

CONFORMED COPY

CREDIT NUMBER 2855 VN

Development Credit Agreement

(Rural Finance Project)

between

SOCIALIST REPUBLIC OF VIET NAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 19, 1996

CREDIT NUMBER 2855 VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 19, 1996, between SOCIALIST REPUBLIC OF VIET NAM (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; 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, with the modifications set forth in Schedule 7 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Bank for the Poor" means the state-owned credit institution established by Government Decree No. 525/TTg dated August 31, 1995, and any successor thereto;

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

(c) "Dong" means the currency of the Borrower;

(d) "DOSTE" means the Department of Science, Technology and Environment established within each Project Province;

(e) "Financing Agreement" means the agreement to be entered into between the Borrower, represented by SBV, and the Bank for the Poor pursuant to Section 3.02 (c) of this Agreement;

(f) "FRP Additional Financing" means a loan in Dong made or proposed to be made by the Bank for the Poor from its own resources to a Part B Beneficiary for a Sub-project;

(g) "FRP Free-limit Sub-loan" means an FRP Sub-loan which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 1(b), Part A of Section II of Schedule 5 to this Agreement;

(h) "Fund for the Rural Poor" and the acronym "FRP" mean the fund for the rural poor established by the Borrower pursuant to paragraph A.7 of Schedule 4 to this Agreement;

(i) "FRP Loan" means the loan made or proposed to be made by the Borrower, represented by SBV, to the Bank for the Poor under the provisions of the Financing Agreement;

(j) "FRP Policy Manual" means the Bank for the Poor's Policy Manual for the FRP, adopted in accordance with Section 3.02 (a) of this Agreement, as may be amended from time to time with the prior agreement of the Association;

(k) "FRP Sub-loan" means a loan in Dong made or proposed to be made by the Bank for the Poor to a Part B Beneficiary for a Sub-project funded out of the proceeds of the Credit relent to the Bank for the Poor under the Financing Agreement;

(l) "MOSTE" means the Borrower's Ministry of Science, Technology and Environment;

(m) "Part A Beneficiary" means an individual or an enterprise, including small and medium State-owned enterprises, established and operating in the Socialist Republic of Viet Nam eligible to obtain an RDF Sub-loan pursuant to the RDF Policy Manual to carry out a Sub-project;

(n) "Part B Beneficiary" means an individual eligible to obtain an FRP Sub-loan pursuant to the FRP Policy Manual to carry out a Sub-project;

(o) "Participating Financial Institutions" means the financial institutions established and operating in the Socialist Republic of Viet Nam which are selected by the State Bank of Viet Nam to participate in the Project in accordance with the accreditation criteria set forth in the RDF Policy Manual and "Participating Financial Institution" means any of the Participating Financial Institutions;

(p) "Project Management Unit" and the acronym "PMU" mean the unit established within the SBV by Decision No. 269/QD-NH9 of the Governor of the State Bank of Viet Nam dated September 23, 1995;

(q) "RDF" means the rural development fund established by the Borrower pursuant to paragraph A.7 of Schedule 4 to this Agreement for the purposes of financing short, medium and long term rural investments and associated working capital;

(r) "RDF Additional Financing" means a loan in Dong or in Dollars made or proposed to be made by a Participating Financial Institution from its own resources to a Part A Beneficiary for a Sub-project;

(s) "RDF Free-limit Sub-loan" means an RDF Sub-loan which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 1 (b), Part A of Section II of Schedule 5 to this Agreement;

(t) "RDF Policy Manual" means the Borrower's Policy Manual for the Rural Development Fund, adopted in accordance with Section 3.02 (a) of this Agreement, as may be amended from time to time with the prior agreement of the Association;

(u) "RDF Sub-loan" means a loan in Dong or in Dollars made or proposed to be made by a Participating Financial Institution to a Part A Beneficiary for a Sub-project funded out of the proceeds of the Credit relented to such Participating Financial Institution under a respective Subsidiary Loan Agreement;

(v) "small and medium State-owned enterprise" means an enterprise wholly owned by the Government of the Socialist Republic of Viet Nam having total assets of not more than \$2,000,000 equivalent and less than 500 employees;

(w) "State Bank of Viet Nam" and the acronym "SBV" mean the Borrower's central bank;

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

(y) "Sub-loans" means, collectively, the RDF Sub-loans and the FRP Sub-loans;

(z) "Subsidiary Loan Agreements" means the agreements to be entered into between the Borrower, represented by SBV, and the Participating Financial Institutions pursuant to Section 3.02 (b) of this Agreement and "Subsidiary Loan Agreement" means any of the Subsidiary Loan Agreements;

(aa) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower, represented by SBV, to a Participating Financial Institution under a Subsidiary Loan Agreement;

(bb) "Sub-project" means a specific rural development project outside the municipal boundaries of Hanoi and Ho Chi Minh City, including farming, small and medium scale rural based industries, fisheries and rural services, to be carried out by a Part A Beneficiary utilizing the proceeds of an RDF Sub-loan or by a Part B Beneficiary utilizing the proceeds of an FRP Sub-loan; and

(cc) "Viet Nam Bank for Agriculture" and the acronym "Agribank" mean the state-owned bank established and operating pursuant to the Statute of the Viet Nam Bank for Agriculture issued under Decision No. 250/QD of the State Bank of Viet Nam dated November 11, 1992.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty two million seven hundred thousand Special Drawing Rights (SDR 82,700,000).

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:

- (i) 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 Part C of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and

- (ii) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made by: (A) a Part A Beneficiary under a RDF Sub-loan to meet the reasonable cost of goods, works and services required for a Part A Sub-project in respect of which the withdrawal from the Credit Account is requested; and (B) a Part B Beneficiary under an FRP Sub-loan to meet the reasonable cost of goods, works and services required for a Part B Sub-project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the State Bank of Viet Nam on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 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 or 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 payment 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 per cent (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 April 1 and October 1 each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi annual installments payable on each April 1 and October 1 commencing October 1, 2006 and ending April 1, 2036. Each installment to and including the installment payable on April 1, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years 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 terms

of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through SBV, with due diligence and efficiency and in conformity with sound financial standards and practices, with qualified management and personnel, and in accordance with the RDF Policy Manual and the FRP Policy Manual.

Section 3.02. (a) For purposes of carrying out Parts A and B of the Project, the Borrower, through SBV, shall adopt and thereafter apply the RDF Policy Manual and the FRP Policy Manual in a manner and substance satisfactory to the Association. The Borrower further undertakes not to amend, suspend, abrogate, repeal or waive the RDF Policy Manual and the FRP Policy Manual without the prior approval of the Association.

(b) For purposes of carrying out Part A of the Project the Borrower, through SBV, shall relend to each of the Participating Financial Institutions an amount out of the proceeds of the Credit allocated from time to time to Category (1) not to exceed the equivalent of \$50,000,000, under a subsidiary loan agreement to be entered into between the Borrower, represented by SBV, and each Participating Financial Institution under terms and conditions satisfactory to the Association, which shall include those set forth in the RDF Policy Manual and in Section I, Part A of Schedule 5 to this Agreement, and the following principal onlending terms and conditions:

- (i) the principal amount of the Subsidiary Loan shall be the equivalent of the aggregate amount of the principal of all RDF Sub-loans made in Dong and in Dollars by the Participating Financial Institution. The principal amount of a Subsidiary Loan in respect of RDF Sub-loans made in Dong shall be repaid by the Participating Financial Institution in Dong in an amount equivalent at the time of withdrawal to the amounts withdrawn from time to time from the Credit Account under Category (1) in respect of such RDF Sub-loans. The principal amount of a Subsidiary Loan in respect of RDF Sub-loans made in Dollars shall be repaid by the Participating Financial Institution in Dollars in an amount equivalent at the time of repayment to the value of the currency or currencies withdrawn from time to time from the Credit Account under Category (1) in respect of such RDF Sub-loans;

- (ii) interest on the principal amount withdrawn and outstanding of a Subsidiary Loan made in Dong shall be payable at: (A) a variable rate of interest adjustable quarterly and equal to the latest available quarterly weighted average actual cost of loanable funds in the banking system in Viet Nam; or (B) at a per annum fixed rate of interest established in a manner satisfactory to the Association;
- (iii) interest on the principal amount withdrawn and outstanding of a Subsidiary Loan made in Dollars shall be payable at the London interbank offered rate for six months deposits in Dollars plus a margin sufficient to cover full operating costs of the SBV in respect of the Subsidiary Loan, including provision for loan losses thereof;
- (iv) commitment charges shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.04 (a) of this Agreement; and
- (v) the principal amount of the Subsidiary Loan shall be repaid in accordance with an amortization schedule which corresponds to the composite of the amortization schedules of the RDF Sub-loans financed out of such Subsidiary Loan.

(c) For purposes of carrying out Part B of the Project the Borrower, through SBV, shall relend to the Bank for the Poor out of the proceeds of the Credit an amount in Dong not to exceed in the aggregate the equivalent of \$12,000,000, or such other amount as may be allocated from time to time to Category (2), under a financing agreement to be entered into between the Borrower, represented by SBV, and the Bank for the Poor under terms and conditions satisfactory to the Association, including those set forth in the FRP Policy Manual and in Section I, Part B of Schedule 5 to this Agreement, and the following principal onlending terms and conditions:

- (i) the principal amount of the FRP Loan shall: (A) be the equivalent of the aggregate amount of the principal of all FRP Sub-loans made out of the proceeds thereof by the Bank for the Poor; and (B) be onlent in Dong, and shall be repaid by the Bank for the Poor in Dong in an amount equivalent at the time of withdrawal to the amounts withdrawn from time to time from the Credit Account under Category (2);
- (ii) interest on the FRP Loan shall be payable on the principal amount onlent, withdrawn and outstanding from time to time at: (A) a variable rate of interest adjustable quarterly and equal to the latest available quarterly weighted average actual cost of loanable funds in the banking system in Viet Nam; or (B) at a per annum fixed rate of interest established in a manner satisfactory to the Association;
- (iii) commitment charges shall be payable on the amount so on-lent and not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.04 (a) of this Agreement; and
- (iv) the principal amount of the FRP Loan shall be repaid in accordance with an amortization schedule which corresponds to the composite of the amortization schedules of the FRP Sub-loans.

(d) Without limitation upon the provisions of paragraphs (a) through (c) 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 3.03. The Borrower shall:

(a) exercise its rights in relation to each Participating Financial Institution and the Bank for the Poor in such manner as to: (i) protect the interests of the Borrower and the Association; (ii) comply with its obligations under the respective Subsidiary Loan Agreement and Financing Agreement; and (iii) achieve the purposes of the Project; and

(b) except as the Association shall otherwise agree, not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements and the Financing Agreement or any provision thereof.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part C of 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 3.05. For 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 and Other Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited in accordance with sound 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 (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning the said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

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

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. By June 30 of each year, commencing on June 30, 1997, or at such other intervals as the Borrower and the Association may agree, the Borrower, through SBV, shall exchange views with the Association on the level of the interest rates charged on Subsidiary Loans, the FRP Loan and Sub-loans to determine if such rates are positive in real terms and above the weighted average deposit rates prevailing in the market at the time of the review and, thereafter, with the prior concurrence of the Association, revise such rates if required.

ARTICLE V

Remedies of the Association

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

(a) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of one or more of the Participating Financial Institutions or for the suspension of the operations thereof, and such dissolution, disestablishment or suspension of operations shall materially and adversely affect the ability of the Borrower to carry out the Project or any part thereof, or to perform any of its obligations under this Agreement or to perform any of its obligations under the respective Subsidiary Loan Agreements.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Bank for the Poor or for the suspension of its operations, and such dissolution, disestablishment or suspension of operations shall materially and adversely affect the ability of the Borrower to carry out the Project or any part thereof, or to perform any of the obligations of the Borrower under this Agreement or to perform any of the obligations of the Borrower under the Financing Agreement.

(c) Any part of the principal amount of any loan to one or more of the Participating Financial Institutions or to the Bank for the Poor having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the related contractual instrument, or any security for any such loan shall become enforceable.

(d) A subsidiary or any other entity shall have been created or acquired or taken over by one or more of the Participating Financial Institutions, if such creation, acquisition or taking over would adversely affect the conduct of the Participating Financial Institution's business or its financial condition or the efficiency of its management and personnel in carrying out the Project or any part thereof.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any

event specified in of Section 5.01 shall occur.

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 (c) of the General Conditions:

- (a) the RDF Policy Manual shall have been adopted by the Borrower in accordance with Section 3.02 (a) of this Agreement; and
- (b) the heads of the accreditation, accounting, Sub-loan application review and supervision sub-units of the Project Management Unit referred to in paragraph B.2 of Schedule 4 to this Agreement shall have been appointed pursuant to the provisions of such paragraph.

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 Governor of the State Bank of Viet Nam 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 Viet Nam
49 Ly Thai To Street
Hanoi
Socialist Republic of Viet Nam

Cable address:

Telex:

VIETBANK
Hanoi

412248-NHTWVT

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

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.

SOCIALIST REPUBLIC OF VIET NAM

By /s/ Le van Bang, Charg^e d'Affaires
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas Hope
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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) RDF Sub-loans	67,760,000	100% of amounts disbursed
(2) FRP Sub-loans	8,130,000	100% of amounts disbursed
(3) Goods under Part C (1) and C (2) of the Project	1,020,000	100% of foreign expen- ditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other goods procured locally
(4) Consultants' services and training under Part C of the Project	3,730,000	100%
(5) Unallocated	2,060,000	
TOTAL	82,700,000 =====	

2. For the purposes of this Schedule:

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

(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.

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

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

(b) in respect of a Sub-loan under Category (1) or (2), unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement;

(c) in respect of a FRP Sub-loan under Category (2) unless:

(i) the Borrower, through SBV, shall have: (A) issued a Decision approving the Charter of the Bank for the Poor; (B) adopted the FRP Policy Manual in

accordance with Section 3.02 (a) of this Agreement; and (C) entered into the Financing Agreement in accordance with Section 3.02 (c) of this Agreement; and

(ii) the Bank for the Poor shall have: (A) adopted an institutional development plan pursuant to paragraph A.2(a) of Schedule 4 to this Agreement; and (B) established a small-savers program, satisfactory to the Association, to mobilize private sector resources;

(d) in respect of Category (2):

(i) after the aggregate amount of the proceeds of the Credit withdrawn from the said Category shall have reached the equivalent of SDR 1,400,000, unless the Borrower, through SBV, shall have certified to the Association that the Bank for the Poor is in compliance with the FRP Policy Manual performance criteria and its institutional development plan; and

(ii) after the aggregate amount of the proceeds of the Credit withdrawn from the said Category shall have reached the equivalent of SDR 4,800,000, unless the Borrower, through SBV, shall have certified to the Association that the Bank for the Poor is in compliance with the FRP Policy Manual performance criteria and its institutional development plan; and

(e) in respect of a RDF Sub-loan, under Category (1), to be made by a Participating Financial Institution unless the Borrower, through SBV, shall have: (i) entered into a Subsidiary Loan Agreement with the Participating Financial Institution in accordance with Section 3.02 (b) of this Agreement; and (ii) certified to the Association that the Participating Financial Institution is in compliance with the accreditation criteria set forth in the RDF Policy Manual or its institutional development plan, as the case may be.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under free-limit Sub-loans and for expenditures for training and under contracts for: (a) goods not exceeding \$150,000 equivalent each; (b) consultants' services with firms not exceeding \$100,000 equivalent each; and (c) consultants' services with individuals not exceeding \$50,000 equivalent each, 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 in its efforts to improve living conditions in the rural areas of the Socialist Republic of Viet Nam, through: (a) encouraging private sector investments; (b) strengthening the banking system's capacity to finance private sector investments; and (c) increasing access of the rural poor to financial services.

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

Part A: The financing of Sub-projects through RDF Sub-loans.

Part B: The financing of Sub-projects through FRP Sub-loans.

Part C: (1) Strengthening of the SBV's institutional capacity to manage and operate the RDF and the FRP, including accreditation and supervision of the Participating Financial Institutions and Bank for the Poor through staff training and provision of technical assistance.

(2) Strengthening the institutional capacity of the Participating Financial Institutions, Bank for the Poor and VBA in delivery of financial services to the rural areas through staff training and provision of technical assistance.

(3) Strengthening the capacity of rural communities to access financial services, including improvement in financial literacy, establishment of joint liability groups and community based savings associations through training and provision of technical assistance.

* * * * *

The Project is expected to be completed by March 31, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

Preference for domestically manufactured goods

2. For goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B, the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereof shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$1,800,000 equivalent, 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 \$400,000 equivalent, may be procured under contracts awarded on the basis of domestic shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by Association of Procurement Decisions

1. Procurement Planning

Prior to the issue of any invitations to pre-qualify 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

With respect to each contract for goods estimated to cost the equivalent of \$150,000 or more the procedures set forth in paragraphs 2 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Parts A and B of the Project

1. In accordance with the eligibility criteria set forth in the RDF Policy Manual and the institutional development plans referred to in paragraph 2 (b) of this Schedule, the Borrower shall, through SBV, select financial institutions established and operating in the Socialist Republic of Viet Nam to carry out lending operations under Part A of the Project, and, thereafter, furnish to the Association, for its review and approval, a list of the financial institutions so selected.

2. The Borrower shall, through SBV, prepare and furnish to the Association for its approval:

(a) an institutional development plan with a detailed time-table and staff training programs for purposes of assisting the Bank for the Poor to meet the performance criteria set forth in the FRP Policy Manual; and

(b) institutional development plans with detailed time-tables and staff training programs for those financial institutions who are unable to meet the eligibility criteria set forth in the RDF Policy Manual for purposes of their accreditation as Participating Financial Institutions under the Project.

3. The Borrower, through SBV, shall:

(a) on June 30 and December 31 of each year, commencing on December 31, 1996, review and assess: (i) compliance by each of the Participating Financial Institutions with regard to their eligibility criteria as set forth in the RDF Policy Manual and compliance with their institutional development plans, as the case may be; and (ii) the Bank for the Poor with regard to its performance criteria set forth in the FRP Policy Manual and compliance with its institutional development plan; and

(b) by September 30 and March 31 of each year, commencing on March 31, 1997, prepare and furnish to the Association, for its review and comments, a report on the most recent findings and assessment made pursuant to paragraph (a) of this Section.

4. If at the time of the reviews mentioned in paragraph 3 of this Schedule the Borrower determines that a Participating Financial Institution is not in compliance with one or more of the eligibility criteria set forth in the RDF Policy Manual or with its institutional development plan, as the case may be, the Borrower, through SBV, shall instruct the Participating Financial Institution to take the required remedial actions, including a time-table therefor, specified in consultation with the Association. If within the time-frame so specified the Participating Financial Institution is unable to comply with the eligibility criteria or its institutional development plan, as the case may be, the Borrower shall, in consultation with the Association and pursuant to the provisions of the relevant Subsidiary Loan Agreement, cancel the uncommitted amounts of the relevant Subsidiary Loan.

5. If at the time of the reviews mentioned in paragraph 3 of this Schedule the Borrower determines that the Bank for the Poor is not in compliance with one or more of the performance criteria set forth in the FRP Policy Manual or with its institutional development plan, as the case may be, the Borrower shall instruct the Bank for the Poor to take the required remedial actions, including a time-table therefor, specified in consultation with the Association. If within the time-frame so specified the Bank for the Poor is unable to comply with the eligibility criteria or with its institutional development plan, as the case may be, the Borrower shall, in consultation with the Association and pursuant to the provisions of the relevant Financing Agreement, cancel the uncommitted amounts of the FRP Loan.

6. Unless the Association shall otherwise agree, the Borrower shall cause the Participating Financial Institutions and the Bank for the Poor to make Sub-loans to finance Sub-projects pursuant to the provisions of Section II of Schedule 5 to this Agreement.

7. The Borrower shall, with the proceeds accrued from the repayment of the principal of the Subsidiary Loans and the FRP Loan, establish and thereafter maintain a rural development fund and a fund for the rural poor for purposes of financing on a wholesale basis through the Participating Financial Institutions or the Bank for the Poor, as the case may be, rural investments by RDF Beneficiaries and FRP Beneficiaries, respectively, on the terms and conditions set forth in the RDF Policy Manual and FRP Policy Manual, as the case may be, and Schedule 5 to this Agreement (except for those relating to the Association's prior approval of Sub-loans). For these purposes the Borrower shall assign the management and operations of the RDF and FRP by June 30, 1999, or such other date as may be agreed to by the Association, to an entity or entities satisfactory to the Association.

8. The Borrower shall, and shall cause SBV and the entity or entities referred to in paragraph 7 above, as the case may be, to:

(a) manage and operate the RDF and FRP on a commercial basis, with qualified staff in adequate numbers and assigned with such powers and functions as shall be required to achieve their purposes;

(b) maintain procedures and records adequate to (i) monitor and record the progress of each Sub-project financed out of the proceeds of the RDF and FRP (including its cost and the benefits to

be derived from it); and (ii) reflect in accordance with consistently maintained sound accounting practices the operations and financial conditions of the RDF and FRP, including the operations, resources and expenditures of the Participating Financial Institution and the Bank for the Poor in respect of the financing provided through the RDF and FRP, as the case may be;

(c) have the records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) of the RDF and FRP for each fiscal year audited in accordance with sound auditing principles consistently applied by independent auditors acceptable to the Association; and

(d) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, (i) certified copies of its financial statements for such year as so audited; (ii) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning records, accounts and financial statements, as well as the audit thereof as the Association shall from time to time reasonably request.

B. Part C of the Project

1. The Borrower shall carry out the training under Part C of the Project in accordance with training programs satisfactory to the Association, and to this end, by November 30 of each year, commencing on November 30, 1996, the Borrower shall, through SBV, prepare and furnish to the Association, for its approval, the proposed training programs for each forthcoming calendar year, and thereafter implement such training programs as so approved.

2. The Borrower shall maintain, within SBV, the Project Management Unit including the following sub-units: accreditation, Sub-loan application, accounting and supervision, headed by a qualified and experienced Project Manager and with qualified and experienced officers to head each sub-unit, and assigned with such funds, staffing and responsibilities as shall be required to adequately undertake, inter alia: (a) accreditation of each Participating Financial Institution and of the Bank for the Poor, respectively; (b) review and approval of Sub-loan applications, as the case may be; and (c) accounting, supervision and reporting activities under the Project.

3. The Borrower shall by December 31, 1996, establish and thereafter maintain within SBV a monitoring and evaluation system, satisfactory to the Association, for the various activities under the Project, including the following financial indicators with respect to the Participating Financial Institutions and the Bank for the Poor: (i) on the Sub-loans, repayments, profitability and operating costs as a percentage of funds loaned; and (ii) on their financial operations, solvency, liquidity and profitability.

4. The Borrower shall, through SBV:

(a) on January 1, April 1, July 1 and October 1 of each year, commencing on October 1, 1996 and thereafter, furnish to the Association for its review and comments, a report on the progress of Parts A and B of the Project in such detail as the Association shall reasonably request; and

(b) on January 1 and July 1 of each year, commencing on January 1, 1997 and thereafter, furnish to the Association for its review and comments, a report on the progress of Part C of the Project in such detail as the Association shall reasonably request.

SCHEDULE 5

Section I. Terms and Conditions of the Subsidiary Loan Agreements and the Financing Agreement

Part A: Subsidiary Loan Agreements

1. The Subsidiary Loan Agreements shall include:

(a) The obligation of each Participating Financial Institution to take all such actions as shall be necessary to comply, at all times, with the eligibility criteria set forth in the RDF Policy Manual and with its institutional development plan, as the case may be.

(b) The right of the Borrower to cancel the uncommitted funds of the relevant Subsidiary Loan in the event that the Participating Financial Institution fails to: (i) comply with one or more of the eligibility criteria set forth in the RDF Policy Manual, or comply with its institutional development plan; and (ii) comply with the remedial actions therefor established by the Borrower in consultation with the Association.

(c) The undertaking of the Participating Financial Institution to:

- (i) Carry out its lending operations under Part A of the Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards and practices, with qualified and experienced management and staff in adequate numbers, and to provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project;
- (ii) unless the Association and the Borrower shall otherwise agree, make RDF Sub-loans in accordance with the procedures and on the terms and conditions set forth or referred to in Parts A and B of Section II of this Schedule and the RDF Policy Manual;
- (iii) exercise its rights in relation to each Sub-project being financed in such manner as to: (A) protect the interests of the Borrower, the Association and of the relevant Participating Financial Institution; (B) comply with its obligations under the relevant Subsidiary Loan Agreement; and (C) achieve the purposes of the Project;
- (iv) duly perform all its obligations under the relevant Subsidiary Loan Agreement and, except as the Borrower and the Association shall otherwise agree, not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving its respective Subsidiary Loan Agreement or any provision thereof;
- (v) at the request of either the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of Part A of the Project, the performance of its obligations under the relevant Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit;
- (vi) furnish to the Borrower and the Association all such information as the Borrower and the Association shall reasonably request concerning the expenditures of the proceeds of the RDF Sub-loans, and the relevant Beneficiaries and Sub-projects, and its administration, operations and financial condition. For this purpose, the Participating Financial Institutions shall:
 - (A) maintain procedures and records adequate to:
 - (1) monitor and record the progress of Part A of the Project and of each Sub-project financed by an RDF Sub-loan (including its cost

and the benefits to be derived from it); and (2) reflect in accordance with consistently maintained sound accounting practices the operations and financial conditions of the Participating Financial Institution, including the operations, resources and expenditures of the Participating Financial Institution in respect of Part A of the Project or any part thereof;

- (B) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied by independent auditors acceptable to the Borrower; and
- (C) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, (1) certified copies of its financial statements for such year as so audited; (2) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (3) furnish to the Association such other information concerning records, accounts and financial statements, as well as the audit thereof as the Association shall from time to time reasonably request; provided, however, that the audit report for fiscal years 1996 and 1997 shall be due by June 30, 1998.
- (vii) promptly inform the Borrower of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Subsidiary Loan, or the performance by the relevant Participating Financial Institution of its respective obligations under the relevant Subsidiary Loan Agreement; and
- (viii) provide RDF Additional Financing for Sub-projects under terms and conditions satisfactory to the Association, including:
 - (A) appraisal of the Sub-project pursuant to paragraph 1 (a), Part B of this Schedule;
 - (B) an RDF Sub-loan shall have been made to finance a portion of the total estimated costs of the Sub-project;
 - (C) the principal amount of the RDF Additional Financing shall be in Dong or in Dollars and shall be in an amount not less than 10% of the total estimated Sub-project costs;
 - (D) repayment of the principal amount of the RDF Additional Financing shall have the same maturity as that of the corresponding RDF Sub-loan; and
 - (E) payment of interest on the principal amount of the RDF Additional Financing withdrawn and outstanding from time to time, at a rate equal to the rate applicable to the relevant RDF Sub-loan.

Part B: Financing Agreement

1. The Financing Agreement shall include:

(a) The obligation of the Bank for the Poor to take all such actions as shall be necessary to comply, at all times, with the eligibility criteria set forth in the FRP Policy Manual and its institutional development plan.

(b) The right of the Borrower to cancel the uncommitted funds of the FRP Loan in the event that the Bank for the Poor fails to: (i) comply with one or more of the eligibility criteria set forth in the FRP Policy Manual or comply with its institutional development plan; and (ii) comply with the remedial actions therefor established by the Borrower in consultation with the Association.

(c) The undertaking of the Bank for the Poor to:

- (i) carry out Part B of the Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards and practices, with qualified and experienced management and staff in adequate numbers, and to provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project;
- (ii) unless the Association and the Borrower shall otherwise agree, make FRP Sub-loans in accordance with the procedures and on the terms and conditions set forth or referred to in Parts A and C of Section II of this Schedule and the FRP Policy Manual;
- (iii) exercise its rights in relation to each Sub-project being financed in such manner as to: (A) protect the interests of the Borrower, the Association and the Bank for the Poor; (B) comply with its obligations under the Financing Agreement; and (C) achieve the purposes of the Project;
- (iv) duly perform all its obligations under the relevant Financing Agreement and, except as the Borrower and the Association shall otherwise agree, not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Financing Agreement or any provision thereof;
- (v) at the request of either the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of Part B of the Project, the performance of its obligations under the Financing Agreement, and other matters relating to the purposes of the Credit;
- (vi) furnish to the Borrower and the Association all such information as the Borrower and the Association shall reasonably request concerning the expenditures of the proceeds of the FRP Sub-loans, and the relevant Beneficiaries and Sub-projects, and its administration, operations and financial condition. For this purpose the Bank for the Poor shall:
 - (A) maintain procedures and records adequate to: (1) monitor and record the progress of Part B of the Project and of each Sub-project financed by an FRP Sub-loan (including its cost and the benefits to be derived from it); and (2) reflect in accordance with consistently maintained sound accounting practices the operations and financial conditions of the Bank for the Poor, including its operations, resources and expenditures in respect of Part B of the Project or any part thereof;
 - (B) have its records, accounts and financial statements (balance sheets, statements of income and

expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied by independent auditors acceptable to the Borrower; and

- (C) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, (1) certified copies of its financial statements for such year as so audited and (2) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (3) furnish to the Association such other information concerning records, accounts and financial statements, as well as the audit thereof as the Association shall from time to time reasonably request; provided, however, that the audit report for fiscal years 1996 and 1997 shall be due by June 30, 1998.
- (vii) promptly inform the Borrower of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the FRP Loan, or the performance by the Bank for the Poor of its respective obligations under the Financing Agreement; and
- (viii) provide FRP Additional Financing for Sub-projects under terms and conditions satisfactory to the Association, including:
 - (A) appraisal of the Sub-project pursuant to paragraph 1 (a), Part C of this Schedule;
 - (B) an FRP Sub-loan shall have been made to finance a portion of the total estimated costs of the Sub-project;
 - (C) the principal amount of the FRP Additional Financing shall be in Dong and shall be in an amount not less than 10% of the total estimated Sub-project costs;
 - (D) repayment of the principal amount of the FRP Additional Financing shall have the same maturity as that of the corresponding FRP Sub-loan; and
 - (E) payment of interest on the principal amount of the FRP Additional Financing withdrawn and outstanding from time to time, at a rate equal to the rate applicable to the relevant FRP Sub-loan.

Section II. Procedures for and Terms and Conditions of Sub-loans

Part A. Sub-loans

1. Without limitation on the provisions of Parts B and C of Section II of this Schedule and paragraph 2 of Schedule 1 to this Agreement, no expenditures for goods, civil works or services required for a Sub-project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) of Part A of Section II of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan shall have been a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Borrower, through SBV, shall have received the request and information required under

paragraph 3 (b) below in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan which shall not exceed the sum of \$150,000 equivalent when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the FRP Loan for such Sub-project, or such other sum as shall be established by the Association, from time to time, by notice to the Borrower.

2. Except as the Association shall otherwise agree:

(a) Sub-loans shall not finance land;

(b) RDF Sub-loans to small and medium State-owned enterprises shall not exceed in the aggregate 5% of the amounts of the proceeds of the Credit allocated from time to time to Category (1) of Schedule 1 to this Agreement;

(c) RDF Sub-loans shall not finance Sub-projects for which the projected period for recovery of the Sub-project costs exceeds ten (10) years;

(d) FRP Sub-loans shall not be made in excess of \$1,000 equivalent; and

(e) FRP Sub-loans shall not finance Sub-projects for which the projected period for recovery of the Sub-project costs exceeds three (3) years;

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval the Borrower shall furnish to the Association an application, in a form satisfactory to the Association, together with: (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; provided, however, that: (A) for RDF Sub-loans the information to be provided shall include the proposed principal amount of the RDF Additional Financing; and (B) for FRP Sub-loans the information to be provided shall include the proposed principal amount of the FRP Additional Financing; and (iii) such other information as the Association shall reasonably request, including a copy of the relevant environmental impact assessment and certification issued by MOSTE or DOSTE, as the case may be, where required under the laws of the Borrower.

(b) Each request by the Borrower for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) the terms and conditions of the Sub-loan; provided, however, that: (A) for RDF Sub-loans the information to be provided shall include the proposed principal amount of the RDF Additional Financing; and (B) for FRP Sub-loans the information to be provided shall include the proposed principal amount of the FRP Additional Financing.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before October 31, 1999.

4. Sub-loans shall be made on terms whereby a Participating Financial Institution or the Bank for the Poor shall obtain, by written contract with a Part A Beneficiary or a Part B Beneficiary, as the case may be, or by other appropriate legal means, rights adequate to protect the interests of the Association, the Borrower. the relevant Participating Financial Institution or the Bank for the Poor, as the case may be, including, in the case of any Sub-loan the right to:

(a) require the Part A Beneficiary or the Part B Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial,

environmental and managerial standards and to maintain adequate records;

(b) require that goods and works under contracts estimated to cost the equivalent of \$1,000,000 or more per contract shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the "Guidelines"); provided, however, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower, and with respect to all such contracts the procedures set forth in paragraph 2 of Appendix 1 to the Guidelines shall apply;

(c) Goods, services and works, other than those set out in paragraph (b) above, shall be purchased at a reasonable price following the established commercial procedures, account being taken also of other relevant factors such as: (i) in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor; (ii) in the case of services, of their quality and the competence of the parties rendering them; and (iii) in the case of works, the technical quality and the competitive cost therefor, and with respect to all such contracts the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply;

(d) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, such goods, works, plants and constructions and installations, as the case may be, included in the Sub-project, the operation thereof, and any relevant records and documents;

(e) require that: (i) each Part A Beneficiary or Part B Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Part A Beneficiary or Part B Beneficiary, to replace or repair such goods;

(f) obtain all such information as the Association, the Borrower or the relevant Participating Financial Institution shall reasonably request relating to the foregoing and to the administration, operations and financial conditions of the Part A Beneficiary or Part B Beneficiary, and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Part A Beneficiary or Part B Beneficiary, to the use of the proceeds of the Credit upon failure by such Part A Beneficiary or Part B Beneficiary, to perform its obligations under its contract with the Borrower or the relevant Participating Financial Institution, as the case may be.

Part B: RDF Sub-loans

1. Without limitation on the provisions of Part A of Section II of this Schedule and of Schedule 1 to this Agreement, RDF Sub-loans shall be made to the Part A Beneficiaries by the Participating Financial Institutions under the following terms and conditions:

(a) Sub-projects to be financed using the proceeds of an RDF Sub-loan shall be appraised by the relevant Participating Financial Institution and financed in accordance with the criteria set forth in the RDF Policy Manual and the provisions of this Agreement; and

(b) RDF Sub-loans shall be made pursuant to the terms and conditions set forth in the RDF Policy Manual, and the provisions of this Schedule, including the following:

(i) the principal amount of an RDF Sub-loan shall be lent in Dong or in Dollars and shall not exceed

75% of the total estimated Sub-project costs. The principal amount of an RDF Sub-Loan made in Dong shall be repaid by a Part A Beneficiary in Dong in an amount equivalent to the principal amount so onlent. The principal amount of an RDF Sub-loan made in Dollars shall be repaid by a Part A Beneficiary in Dollars in an amount equivalent to the principal amount so onlent; provided, however, that a Part A Beneficiary may pay in Dong the equivalent of the principal amount of an RDF Sub-loan made in Dollars at the prevailing selling exchange rate for Dollars applied by the respective Participating Financial Institution at the date of repayment;

- (ii) repayment of the principal amount of the RDF Sub-loan shall not exceed the shorter of the period projected for recovery of the Sub-project costs or ten (10) years, including a grace period determined on the basis of the Sub-project's cash flow projections and the Part A Beneficiary's repayment capability, provided, however, that short term RDF Sub-loans shall have a maturity not to exceed twelve (12) months; and
- (iii) payment of interest on the principal amount of the RDF Sub-loan withdrawn and outstanding from time to time, at a fixed or variable rate per annum in accordance with the applicable published interest rate of the Participating Financial Institution.

2. Except as the Association shall otherwise agree, to qualify for an RDF Sub-loan, a Part A Beneficiary shall demonstrate:

(a) that the Beneficiary meets all the eligibility criteria set forth in the RDF Policy Manual including:

- (i) being engaged in production, investment or related services for the rural economy, including farming, small and medium scale rural based industries, fisheries and rural services; and
- (ii) having the managerial and financial capability to service the principal, interest and other charges of the RDF Sub-loan; and

(b) that the Sub-project for which the RDF Sub-loan is being requested shall meet the following conditions:

- (i) the total estimated Sub-project costs shall be covered by: (A) a minimum of 15% from the Part A Beneficiary's own resources; and (B) the balance, by the principal amount of the RDF Sub-loan plus the principal amount of a RDF Additional Financing in an amount equal to at least 10% of the total estimated Sub-Project costs;
- (ii) for Sub-projects financed by an RDF Sub-loan in an amount of \$150,000 or more, an environmental impact assessment and certification issued by MOSTE or DOSTE, as the case may be, where required under the laws of the Borrower.
- (iii) for Sub-projects financed by an RDF Sub-loan in an amount of \$50,000 equivalent or more, a financial plan including the Sub-project's cash flow, shall have been prepared.

Part C. FRP Sub-loans

1. Without limitation on the provisions of Part A of Section II of this Schedule and of Schedule 1 to this Agreement, FRP Sub-loans shall be made by the Bank for the Poor under the following terms and

conditions:

(a) Sub-projects to be financed using the proceeds of an FRP Sub-loan shall be appraised by the Bank for the Poor and financed in accordance with the criteria set forth in the FRP Policy Manual and the provisions of this Agreement; and

(b) FRP Sub-loans shall be made pursuant to the terms and conditions set forth in the FRP Policy Manual and the provisions of this Schedule including:

- (i) the principal amount of an FRP Sub-loan shall be in Dong and shall not exceed 75% of the total estimated Sub-project costs or \$1,000 equivalent whichever is smaller. The principal amount of an FRP Sub-Loan shall be repaid by a Part B Beneficiary in Dong in an amount equivalent to the principal amount so onlent;
- (ii) repayment of the principal amount of the FRP Sub-loan shall not exceed the shorter of the period projected for recovery of the Sub-project costs or three (3) years, including a grace period determined on the basis of the Sub-project's cash flow projections and the Part B Beneficiary's repayment capability, provided, however, that short term FRP Sub-loans shall have a maturity not to exceed twelve (12) months; and
- (iii) payment of interest on the principal amount of the FRP Sub-loan withdrawn and outstanding from time to time, at a fixed or variable rate per annum in accordance with the applicable published interest rate of the Bank for the Poor.

2. Except as the Association shall otherwise agree, to qualify for obtaining an FRP Sub-loan, a Part B Beneficiary shall demonstrate:

(a) that the Beneficiary meets each and all the eligibility criteria set forth in the FRP Policy Manual including:

- (i) being engaged in production, investment or related services for the rural economy, including farming, small scale rural based industries, fisheries and rural services; and
- (ii) having managerial and financial capability to service the principal, interest and other charges of the FRP Sub-loan; and

(b) that the Sub-project for which the FRP Sub-loan is being requested shall meet the following condition, namely, that the total estimated Sub-project costs shall be covered by: (i) a minimum of 15% from the Part B Beneficiary's own resources; and (ii) the balance, by the principal amount of an FRP Sub-loan plus the principal amount of an FRP Additional Financing in an amount equal to at least 10% of the total estimated Sub-project costs.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories (1), (2), (3) and (4);

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

to this Agreement; provided, however, that notwithstanding the provisions set forth in paragraph 2(b) of Part A, Section II of Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 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 \$5,000,000 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 15,000,000.

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 a deposit or deposits 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 in 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 4.02 (a) (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 for Part A of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Part A of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

SCHEDULE 7

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

- (1) The last sentence of Section 3.02 is deleted.
- (2) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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."

(3) The words "the Association may, by notice to the Borrower terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 3 (c), Part A, Section II of Schedule 5 to the Development Credit Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Association may, by notice to the Borrower terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

