respective Parts of the Project (the Haiphong Special Account); and (iv) one for purposes of Quang Ninh Respective Parts of the Project (the Quang Ninh Special Account). Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 semi-annually on April 1 and October 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 April 1 and October 1 commencing October 1, 2009 and ending April 1, 2039. Each installment to and including the installment payable on April 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 cause each Sanitation and Drainage Company to perform in accordance with the provisions of the Project Agreement all of its obligations therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of the Sanitation and Drainage Companies to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall, through MOF, make available, on a grant basis, the proceeds of the Credit to the SDCOs, under instructions to be issued by MOF, satisfactory to the Association. The amount of the proceeds of the Credit so made available to each of the SDCOs shall be the amounts allocated to and withdrawn from the following Categories: (i) Cam Pha Urban Environmental Company, Categories (1)(a) and 2(a); (ii) Danang Urban Environmental Company, Categories (1)(b), (2)(b), (3); (4) and (5); (iii) Haiphong Sewerage and Drainage Company, Categories (1)(c) and (2)(c); and (iv) Halong Urban Environmental Company, Categories (1)(d) and (2)(d). (c) Except as the Association shall otherwise agree, the Borrower shall not amend, abrogate or waive any of the MOF Instructions or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree: (a) procurement of the goods, works and consultants' services required for Parts A and B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Project Agreement; and (b) procurement of works, goods and services for the Sanitation Sub-projects financed by an IDA-Sanitation Sub-loan shall be governed by the provisions of paragraph 6(b) of Schedule 3 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by each of the Sanitation and Drainage Companies pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation to the provisions of Section 3.01(a) of this Agreement, the Borrower shall cause each of the People's Committees of the Project Cities and Province to:

(a) promptly provide to its respective Sanitation and Drainage Company the required counterpart funds for carrying out the Respective Parts of the Project;

(b) take all such action as shall be necessary to enable its respective

Sanitation and Drainage Company to comply with all its obligations under the Project Agreement, in particular the Financial Covenants under Article IV of the Project Agreement, and the implementation of its respective Resettlement Action Plan and Environmental Management Plan; and

(c) take all such action as shall be necessary for the effective and timely compliance of its obligations set forth in the respective Resettlement Action Plan.

Section 3.05. The Borrower shall cause the Quang Ninh Provincial People's Committee to maintain at all times during the implementation of the Project the Quang Ninh PMU, headed by a qualified manager and assigned with such functions, responsibilities and funds satisfactory to the Association, and with competent staff in adequate numbers as shall be required for purposes of managing the Respective Parts of the Project of Cam Pha Urban Environmental Company and Halong Urban Environmental Company, including a civil engineer, a professional accountant, and a procurement and project management specialist, each with qualifications, experience and terms and conditions of employment satisfactory to the Association;

Section 3.06. 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 July 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2002, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section 3.07. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

and (i) maintain in accordance with paragraph (a) of this Section, records 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.

(b) The Borrower shall:

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

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

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

ARTICLE V

Remedies of the Association

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

(a) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which will make it improbable that any Sanitation and Drainage Company will be able to perform its obligations under the Project Agreement.

(b) The Constituent Document of any Sanitation and Drainage Company shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of such Sanitation and Drainage Company to perform any of its obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(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.

Section 5.02. Pursuant to Section 7.01(h) 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) 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 Danish Grant Agreement, the Finnish Grant Agreement and the Australian Grant Agreement, shall have been executed and delivered and all conditions precedent to the 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 Resettlement Committees shall have been established by each of the People's Committees of the Project Cities and Province pursuant to the provisions of the Resettlement Action Plans;

(c) wastewater charges have been adopted by each of the Cam Pha Urban Environmental Company, Ha Long Urban Environmental Company and Haiphong Sewerage and Drainage Company;

(d) the MOF Instructions have been issued pursuant to Section 3.01(b) of this Agreement;

(e) each PMU shall have employed the services of a civil engineer, a professional accountant, and a procurement and management specialist pursuant to the provisions of Section 3.05 of this Agreement in respect of the Quang Ninh PMU, and paragraph A.2 of Schedule 1 to the Project Agreement in respect of the Danang PMU; and Haiphong PMU; and

(f) each PMU shall have adopted a manual on accounting and administrative policies and procedures, and an accounting system acceptable to the Association in accordance with paragraph A.4 of Schedule 1 to the Project Agreement.

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 Project Agreement has been duly authorized or ratified by each of Sanitation and Drainage Companies and is legally binding upon them in accordance with its terms; and

(b) that the provisions of the Resettlement Action Plans are legally valid and enforceable in accordance with Vietnamese laws.

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

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

For the Borrower:

State Bank of Vietnam
49 Ly Thai To

Hanoi
Socialist Republic of Vietnam

Cable address:

VIETBANK
Hanoi

Telex:

412248 NHTWVT

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 Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By /s/ Le Duc Thuy,

Deputy Governor,
State Bank of Vietnam
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andrew Steer,

Country Director
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works:		80%
(a) under Part A.1 of the Project	5,600,000	
(b) under Part A.2 of the Project	15,400,000	

	(c) under Part A.3 of the Project	16,900,000	
	(d) under Part A.4 of the Project	5,200,000	
(2)	Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
	(a) under Part A.1 of the Project	1,200,000	
	(b) under Part A.2 of the Project	2,400,000	
	(c) under Part A.3 of the Project	1,400,000	
	(d) under Part A.4 of the Project	1,600,000	
(3)	Consultants' services:		100%
	(a) under Part B.2(a) of the Project	1,300,000	
	(b) under Part B.2(b) of the Project	1,800,000	
(4)	Sanitation Sub-loans	600,000	100% of amounts disbursed
(5)	Operating Costs under Part C of the Project	100,000	100%
(6)	Unallocated	5,900,000	
	TOTAL	<u>59,400,000</u> =====	

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means the administrative costs incurred by the Danang City Women's Union, Haiphong City Women's Union and Quang Ninh Province Women's Union to assist in implementing Part C of the Project, excluding salaries and allowances of its staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments for expenditures prior to the date of this Agreement;

(b) payments for expenditures under Categories (1)(a) and (2)(a) unless and until the Cam Pha Urban Environmental Company shall have retained the services of a construction management consultant pursuant to the provisions of paragraph A.1 of Schedule 1 to the Project Agreement;

(c) payments for expenditures under Categories (1)(b) and (2)(b) unless and until the Danang Urban Environmental Company shall have retained the services of a construction management consultant pursuant to the provisions of paragraph A.1 of Schedule 1 to the Project Agreement;

(d) payments for expenditures under Categories (1)(c) and (2)(c) unless and until the Haiphong Sewerage and Drainage Company shall have retained the services of a construction management consultant pursuant to the provisions of paragraph A.1 of Schedule 1 to the Project Agreement;

(e) payments for expenditures under Categories (1)(d) and (2)(d) unless and until the Halong Urban Environmental Company shall have retained the services of a construction management consultant pursuant to the provisions of paragraph A.1 of Schedule 1 to the Project Agreement;

(f) payments for expenditures under Category (1)(d) in respect of the civil works contract for Bai Chay, unless and until the proceeds of the Grant provided under the Danish Trust Fund Grant Agreement, earmarked to finance eligible expenditures under such civil works contract, shall have been fully disbursed in accordance with the provisions of the Danish Trust Fund Grant Agreement; and

(g) in respect of an IDA-Sanitation Sub-loan unless: (i) an operations manual for IDA-Sanitation Sub-loans, acceptable to the Association, shall have been furnished to the Association in accordance with paragraph 1 of Schedule 3 to the Project Agreement; and (ii) such IDA-Sanitation Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth in Schedule 3 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) IDA-Sanitation Sub-loans and Operating Costs; (b) goods and works under contracts costing less than \$200,000 equivalent each; (c) consulting services under contracts awarded to consulting firms costing less than \$100,000 equivalent each; and (d) consulting services under contracts awarded to individual consultants costing less than \$50,000 equivalent each; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to improve urban environmental sanitation infrastructure and services in the Project Cities and Province through: (a) reducing pollution of drains, rivers and the sea; (b) reducing flooding; (c) improving collection and disposal of solid waste; and (d) establishing and operating financially viable sanitation and drainage companies.

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:

1. Rehabilitation and expansion of the following sanitation infrastructure and services in Cam Pha: (i) drainage: cleaning and rehabilitating about 26 km of main combined sewers, constructing about 8 km of new and replacement sewers and repairing about 10 sets of tidal gates; (ii) sewerage and sewage treatment: constructing a septage treatment pond at the municipal sanitary landfill and provision of specialized equipment for emptying septic tanks and cleaning sewers by high-pressure jetting; and (iii) solid waste management: construction of transfer stations and constructing a new sanitary landfill, including access roads, weighbridges, surface water diversion drains, leachate treatment facilities, and operators facilities and small workshop, and the closing and sealing of an existing waste dump; provision of new solid waste collection vehicles and bins, and a track mounted bucket/dozer.

2. Rehabilitation and expansion of the following sanitation infrastructure and services in Danang: (i) drainage: (A) cleaning and safe disposal of about 81,500 cubic meters of silt from existing drains; (B) upgrading of about 14 kilometers and construction of about 18 kilometers of new drains and related manholes, and upgrading roadside entry pits and grit traps; (ii) sewerage and sewage treatment: construction of about 17 kilometers of interceptors sewers, about 21 small submersible pumping stations, about 21 km of rising mains and four low-cost waste water treatment plants

with a total capacity of about 89,200 cubic meters/day, and fifty public toilets; (iii) solid waste management: construction of about 14 small solid waste transfer stations, a new sanitary landfill, including access roads, weighbridges, surface water diversion drains, leachate treatment facilities; operators facilities and small workshop; provision of about six solid waste collection trucks, about six lift on-off trucks with associated containers, and mobile coverage storage bins, and a track mounted bucket/dozer.

3. Rehabilitation and expansion of the following sanitation infrastructure and services in Haiphong: (i) drainage: (A) rehabilitating and lining embankments of about 6 km of large open drains, rehabilitating the banks of 7 storm retention lakes, including access for maintenance, (B) repairing 8 sets of tidal gates and the dredging and safe disposal of approximately 100,000 cubic meters of accumulated sludge from 7 storm retention lakes and about 6 km of large open drains, and (C) cleaning and rehabilitating about 70 km of main combined sewers and related manholes, and constructing about 20 km of new and replacement sewers; and (ii) sewerage and sewage treatment: constructing about 4 km of interceptor sewers, cleaning and rehabilitating about 100 km of secondary and tertiary sewers and related manholes, and the construction of a septage treatment pond at the sanitary landfill.

4. Rehabilitation and expansion of the following sanitation infrastructure and services in Ha Long: (i) drainage rehabilitation about 19 km of existing drainage channels and the construction of about 16 km new drainage channels and associated structures; (ii) sewerage and sewage treatment: constructing about 9 km of interceptor sewers, rehabilitating 2 existing and building 6 new, small pumping stations, and a wastewater treatment facility (oxidation ponds) in Bai Chay, combining existing short sea outfalls to longer outfalls discharging below low-tide level in Hon Gai, construction of about 2 septage treatment facilities; and provision of specialized equipment for emptying septic tanks and cleaning sewers by high-pressure jetting and; (iii) solid waste management: upgrading 2 existing dump sites to sanitary landfills, including access roads, weighbridges, surface water diversion drains, leachate treatment facilities; operators facilities and small workshop; provision of new solid waste collection vehicles and bins, and track mounted bucket/dozer.

5. Resettlement and rehabilitation of the Affected Persons.

PART B:

1. Strengthening the institutional capacity of the Cam Pha Urban Environmental Company to upgrade its operations and facilitate its commercialization, with the provision of consultants' services, by:

(a) (i) developing programs to promote community awareness of the health and environmental benefits arising from improved sanitation facilities and better solid waste collection; (ii) installing integrated commercial utility financial and cost accounting and financial management monitoring and reporting systems to facilitate effective management of assets and financial resources; (iii) formulating a corporate strategy, establishing institutional accountabilities in order to aid financial and operational decision making; (iv) improving operation and maintenance practices, including the establishment of a program for regular desludging of septic tanks; (v) facilitating private sector participation in the provision of septage and solid waste collection and other services and preparing an appropriate regulatory framework for contracted services; (vi) improving human resource development and training; and (vii) improving environmental monitoring; and

(b) improving construction management and supervision.

2. Strengthening the institutional capacity of the Danang Urban Environmental Company to upgrade its operations and facilitate its commercialization, with the provision of consultants' services, by:

(a) (i) developing programs to promote community awareness of the health and environmental benefits arising from improved sanitation facilities and better solid waste collection; (ii) installing integrated commercial utility financial and cost accounting and financial management monitoring and reporting systems to facilitate effective management of assets and financial resources; (iii) formulating a corporate strategy, establishing institutional accountabilities in order to aid financial and

operational decision making; (iv) improving operation and maintenance practices, including the establishment of a program for regular desludging of septic tanks; (v) facilitating private sector participation in the provision of septage and solid waste collection and other services and preparing an appropriate regulatory framework for contracted services; (vi) improving human resource development and training; and (vii) improving environmental monitoring; and

(b) improving construction management and supervision.

3. Strengthening the institutional capacity of the Haiphong Sewerage and Drainage Company to upgrade its operations and facilitate its commercialization, with the provision of consultants' services, by:

(a) (i) developing programs to promote community awareness of the health and environmental benefits arising from improved sanitation facilities and better solid waste collection; (ii) installing integrated commercial utility financial and cost accounting and financial management monitoring and reporting systems to facilitate effective management of assets and financial resources; (iii) formulating a corporate strategy, establishing institutional accountabilities in order to aid financial and operational decision making; (iv) improving operation and maintenance practices, including the establishment of a program for regular desludging of septic tanks; (v) facilitating private sector participation in the provision of septage and solid waste collection and other services and preparing an appropriate regulatory framework for contracted services; (vi) improving human resource development and training; and (vii) improving environmental monitoring; and

(b) improving construction management and supervision.

4. Strengthening the institutional capacity of the Ha Long Urban Environmental Company to upgrade its operations and facilitate its commercialization, with the provision of consultants' services, by:

(a) (i) developing programs to promote community awareness of the health and environmental benefits arising from improved sanitation facilities and better solid waste collection; (ii) installing integrated commercial utility financial and cost accounting and financial management monitoring and reporting systems to facilitate effective management of assets and financial resources; (iii) formulating a corporate strategy, establishing institutional accountabilities in order to aid financial and operational decision making; (iv) improving operation and maintenance practices, including the establishment of a program for regular desludging of septic tanks; (v) facilitating private sector participation in the provision of septage and solid waste collection and other services and preparing an appropriate regulatory framework for contracted services; (vi) improving human resource development and training; and (vii) improving environmental monitoring; and

(b) improving construction management and supervision.

PART C:

Financing of Sanitation Sub-projects through the provision of Sanitation Sub-loans to improve sanitary conditions at the household level and reduce the pollution load discharged to drains.

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The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) with respect to the Quang Ninh Special Account, Categories 1(a), 1(d), 2(a) and 2(d); (ii) with respect to the Haiphong Special Account, Categories 1(c) and 2(c); (iii) with respect to the Danang Parts A and B Special Account, Categories 1(b), 2(b) and 3; and (iv) with respect to

the Danang Part C Special Account, Categories 4 and 5; all as 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: (i) \$150,000 in respect of the Danang Parts A and B Special Account; (ii) \$150,000 in respect of the Haiphong Special Account; (iii) \$150,000 in respect of the Quang Ninh Special Account, and (iv) \$150,000 in respect of the Danang Part C Special Account; to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule.

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

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

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

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.

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

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the 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 respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

