

CONFORMED

CREDIT NUMBER 3675 LA

Project Agreement

(Poverty Reduction Fund Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

POVERTY REDUCTION FUND

Dated August 19, 2002

CREDIT NUMBER 3675 LA

PROJECT AGREEMENT

AGREEMENT, dated August 19, 2002, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the POVERTY REDUCTION FUND.

WHEREAS: (A) By the Development Credit Agreement of even date herewith between Lao People's Democratic Republic (the "Borrower") and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifteen million three hundred thousand Special Drawing Rights (SDR 15,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on the condition that the Poverty Reduction Fund agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) the Poverty Reduction Fund, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

**Execution of the Project;
Management and Operations of the Poverty Reduction Fund**

Section 2.01. (a) The Poverty Reduction Fund declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial, administrative and technical, and social and environmental standards, with suitably qualified and experienced management and personnel in adequate numbers, and shall provide promptly as needed, the funds, facilities, services and other resources required for the carrying out of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association shall otherwise agree, the Poverty Reduction Fund shall carry out the Project in accordance with the implementation program set forth in Schedule 1 to this Agreement.

(c) Except as the Association shall otherwise agree: (i) procurement of the goods, works and consultants' services, if any, required to carry out a Sub-project under Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement; and (ii) procurement of the goods, works and consultants' services required to carry out Parts B and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.02. (a) The Poverty Reduction Fund shall enter into a Fund Grant Agreement with the Borrower, whereby the Borrower shall make the entire proceeds of the Credit available, promptly and without delay, to the Poverty Reduction Fund on a non-reimbursable grant basis, all under terms and conditions which shall have been approved by the Association and which shall include the terms and conditions set forth in Schedule 4 to the Development Credit Agreement.

(b) The Poverty Reduction Fund shall duly perform all its obligations under the Fund Grant Agreement and shall exercise its rights under the Fund Grant Agreement in such a manner so as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the objectives of the Project, and, except as the Association shall otherwise agree, the Poverty Reduction Fund shall not assign, amend, suspend, cancel, abrogate or waive the Fund Grant Agreement, or any provision thereof.

Section 2.03. (a) The Poverty Reduction Fund undertakes that, unless the Association shall otherwise agree, Sub-grants shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement.

(b) The Poverty Reduction Fund shall exercise its rights in relation to each Sub-project financed by a Sub-grant in such manner as to: (i) protect the interests of the Borrower, the Poverty Reduction Fund and the Association; (ii) comply with its obligations under this Agreement and the corresponding Sub-grant Agreement; and (iii) further the accomplishment of the purposes of the Credit and achievement of the objectives of the Project.

Section 2.04. (a) At the request of the Association, the Poverty Reduction Fund shall exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and the Fund Grant Agreement, and such other matters relating to the purposes of the Credit and the objectives of the Project.

(b) The Poverty Reduction Fund shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the Poverty Reduction Fund of its obligations under this Agreement or under the Fund Grant Agreement.

Section 2.05. (a) The Poverty Reduction Fund shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Poverty Reduction Fund shall:

- (i) prepare, on the basis of guidelines satisfactory 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 Association and the Poverty Reduction Fund, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with the Poverty Reduction Fund on said plan.

Section 2.06. The Poverty Reduction Fund shall take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate business practices.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Poverty Reduction Fund shall maintain procedures and records adequate to monitor and record the progress of the Project and to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition, and to register the operations, resources and expenditures related to the Project.

(b) The Poverty Reduction Fund shall:

- (i) have the records referred to in paragraph (a) of this Section, its accounts and financial statements, and records and accounts for its Special Account for each of the Poverty Reduction Fund's fiscal year

audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Poverty Reduction Fund 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 60 days after effectiveness, or such later date as the Association shall agree, to prepare quarterly financial monitoring 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 Poverty Reduction Fund 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 fiscal quarter a Project Management Report for such period.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Association and of the Poverty Reduction Fund thereunder shall terminate on the date on which the Development Credit Agreement shall terminate in accordance with its terms, and the Association shall promptly notify the Poverty Reduction Fund thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For the Poverty Reduction Fund:

Poverty Reduction Fund
c/o Committee for Planning and Cooperation
Luangprabang Road
Vientiane
Lao People's Democratic Republic

Telephone:

856-21-216-654

Facsimile:

856-21-222-213

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Poverty Reduction Fund may be taken or executed by its Executive Director, or such other person or persons any such Executive Director shall designate in writing, and the Poverty Reduction Fund shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Ian C. Porter
Authorized Representative

POVERTY REDUCTION FUND

By

/s/ Liene Thikeo
Authorized Representative

SCHEDULE 1

Implementation Program

Section I. General and Institutional Matters

A. The Poverty Reduction Fund shall: (i) employ and thereafter maintain until completion of the Project, an Executive Director, whose qualifications and experience shall be acceptable to the Association, to be responsible for its day-to-day management and administration, and (ii) employ and maintain qualified and experienced staff in adequate numbers, including: (a) a Monitoring and Evaluation Coordinator; (b) a Planning, Operations and Training Coordinator; (c) a Chief Finance and Administration Officer; and (d) other requisite resources as shall be satisfactory to the Association; and shall take all measures necessary to enable said Executive Director and staff to undertake the overall day-to-day supervision and coordination of the Project.

B. The Poverty Reduction Fund shall maintain until completion of the Project, a Provincial Technical Support Team in each Project province or district, consisting of a Coordinator, Community Institutional Development Advisor, financial management expert, a monitoring and evaluation expert, technical advisors, and community development facilitators, all in accordance with the relevant provisions of the Operations Manual.

C. Without limitation upon the provisions of Section 9.06 of the General Conditions, the Poverty Reduction Fund shall:

(i) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with the performance indicators set out in Schedule 4 to this Agreement, the progress achieved in carrying out the Project;

(ii) not later than March 1 of each calendar year, commencing January 1, 2003 and ending December 31, 2006, furnish to the Association an annual baseline report in a manner and substance acceptable to the Association;

(iii) not later than March 1 of each calendar year, commencing January 1, 2003 and ending March 1, 2008, furnish to the Association for its review and approval, an annual project implementation and performance report in a manner and substance acceptable to the Association;

(iv) not later than March 1, 2005, furnish to the Association a mid-term Project report in a manner and substance acceptable to the Association;

(v) not later than September 30 of each year, commencing September 30, 2003 and ending September 30, 2007, furnish to the Association an annual project technical assessment in a manner and substance acceptable to the Association;

(vi) not later than September 30 of each calendar year, commencing September 30, 2003, furnish to the Association an annual Beneficiary and participation assessment in a manner and substance acceptable to the Association;

(vii) by March 1, 2004, March 1, 2006 and March 1, 2008, furnish to the Association a procurement assessment for each of the preceding years in a manner and substance acceptable to the Association;

(viii) not later than March 30, 2008, furnish to the Association a final Project report in a manner and substance acceptable to the Association; and

(ix) exchange views with the Association on each report furnished pursuant to sub-paragraphs (ii), (iii), (iv), (v), (vi), (vii), and (viii) of this paragraph 3, and thereafter take all measures in relation thereto as shall have been agreed between the Association and the Poverty Reduction Fund.

Section II. Operational Provisions

A. The Poverty Reduction Fund shall at all times carry out its operations in accordance with the provisions of the Operations Manual and Finance and Administration Manual, as both said manuals may be amended by the Poverty Reduction Fund, through its Administrative Board, from time to time with the prior approval of the Association, which, except as the Association shall otherwise agree, shall:

(i) in the case of the Operations Manual, include provisions to the following effect that, except as the Association shall otherwise agree: (a) for Sub-projects and Sub-grants: (1) no single Sub-grant shall exceed the equivalent of \$25,000, and no combination of Sub-grants among villages shall exceed the equivalent of \$50,000; (2) all villages within a targeted district are eligible to participate in the Project; (3) no Sub-project shall be approved if it is the type of activity identified in the Operations Manual as a prohibited activity; (4) the proceeds of a Sub-grant shall not be used to finance taxes or duties levied on or in respect of eligible expenditures relating to a Sub-project, or any part thereof and shall not be used to finance salaries of government staff; and (b) for other matters: (1) prior to the opening of any provincial project account, the relevant provincial Project technical team has established an operable accounting system, acceptable to the Association; (2) the organization and structure of the Poverty Reduction Fund; (3) the targeting and resource allocation Sub-project cycle and procedures; (4) management information systems, including monitoring, evaluation and supervision; (5) Sub-project menu; (6) social and environmental safeguards; and (7) training and capacity building; and

(ii) in the case of the Finance and Administration Manual, include provisions that set forth the day-to-day finance and administrative procedures of the Poverty Reduction Fund, including its accounting, financial and auditing procedures.

B. The Poverty Reduction Fund shall not, without the prior written approval of the Association amend, waive, cancel, or abrogate any of the provisions of either the Operations Manual or the Finance and Administration Manual, if the effect of such amendment, waiver, cancellation, or abrogation is to revise, vary or otherwise modify any provision therein, including the formula used to calculate the Poverty Reduction Fund annual district budgetary ceilings.

C. The Poverty Reduction Fund shall, by September 30 in each year, commencing September 30, 2003, furnish to the Association for approval, the annual list of districts selected for purposes of Part A of the Project.

D. The Poverty Reduction Fund shall not enter into any cooperative or other arrangement involving the use of the proceeds of the Credit, or pertaining thereto, with other ministries and agencies of the Borrower, or any bilateral and multilateral donor agencies without the prior approval of the Association.

E. The Poverty Reduction Fund shall take steps to ensure that:

(i) each Sub-project shall, in accordance with the relevant provisions of the Operations Manual, include an analysis of any potential land acquisition or adverse environmental effects, as the case may be, arising from the implementation of said Sub-project, regardless of the source of Sub-project financing;

(ii) an environmental action plan shall be carried out in a manner acceptable to the Association and monitored on a regular basis by the Poverty Reduction Fund, all in accordance with the relevant provisions of the Operations Manual; and

(iii) each Sub-project is carried out in its entirety on public land, and that at all times the ownership of the goods, works and services under each Sub-project shall remain the public domain or otherwise revert to the Borrower.

F. The Poverty Reduction Fund shall, by December 30, in each year, commencing December 30, 2003, furnish to the Borrower and the Association, a detailed budget and expenditure report, including a report on its progress towards achieving the objective of having the total cost of Sub-projects be at least equal to seventy-five (75) percent of the total cost of the Project.

Section III. Technical Assessment of Social Organizations

The Poverty Reduction Fund shall:

(i) by June 30, 2003, commission, under terms of reference acceptable to the Association, an independent study which shall include an analysis of the Borrower's social organizations in the public and non-public sectors, and

recommendations based thereon, that assesses and analyzes: (a) the extent to which such social organizations exist in the Borrower's territory; (b) the Borrower's policy and legal regime under which said organizations are permitted to be established and operated; (c) comparative policy and legal regimes in other Asian jurisdictions; and (d) options for policy and legal adjustments that would facilitate the meaningful participation of said organizations as local partners in respect of the Project objectives;

- (ii) by December 31, 2003, exchange views with the Association on a draft version of said independent study; and
- (iii) by March 31, 2004, furnish to the Association the written views of its Administrative Board on a final version of the said report's recommendations.

SCHEDULE 2

Procurement

Section I. Procurement of Goods and Works

Part A: General

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.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods required under Parts B and C of the Project, estimated to cost less than \$100,000 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.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Borrower's Decree No. 95/PM, dated December 5, 1995 on Government Procurement of Goods, Works (Construction, Repairs) and Services and Implementing Rules and Regulations No 1639/MOF, dated December 22, 1998 on Government Procurement of Goods, Works (Construction Repairs) and Services (IRR), with the following clarifications required for compliance with the Guidelines:

- (i) no preference shall be given to a domestic bidder over foreign bidders or to a state-owned company over a non-state-owned company;
- (ii) awards shall be made on the basis of the lowest evaluated bid, and any bid award based upon a point system, or any other criteria other than the lowest evaluated bid, shall be deemed invalid;

- (iii) bids will not be automatically rejected for lack of effective competition solely on the basis of the number of bidders or because all bid prices substantially exceed the budget allocated and the provisions of paragraph (j) of article 4 of the IRR will apply only as modified by the provisions on rejections of bids set forth in paragraphs 2.59-2.62 of the Guidelines;
- (iv) state-owned enterprises in the Borrower's country may participate only if they can establish that they: (i) are legally and financially autonomous; and (ii) operate under commercial law. No dependent agency of the Borrower shall be permitted to bid or submit a proposal for the procurement of goods or works under the Project; and
- (v) the Borrower shall not require bidders or potential bidders to register as such with the relevant authority of the Borrower as a condition of bidding.

2. National Shopping

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

3. Procurement of Small Works

Works required under Parts B and C of the Project estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$135,000 equivalent, 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.

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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (i) all contracts awarded under the National Competitive Bidding provisions of Part C.1 of this Schedule; (ii) the first two contracts awarded for works estimated to cost the equivalent of \$25,000 or less under Part C of the Project; and (iii) the first contract for goods for each year estimated to cost the equivalent of \$50,000 or less under Part C of the Project.

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 (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.

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. Individual Consultants

Services under Parts B and C of the Project estimated to cost less than \$50,000 equivalent per contract shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

2. Selection based on Consultants' Qualifications

Services involving consulting firms, and estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 3

Terms and Conditions of Sub-grant Agreements

Each Sub-grant Agreement shall include the following terms and conditions, satisfactory to the Association:

1. Each Beneficiary shall be required to carry out and operate its Sub-project with due diligence and efficiency, and in accordance with sound administrative, economic, engineering, financial, legal, managerial, environmental and social standards and practices.
2. Each Beneficiary shall be required to provide a minimum contribution for the purpose of providing counterpart funding for the implementation of the relevant Sub-project, as provided for in the Operations Manual.
3. Each Beneficiary shall have the obligation to ensure at all times that: (a) goods, works and consultants' services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of this Schedule 3; and (b) such goods, works and consultants' services shall be used exclusively for implementing Sub-projects and achieving the objectives of the Project.
4. The Poverty Reduction Fund shall have the right to inspect, by itself or jointly with representatives of the Borrower or the Association, if the Association shall so request, the goods, works or services included in the Sub-project, the operation thereof and any relevant records and documents, and obtain any report in connection therewith, of such scope and in such detail as the Association shall reasonably request.
5. The Poverty Reduction Fund shall have the right to obtain all such information as the Association shall reasonably request relating to the foregoing, the administration, operations and financial condition of each Beneficiary, and the benefits derived from the Sub-projects.
6. The right of any Beneficiary to the use of the proceeds of the Credit, or any part thereof, shall be promptly suspended upon failure by such Beneficiary to perform any of its respective obligations under the Sub-grant Agreement.
7. Procurement procedures shall follow the provisions of the Operations Manual, including the following for goods, works and services:

(a) Procurement of Small Works

Works required under Part of A of the Project for small scale infrastructure Sub-projects may be procured in accordance with procedures acceptable to the Association, including the award of contracts based upon the comparison of price

quotations obtained from at least three construction firms or individuals. Invitations to bid shall be sent out to potential bidders and posted in the relevant province, district and village where the work is to be performed.

(b) Direct Contracting

Goods required under Part A of the Project estimated to cost less than \$1,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may, with the Association's prior agreement, be procured under contracts awarded after direct negotiations with contractors in accordance with the provisions of paragraph 3.7 of the Guidelines and procedures acceptable to the Association; provided, however, that the total value of contracts awarded to any one contractor under the provisions of this paragraph shall not exceed \$15,000 equivalent.

(c) Community Force Account

Works required under Part A of the Project for small infrastructure civil works Sub-projects may be procured in accordance with the provisions set forth in the Operations Manual, including the use of a village's own skilled and unskilled labor.

(d) Local Shopping

Goods required under Part A of the Project may be procured under contracts awarded on the basis of comparing price quotations obtained from at least three suppliers. Invitations to bid shall be sent out to potential bidders and posted in the relevant province, district and village where the goods will be used.

(e) Community Participation

Training required under Part A of the Project may be procured by a village or community implementing its own Sub-project through: (i) the use of its own human resources to provide said training; or (b) the payment of a per diem and cost of training materials to procure the services of a village or community individual to provide said training.

(f) Prior Review

With respect to each of the first three contracts to be awarded under Community Force Account and Procurement of Small Works under Part A of the Project for each participating Province in the first year of Project implementation, the procedures set forth in the Operations Manual shall apply.

SCHEDULE 4

Performance Indicators

<u>PROVINCE</u>	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>	<u>YEAR 4</u>	<u>YEAR 5</u>	<u>TOTAL</u>
Houa Phanh	1	3	3	6	6	6
Savannakhet	2	3	3	4	4	4
Champassak	3	3	3	4	4	4
New province	-	2	3	4	4	4
New province	-	2	3	4	4	4
Total Districts	6	13	15	22	22	22
<i>Khets</i>	60	130	150	220	220	220
Subprojects	180	390	450	660	660	2,340
Grants (\$)	1,152,000	2,496,000	2,880,000	4,224,000	4,224,000	14,976,000