

CONFORMED COPY

CREDIT NUMBER 3822-KH

Development Credit Agreement

(Provincial and Rural Infrastructure Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 31, 2003

CREDIT NUMBER 3822-KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 31, 2003, between KINGDOM OF CAMBODIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) “Counterpart Funds Accounts” means, collectively, the accounts referred to in Section 3.02(a) of this Agreement.

(c) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts

caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, all such Displaced Persons.

(d) “Environmental Management Plan” means the plan dated June 13, 2003, adopted by the Borrower, and referred to in paragraph 5 of Schedule 4 to this Agreement, which sets forth measures to mitigate any adverse environmental impact that may result from the implementation of the Project, as said Plan may be amended from time to time with the prior agreement of the Association.

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

(f) “Indigenous Peoples Development Framework” means the framework dated June 13, 2003, adopted by the Borrower and referred to in paragraph 6 of Schedule 4 to this Agreement, which sets forth policies and procedures for full consultation with and informed participation of ethnic minorities within the Project area, as said framework may be amended from time to time with the prior agreement of the Association.

(g) “MEF” means the Borrower’s Ministry of Economy and Finance, and any successor thereto.

(h) “Memorandum of Understanding” means the agreement among MEF, MRD and MPWT, to be entered into in accordance with Paragraph 4 of Schedule 4 to this Agreement delineating responsibility for Project implementation among the respective parties, as said agreement may be amended from time to time with the prior agreement of the Association.

(i) “Mines/UXO” means landmines and other similar explosive devices, including bombs, booby traps, munitions and unexploded ordnance of any kind.

(j) “MPWT” means the Borrower’s Ministry of Public Works and Transport, and any successor thereto.

(k) “MPWT Special Account” means the account referred to in Section 2.02(b)(i) of this Agreement.

(l) “MRD” means the Borrower’s Ministry of Rural Development, and any successor thereto.

(m) “MRD Special Account” means the account referred to in Section 2.02(b)(ii) of this Agreement.

(n) “Project Accounts” means the accounts referred to in Section 3.02(b) of this Agreement.

(o) “Project Implementation Plan” means the plan, acceptable to the Association, adopted by the Borrower for the implementation of the Project, in accordance with the provisions of paragraph 3 of Schedule 4 to this Agreement, as said plan may be amended from time to time with the prior agreement of the Association.

(p) “Project Preparation Advances” means, collectively, the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on May 21, 2001 and on behalf of the Borrower on July 6, 2001, and the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on August 8, 2002 and on behalf of the Borrower on September 9, 2002.

(q) “Project Provinces” means the Borrower’s provinces of Kampong Thom, Oddar Meanchey, Preah Vihear and Siem Reap, and a “Project Province” means any of said Project Provinces.

(r) “Resettlement Policy Framework” means the policy framework for compensation, resettlement and rehabilitation of Displaced Persons, dated June 13, 2003, adopted by the Borrower and referred to in paragraph 6 of Schedule 4 to this Agreement, as said Framework may be amended from time to time with the prior agreement of the Association.

(s) “Special Accounts” means, collectively, the MPWT Special Account and the MRD Special Account.

(t) “Steering Committee” means the committee established and maintained by the Borrower in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement.

(u) “UN Guidelines” means the United Nations’ safety standards and guidelines as set forth in the "International Mine Action Standards" Section of the United

Nations De-mining Database, as the same may be amended from time to time, and such term includes any schedules to the UN Guidelines.

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 Fourteen Million One Hundred Eighty Thousand Special Drawing Rights (SDR14,180,000).

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 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: (i) a separate special deposit account for Parts A.1, B.1, C.1, D.1 and E.1 of the Project (the MPWT Special Account), and (ii) a separate special deposit account for Parts A.2, B.2, C.2, D.2 and E.2 of the Project (the MRD Special Account), in each case in the National Bank of Cambodia on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be September 30, 2007, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2013 and ending May 15, 2043. Each installment to and including the installment payable on May 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

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

Section 3.02. (a) Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, for purposes of financing its contribution to expenditures under the Project:

- (i) open two accounts at the National Bank of Cambodia for deposit of the Borrower's allocation of counterpart funds for MPWT (the MPWT Counterpart Funds Account) and MRD (the MRD Counterpart Funds Account) and, thereafter, maintain said Counterpart Funds Accounts under terms and conditions acceptable to the Association until the completion of the Project;
- (ii) out of its own resources (A) deposit into the MPWT Counterpart Funds Account an initial amount equivalent to Sixty Thousand Dollars (\$60,000) and (B) deposit into the MRD Counterpart Funds Account an initial amount equivalent to Sixty Thousand Dollars (\$60,000);
- (iii) thereafter, out of its own resources, replenish the Counterpart Funds Accounts by depositing therein the amounts needed by MPWT and MRD in accordance with actual expenditures from the respective Counterpart Funds Accounts;
- (iv) ensure that funds deposited into the Counterpart Funds Accounts in accordance with subparagraphs (ii) and (iii) of paragraph (a) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit; and
- (v) for purposes of this Section, the term "own resources" referred to in subparagraphs (ii) and (iii) of paragraph (a) of this Section means resources of the Borrower other than those derived from the proceeds of the Credit.

(b) For purposes of ensuring the availability of counterpart funds at the provincial level for the implementation of the Project, the Borrower shall cause MPWT and MRD to open and thereafter maintain commercial bank deposit accounts for their respective departments in each of the Project Provinces (the Project Accounts).

Section 3.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

(b) During the period of Project implementation, the Borrower shall, with respect to any contracts for works on roads in the Project Provinces that are pre-financed

or awarded on a non-competitively bid basis and not financed out of the proceeds of the Credit, disclose publicly, in a manner acceptable to the Association, all pertinent contract information, including the contractor, contract terms, and such other information as the Association may from time to time require.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

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

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

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower shall have made the initial deposits into the Counterpart Funds Accounts specified in Section 3.02(a)(ii)(A) and (B);

(b) the Borrower shall have established a financial management system, acceptable to the Association, including: (i) adoption of a financial management manual acceptable to the Association, and (ii) completion of appropriate training for staff of MPWT, MRD and their respective departments in the Project Provinces;

(c) the Borrower shall have adopted the Project Implementation Plan; and

(d) the Borrower shall have allocated adequate resources in support of a Project staffing plan acceptable to the Association.

Section 5.02. 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, namely that the Environmental Management Plan, the Resettlement Policy Framework and the Indigenous Peoples Development Framework have been duly authorized or ratified by, and are legally binding upon, the Borrower.

Section 5.03. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economy and Finance
92nd Street, Sangkat Wat Phnom
Phnom Penh
Kingdom of Cambodia

Facsimile:
(855-23) 427 - 798
(855-23) 725 - 341

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF CAMBODIA

By /s/ Roland Eng

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christian Rey

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Credit**

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works		90%
(a) under Part B.1 of the Project	8,280,000	
(b) under Part B.2 of the Project	2,130,000	
(2) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) under Part C.1 of the Project	430,000	
(b) under Part C.2 of the Project	280,000	
(3) Consultants' services		95%
(a) under Parts A.1, B.1, C.1, D.1 and E.1 of the Project	880,000	
(b) under Parts A.2, B.2, C.2, D.2 and E. 2 of the Project	530,000	
(4) Training		100%
(a) under Part C.1 of the Project	300,000	
(b) under Part C.2 of the Project	200,000	
(5) Incremental operating costs		50%
(a) under Parts A.1, B.1, C.1, D.1 and E.1 of the Project	130,000	
(b) under Parts A.2, B.2, C.2, D.2 and E.2 of the Project	90,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Refunding of Project Preparation Advances	230,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	700,000	
	<u>14,180,000</u>	
TOTAL	=====	

2. For the purposes of this Schedule:

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

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that, withdrawals in an aggregate amount not exceeding SDR7,000 may be made in respect of Categories 4(b) and 5(b) on account of expenditures before that date but after June 6, 2003; or (b) Category (1), unless the Borrower has pursuant to paragraph 7(a) of Schedule 4 to this Agreement, furnished satisfactory evidence to the Association that it has taken appropriate measures to ensure the soundness of its Mines/UXO clearance activities.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$1,000,000 equivalent each; (b) goods, regardless of the cost thereof; (c) consultants' services under contracts awarded to consulting firms costing less than \$100,000 equivalent each; (d) consultants' services under contracts awarded to individual consultants costing less than \$50,000 equivalent each; (e) training, regardless of the cost thereof; and (f) incremental operating costs, regardless of the cost thereof; 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 enhance the livelihood of the peoples residing in the Project Provinces by providing sustainable access to markets and essential services through: (i) a program of road rehabilitation and maintenance; (ii) a program of capacity building and training; and (iii) development of improved public policies and strategies.

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: Maintenance Management

1. (a) Installation and operation of road maintenance management systems at the national level in MPWT and at the provincial level in MPWT's departments in the Project Provinces; and (b) carrying out of annual programs of routine maintenance on all secondary-national and provincial roads in good and fair condition in the Project Provinces.
2. (a) Installation and operation of road maintenance management systems at the national level in MRD and at the provincial level in MRD's departments in the Project Provinces; and (b) carrying out of annual programs of routine maintenance on all tertiary roads in good and fair condition in the Project Provinces.

Part B: Rehabilitation and Periodic Maintenance of Secondary-national, Provincial and Tertiary Roads.

Carrying out of a program of rehabilitation and periodic maintenance of approximately 300 kilometers (km) of strategic secondary-national and provincial roads in the Project Provinces.

1. Carrying out of a program of rehabilitation and periodic maintenance of approximately 300 km of tertiary roads in the Project Provinces.

Part C: Capacity Building

1. Carrying out of a program of institutional capacity strengthening for MPWT at the national level and its departments in the Project Provinces.
2. Carrying out of a program of institutional capacity strengthening for MRD at the national level and its departments in the Project Provinces.

Part D: Policy and Strategy Development

1. Carrying out of a program to improve MPWT policy and strategy development in the areas of (a) integrated planning and budgeting of roads; (b) least cost life-cycle standards; (c) use of appropriate technology; (d) mainstreaming of road maintenance; and (e) institutional reform.
2. Carrying out of a program to improve MRD rural road policy and strategy development in the areas of (a) integrated planning and budgeting of roads; (b) least cost life-cycle standards; (c) use of appropriate technology; (d) mainstreaming of road maintenance; and (e) institutional reform.

Part E: Community Awareness

1. Carrying out through MPWT of a community awareness program aimed at increased awareness by transport agencies and residents of related risks in road safety; HIV/AIDS; people's participation in road planning, and access to public information; and mine and unexploded ordnance risks and clearance programs.
2. Carrying out through MRD of a community awareness program aimed at increased awareness by transport agencies and residents of related risks in road safety; HIV/AIDS; people's participation in road planning and road maintenance, and access to public information; and mine and unexploded ordnance risks and clearance programs.

* * *

The Project is expected to be completed by March 31, 2007.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

Preference for domestically manufactured goods and domestic contractors

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 works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$15,000,000 equivalent, and goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the Annex to this Schedule 3.

2. International and National Shopping

Goods, consisting of office equipment, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures, and goods, consisting of simple office equipment, office supplies and furniture, estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$40,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures, in each case in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Motorcycles and vehicles may be procured from United Nations Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to (i) each contract for works estimated to cost the equivalent of \$1,000,000 or more, (ii) in each calendar year, the first contract for works procured under paragraph 1 of Part C of Section I of this Schedule by each of the respective departments of MPWT and MRD in each Project Province, (iii) each contract for goods estimated to cost the equivalent of \$200,000 or more, and (iv) the first contract for goods awarded under paragraph 1 of Part C of Section I of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for goods procured under paragraph 2 of Part C of Section I of this Schedule, the following procedures shall apply:

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, the following provisions of Section II of this Section and the provisions of the Annex to this Schedule 3.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for project auditors estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured

under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for Project implementation tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines, and may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications and experience of consultants selected on a sole-source basis, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

Annex to Schedule 3**Additional Procurement Provisions**

The following provisions shall apply in respect of contracts for goods and works financed under the Project and procured according to national competitive bidding procedures.

1. Foreign suppliers and contractors from eligible countries shall, if they are interested, be allowed to participate without being required to associate or form joint ventures with local suppliers or contractors.
2. Prior registration shall not be a requirement to participate in bidding procedures; but it may be required in the case of a selected bidder as a condition of signing a contract.
3. Pre-qualification of contractors shall be required for competitive bidding in the case of large or complex works; in all other cases, pre-qualification shall only be required in justifiable cases and with the prior approval of the Association.
4. When pre-qualification is required, the evaluation methodology shall be based on pass/fail criteria relating to the firm's experience, technical, financial, physical and human resource capacities.
5. A public bid opening ceremony shall take place immediately after the deadline for presentation of bids, and without any intervening time lag, and, during such public bid opening ceremony, bids shall be opened and read out in public, and in the presence of bidders' representatives who wish to attend.
6. In all cases, the award shall be made to the lowest evaluated responsive and complying bid and, except with the prior approval of the Association, no negotiations shall take place with any bidder prior to the award, even when all bids exceed the cost estimates.
7. In the case of all contracts with a duration in excess of 18 months, bidding documents shall allow for price adjustment formulae.
8. Bidders, who disagree with arithmetic corrections made by the evaluating committee during the evaluation stage, shall not be allowed to withdraw their bids without forfeiting their bid security.
9. The Association reserves the right to require that all contracts under national competitive bidding procedures financed by the Association, include a provision requiring suppliers and contractors to permit the Association to inspect their accounts and records relating the performance of the contracts and to have them audited by auditors appointed by the Association.

SCHEDULE 4

Implementation Program

Project Monitoring

1. 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, together with each Financial Monitoring Report furnished to the Association pursuant to Section 4.02 of this Agreement, 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) within thirty days of furnishing the report referred to in paragraph (b) of this Section, or such later date as the Association shall request, review said report with the Association, 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.

Project Management

2. The Borrower shall establish, by December 31, 2003, and thereafter maintain throughout the period of implementation of the Project, a steering committee including representation from, inter alia, MEF, MPWT and MRD, responsible for providing over all guidance in the implementation of the Project.

Project Implementation

3. The Borrower shall:

(a) carry out the Project in accordance with a project implementation plan satisfactory to the Association, which shall include, inter alia: (i) a financial management manual incorporating policy and procedures satisfactory to the Association regarding

accounting, reporting and internal control mechanisms and procedures, including the management, control and auditing of the Special Accounts; (ii) a requirement to prepare and carry out the works under Parts A and B of the Project in accordance with annual plans acceptable to the Association; (iii) criteria for the selection of roads for inclusion in the rehabilitation and maintenance program under the Project; (iv) measures required under the Environmental Management Plan, the Resettlement Policy Framework and the Indigenous Peoples Development Framework; (v) procurement procedures, as set forth in Schedule 3 to this Agreement, including procedures for procurement by the Project Provinces; and (vi) monitoring requirements and processes; and

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

4. The Borrower shall cause MEF, MPWT and MRD to enter into the Memorandum of Understanding by December 31, 2003, and thereafter, throughout the period of implementation of the Project, maintain said Memorandum of Understanding in full force and effect and shall not modify, amend, waive or abrogate the provisions thereof without the prior agreement of the Association.

5. In carrying out Parts A and B of the Project, the Borrower shall engage independent auditors to conduct technical assessments of Project implementation, under terms of reference satisfactory to the Association, and shall furnish to the Association, no later than June 30 in each year, commencing June 30, 2004, the report of said auditor.

6. The Borrower shall: (a) carry out the Project in accordance with, and shall implement all measures required under, the Environmental Management Plan, the Resettlement Policy Framework and the Indigenous Peoples Development Framework; and (b) prepare, under terms of reference satisfactory to the Association, for works to be carried out in each year of Project implementation, an environmental impact assessment including appropriate mitigation measures, furnish such assessment to the Association for its review and approval and thereafter carry out said works in accordance with said mitigation measures as have been approved by the Association.

7. In carrying out Part B of the Project, (a) the Borrower shall employ a contractor satisfactory to the Association, and take other measures satisfactory to the Association, for the purposes of ensuring that all Mines/UXO clearance activities are carried out according to methods and procedures which are technically, financially and legally sound, and in accordance with the UN Guidelines; and (b) prior to the commencement of any road rehabilitation works under the Project, furnish to the Association a certificate of the Borrower, acceptable to the Association, on the absence of a Mines/UXO threat within the areas to be covered by said works.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means (i) Categories (1)(a), (2)(a), (3)(a), (4)(a) and (5)(a) in respect of the MPWT Special Account, and (ii) Categories (1)(b), (2)(b), (3)(b), (4)(b) and (5)(b) in respect of the MRD Special Account;

(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 \$1,500,000 in respect of the MPWT Special Account and an amount equivalent to \$500,000 in respect of the MRD Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts 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 \$500,000 in respect of the MPWT Special Account and an amount equivalent to \$200,000 in respect of the MRD Special Account, until (i) in respect of the MPWT Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(a), (2)(a), (3)(a), (4)(a) and (5)(a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A.1, B.1, C.1, D.1 and E.1 of the Project shall be equal to or exceed the equivalent of SDR 2,000,000, and (ii) in respect of the MRD Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(b), (2)(b), (3)(b), (4)(b) and (5)(b) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A.2, B.2, C.2, D.2 and E.2 of the Project shall be equal to or exceed the equivalent of SDR500,000.

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

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

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

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

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

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make 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 said eligible Categories, 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 the respective Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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