

CONFORMED COPY

CREDIT NUMBER 3216 KH

Development Credit Agreement

(Northeast Village Development Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 15, 1999

CREDIT NUMBER 3216 KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 15, 1999, between Kingdom of Cambodia (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

WHEREAS (B) the Borrower intends to obtain from Japan a grant (the Japan Investment Grant) in an amount equivalent to seven hundred and two thousand dollars (\$702,000) to assist in financing part of the Project on terms and conditions set forth in an agreement (the Japan Grant Agreement) to be entered into between the Borrower and Japan; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

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

(c) paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Development Credit."

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, wherever used in this Agreement, have the following meanings:

(a) "Beneficiary" means a VDC or other rural-based community or community group, which is determined to be eligible for a Grant, in terms of the eligibility criteria specified in the Project Operational Manual, and for whose benefit a Grant is provided, or proposed to be provided;

(b) "Grant" means a grant made, or proposed to be made, out of the proceeds of the Credit for the benefit of a Beneficiary to finance a Subproject;

(c) "MRD" means the Borrower's Ministry of Rural Development and any successor thereto;

(d) "NBC" means the National Bank of Cambodia, the Borrower's Central Bank and any successor thereto;

(e) "PIU" means the Project Implementation Unit referred to in paragraph 1 (a) and (b) (i) of Schedule 4 to this Agreement;

(f) "PPIU" means a Provincial Project Implementation Unit referred to in paragraph 1 (a) and (b) (ii) of Schedule 4 to this Agreement;

(g) "PRA" means a participatory rural appraisal referred to in Part A.1 of the Project;

(h) "PRA Implementation Guide" or "PRAIG" means the PRA Implementation Guide, giving details of procedures for the preparation and carrying out of PRAs, including criteria for the selection of Selected Villages, adopted by the Borrower, and set forth in the Project Operational Manual, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the PRA Implementation Guide;

(i) "PRDC" means a Provincial Rural Development Committee established in any one of the provinces of the Project Area, and referred to in paragraph 1 (b) (iii) of Schedule 4 to this Agreement;

(j) "Project Area" means the Borrower's provinces of Kompong Cham, Kompong Thom, Kratie and Stung Treng;

(k) "Project Implementation Plan" means the Project Implementation Plan, dated February 2, 1999, adopted by the Borrower, and giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(l) "Project Operational Manual" means the Project Operational Manual referred to in paragraph (3) (a) of Schedule 4 hereto, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Operational Manual;

(m) "Project Steering Committee" or "PSC" means the Project Steering Committee referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(n) "Selected Villages" means villages in the Project Area which have been selected by the Borrower to participate in the Project, in accordance with criteria specified in the PRA Implementation Guide;

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

(p) "Subproject" means an activity referred to under Part A.2 of the Project, and in respect of which a Grant is provided, or proposed to be provided, for the benefit of a Beneficiary;

(q) "Subproject Agreement" means an agreement between the Borrower and a Beneficiary, and referred to in paragraph 6 (g) of Schedule 4 to this Agreement; and

(r) "VDC" means Village Development Committee, a village-based entity established, or to be established, from time to time to carry out PRAs, and prepare and implement Subprojects, on behalf of the village.

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 three million six hundred thousand Special Drawing Rights (SDR 3,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A.1, A.3 and B of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of a Beneficiary under a Grant to meet the reasonable cost of eligible expenditures relating to a Subproject, and 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 NBC 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 5 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2002 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 March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1, commencing September 1, 2009 and ending March 1, 2039. Each installment to and including the installment payable on March 1, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MRD with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to ecological and environmental factors, 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. For the purposes of Part A.2 of the Project, the Borrower shall allocate an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (4) of the table in paragraph 1 of Schedule 1 to this Agreement, to provide Grants to finance Subprojects, on the terms and conditions specified in paragraph 6 of Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association.

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

Section 3.04. For the purposes of Section 9.07 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

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

(iii) furnish to the Association such other information concerning said records and 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 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than January 31, 2000, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

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

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

ARTICLE V

Remedies of the Association

Section 5.01. (a) Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified: namely, that, subject to paragraph (b) of this Section, the right of the Borrower to withdraw the proceeds of the Japan Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Japan Grant Agreement.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under the Japan Grant Agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has established an adequate financial management and accounting system, acceptable to the Association, and selected the auditors referred to in Article IV of this Agreement, in accordance with Section II of Schedule 3 to this Agreement;

(b) PSC and PIU have been established, and the national project manager and accounts officer referred to in paragraph 2 (a) of Schedule 4 to this Agreement duly appointed, in accordance with Section II of Schedule 3 to this Agreement.

Section 6.02. The date 90 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister in charge of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

KINGDOM OF CAMBODIA

By /s/ Tan Vunyaung

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Okonjo-Iweala

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	150,000	90%
(2) Goods	470,000	100% of foreign expenditures, 100% of local

			expenditures (ex-factory cost) and 85% of local expenditures for
other			items procured locally
(3)	Consultants' services	1,050,000	100%
(4)	Grants	1,650,000	100% of amounts of Grants disbursed
(5)	Operating costs	140,000	90%
(6)	Unallocated	140,000	
	TOTAL	<u>3,600,000</u>	<u>=====</u>

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means the incremental operating costs incurred under the Project by PIU and PPIUs on account of (i) travel costs and allowances, (ii) maintenance of vehicles and equipment, (iii) banking charges, and (iv) office rent, supplies and utilities.

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; and

(b) in respect of payments under Category (4) of the table in paragraph 1 of this Schedule, unless (i) the Project Operational Manual has been duly approved by the Association, and adopted by the Borrower; (ii) the PPIU has been established in the relevant province, and the provincial project manager referred to in paragraph 2 (b) of Schedule 4 to this Agreement has been appointed; and (iii) the Grant has been provided in accordance with the procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Project Operational Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) consultants' services (firms) under contracts not exceeding \$50,000 equivalent, (b) goods, works and consultants' services (individuals) under contracts not exceeding \$25,000 equivalent, (c) Grants not exceeding \$25,000 equivalent, and (d) operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to demonstrate the feasibility of decentralized, participatory and poverty-oriented rural development programs in the poorest areas of Cambodia and to gain the experience in managing such programs needed by the Borrower for formulating and carrying out a cohesive national strategy for rural development in the post-2001 period.

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: Participatory Planning and Investment

1. Development of a participatory planning system, including formation of Village Development Committees (VDCs), and preparation and carrying out of participatory rural

appraisals in up to 120 villages in the Project Area to enable VDCs to determine community development priorities and identify possible community development activities (hereinafter referred to as Subprojects) for financing under the Project.

2. Preparation and appraisal, implementation and supervision, and monitoring and evaluation, of Subprojects, including improvement or rehabilitation of physical infrastructure supportive of economic activities, designed to raise the standard of living and well-being of a community or to overcome constraints to its development, and provision of Grants to finance such Subprojects.

3. Strengthening the capacity of PPIUs to implement and monitor the participatory planning and investment system in the Project area, through provision of technical advisory services and training, including advisory services and training in the organization of PRAs and community development, Subproject preparation, appraisal, financial analysis and monitoring, and rural works engineering and procurement.

Part B: Institutional Strengthening and Project Management

Strengthening of the Borrower's institutions at the national provincial and lower levels to enable them to carry out the Project and achieve its objectives, through provision of technical advisory services and training, acquisition of vehicles, office equipment and supplies, and rehabilitation of offices to be used by the staff of the Project at headquarters and in the provinces and districts.

* * *

The Project is expected to be completed by October 31, 2001.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

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

Part B: Other Procurement Procedures

1. National Shopping

Except as provided in Parts B.2 and B.4 of this Section, goods may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Community Participation

Goods and works required for Part A.2 of the Project shall be procured in accordance with procedures acceptable to the Association, and specified in the Project Operational Manual.

3. Procurement of Small Works

Except as provided in Part B.2 of this Section, works may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Procurement from UN Agencies

Vehicles, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured from Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply, subject to the provisions of the following sub-paragraph (b), to each contract for (i) goods, works, and goods and works under Subprojects, estimated to cost the equivalent of \$25,000 or more, (ii) the first three contracts for goods, (iii) the first three contracts for works, and (iv) goods and works under the first Subproject to be approved in each of the provinces included in the Project Area.

(b) If any of the contracts referred to in the preceding sub-paragraph is to be procured in accordance with the procedures referred to in Part B.1, B.2 or B.3 of this Section, the following review procedures shall apply with respect to the contract:

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

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

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part B of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Individual Consultants

Services under Parts A.1 and A.3 of the Project may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall establish and thereafter maintain a Project Steering Committee (PSC), whose terms of reference and composition shall be acceptable to the Association, to be responsible for overall coordination and general oversight of the Project, a Project Implementation Unit (PIU) to be responsible for the day-to-day management and implementation of the Project and, in the case of each of the provinces of the Project Area, a Provincial Project Implementation Unit (PPIU).

(b) The Borrower shall take steps to ensure that:

(i) PIU shall, subject to the overall authority and oversight functions of PSC, be responsible for (A) production and updating of the Project Implementation Plan, PRA Implementation Guide and Project Operational Manual, (B) coordination of procurement and disbursement activities, and implementation of monitoring and evaluation activities, (C) preparation of annual and semi-annual implementation reports and work plans, and design of training programs for MRD and provincial staff;

- (ii) PPIUs shall be responsible for the day-to-day implementation of the activities of the Project in their respective provinces, including facilitation of the establishment of VDCs, PRA planning activities, review of Subproject proposals, and training and monitoring activities; and
- (iii) PRDCs shall be responsible for review and approval of Subproject proposals developed in their respective provinces and submitted to them for approval by the PPIUs.

2. The Borrower shall ensure that:

(a) PIU shall be headed by a national project manager, who shall be assisted by an accounts officer, a financial adviser, an institutional development adviser, and other suitably qualified and experienced staff in adequate numbers;

(b) each PPIU shall be headed by a provincial project manager, who shall be assisted by technical advisers, and other suitably qualified and experienced staff in adequate numbers; and

(c) the positions of national and provincial project managers, accounts officer, financial adviser, institutional development adviser and technical advisers, which are referred to in this paragraph, shall be kept filled at all times by persons having qualifications and experience acceptable to the Association.

3. The Borrower shall:

(a) prepare and transmit to the Association for comments, and thereafter adopt in form and substance acceptable to the Association, a Project Operational Manual, giving details of all procedural arrangements for the review, appraisal, supervision, and monitoring and evaluation, of Subprojects, including procedures for submission and review of requests for financing, criteria for the review and approval of Subprojects, and approval of Grants, applicable procurement, disbursement and other implementation guidelines, PRA Implementation Guide, and model forms of Subproject Agreements and works contracts with local contractors; and

(b) carry out the Project in accordance with procedures set out in the Project Implementation Plan and Project Operational Manual, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

4. 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, and referred to in the Project Implementation Plan, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2000, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

5. (a) The Borrower shall, not later than November 30 of each year, beginning November 30, 1999, furnish to the Association, for review and approval, proposed annual work programs and budgets for the forthcoming fiscal year, giving details of proposed disbursement estimates, proposed procurement activities, and such other particulars as the Association may require.

(b) The Borrower shall furnish to the Association, for review,

- (i) quarterly progress reports on the status of the Project, to be submitted not later than 45 days after the end of each quarter, and
- (ii) reports as needed on the award of contracts under the Project.

6. Further to Section 3.02 of this Agreement, the proceeds of the Credit allocated to Category (4) of the table in paragraph 1 of Schedule 1 to this Agreement shall be subject to the following additional terms and conditions:

(a) the amount so allocated shall be used exclusively to provide Grants to finance Subprojects, in accordance with criteria, and terms and conditions, set forth in the Project Operational Manual;

(b) no Grant shall be granted except to finance a Subproject which (i) is technically sound and feasible, and financially viable, and (ii) contributes to the living standards and well-being of the community or community group concerned;

(c) no Subproject shall be considered for approval unless:

(i) the Beneficiary has provided a plan for the maintenance of any productive assets resulting from the Subproject, upon its completion, and for the payment of recurrent expenditures required thereunder;

(ii) in the case of a Subproject involving the involuntary resettlement of persons, a policy framework, acceptable to the Association, for the proper compensation, rehabilitation and resettlement of such affected persons has been developed, and reflected in the Project Operational Manual, and a resettlement action plan, acceptable to the Association and consistent with such policy framework, has been established and agreed upon with such affected persons;

(d) every Subproject proposal shall be classified according to environmental impact category, and subjected as necessary to environmental impact analysis, to ensure that: (i) it is fully consistent with environmental appraisal criteria set out in the Project Operational Manual, and (ii) where appropriate, mitigation measures designed to minimize adverse effects of the proposed Subproject are identified and incorporated in the Subproject design;

(e) Grants shall be provided for the benefit of eligible Beneficiaries, and according to a cost-sharing formula, which shall be acceptable to the Association and specified in the Project Operational Manual; provided, however, that:

(i) the proceeds of a Grant shall not be used to finance taxes or duties levied on or in respect of eligible expenditures relating to a Subproject, or any part thereof; and

(ii) except as the Association shall otherwise agree, the amount of each Grant shall not exceed \$25,000 equivalent, or 90 percent of the total cost of the Subproject, whichever is less;

(f) goods, services and works required for the purposes of financing Subprojects shall be procured in accordance with procedures referred to in Schedule 3 to this Agreement, and set forth in the Project Operational Manual; and

(g) for purposes of each Grant, the Borrower shall conclude an agreement with the Beneficiary in the form of the model provided in the Project Operational Manual, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, the amount of the Beneficiary's contribution to the cost of the Subproject, and the right of the Borrower to:

(i) require the Beneficiary (A) to carry out the Subproject with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to ecological and environmental factors, and to maintain adequate records, (B) to take out and maintain with responsible insurers, or make other provision satisfactory to the Borrower and the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice,

(C) where applicable, to carry out the resettlement action plan or

environmental mitigation measures agreed upon for purposes of the Subproject, and referred to in paragraphs 6 (c) (ii) and 6 (d) (ii), respectively, of this Schedule, and (D) upon completion of the Subproject, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;

- (ii) obtain all such information as the Association or the Borrower shall reasonably request relating to the implementation of the Subproject and the performance of the Beneficiary thereunder; and
- (iii) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Grant upon failure by such Beneficiary to perform its obligations under such agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 500,000.

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

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

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

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

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

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

shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

(d) Refunds to the Association made pursuant to 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.

[Redacted]