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**GRANT NUMBER H326-KH**

# **Financing Agreement**

**(Additional Financing for the Rural Investment and Local Governance Project)**

**between**

**KINGDOM OF CAMBODIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 14, 2007**

Public Disclosure Authorized



## **FINANCING AGREEMENT**

Agreement dated August 14, 2007, entered into between KINGDOM OF CAMBODIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to twenty three million eight hundred thousand Special Drawing Rights (SDR 23,800,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are March 1 and September 1 in each year.
- 2.05. The Payment Currency is US Dollars.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the NCDD Program Support Team.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Minister of Economy and Finance.
- 5.02. The Recipient's Address is:

Ministry of Economy and Finance  
Street 92, Sangkat Wat Phnom, KH12202  
Phnom Penh  
Kingdom of Cambodia

Facsimile:

855-23-427798

5.03. The Association's Address is:

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

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

AGREED at Phnom Penh, Cambodia, as of the day and year first above written.

KINGDOM OF CAMBODIA

By: /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian C. Porter

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to assist the Recipient in its rural development and poverty reduction efforts through supporting provision of priority public goods and infrastructure at the commune level, as well as promoting good local governance through support of decentralized and deconcentrated participatory local governance systems at the commune and provincial levels.

The Project consists of the Original Project.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements.**

1. Schedule 4 of the Development Credit Agreement is incorporated by reference in this Additional Financing Agreement, and the provisions thereof shall apply *mutatis mutandis* to this Agreement, subject, however, to the following modification, unless the context otherwise requires: references to the “Borrower” shall be construed as references to the “Recipient”.

2. (a) Subject to sub-paragraph (b) of this paragraph, the Recipient undertakes to comply with the provisions referred to in paragraph 1 of this Section as if those provisions had been set out and reproduced in full in this Agreement.

(b) So long as any part of the Credit provided for under the Development Credit Agreement shall remain outstanding and unless the Recipient has been notified otherwise by the Association:

(i) all actions taken, including approvals given by the Association, pursuant to any of the provisions referred to in paragraph 1 of this Section, shall be deemed to have been taken or given pursuant to this Agreement; and

(ii) all information or documentation furnished by the Recipient to the Association pursuant to any of the provisions referred to in paragraph 1 of this Section shall be deemed to have been furnished pursuant to this Agreement.

3. The Recipient shall implement in a manner satisfactory to the Association such Good Governance Framework as shall have been agreed with the Association.

4. Except as the Association may otherwise agree, no contract under the Procurement Plan that is financed as an Eligible Expenditure under this Agreement shall be an Eligible Expenditure for financing under the Development Credit Agreement.

5. The Recipient and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in the Development Credit Agreement be disbursed on account of expenditures for the Project before disbursements of the proceeds of the Financing provided for in this Additional Financing Agreement.

**B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.



3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding subject to procedures listed in the Annex to this Schedule
(b) Shopping
(c) Community Participation, under procedures acceptable to the Association
(d) Procurement from United Nations Agencies

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Quality-Based Selection
(b) Selection Based on Consultants' Qualifications
(c) Individual Consultants
(d) Single-Source Selection
(e) Least-Cost Selection
(f) Selection under a Fixed Budget

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing****A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b><u>Category</u></b>	<b><u>Amount of the Grant Allocated (expressed in SDR)</u></b>	<b><u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u></b>
(1) Works under Part B(2) of the Project	180,000	90%
(2) Goods under Part B (2) of the Project	560,000	100%
(3) Consultants' Services		
(i) under Part B(1) of the Project	450,000	100%
(ii) under Part B(2) of the Project	3,120,000	100%
(4) Workshops under Part B(2) of the Project	40,000	100%

(5) Sub-project Grants under Part A(2) of the Project	18,600,000	100%
(6) Operating Costs under Part B(1) of the Project	790,000	70%
<b>TOTAL</b>	<u>23,800,000</u>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2010.

**Section V. Other Undertakings**

A. Unless otherwise agreed to between the Recipient and the Association, and for the purposes of Section III. of Schedule 2 to this Agreement,

(a) the Recipient shall use the services of a procurement agent engaged by the MEF under terms of reference satisfactory to the Association for all procurement to be undertaken under the Project except for Community Participation procedures and procurement from United Nations Agencies, and

(b) without limitation on the provisions of paragraph (a) of this paragraph, until such time as the procurement agent is engaged, the NCDD Program Support Team shall procure the goods, works and consultant services.

B. For the purposes of Section III of Schedule 2 to this Agreement:

(a) guidance for implementing the Procurement Guidelines and the Consultant Guidelines is provided in the Kingdom of Cambodia's Externally Assisted Project Procurement Manual: Goods, Works and Services, issued under Sub-Decree 14 dated February 26, 2007, on Promulgating of the Standard Procedure for Implementing the World Bank and the Asian Development Bank Assisted Projects; and

(b) Community Participation procedures acceptable to the Association will be set forth in the Project Implementation Manual.

**ANNEX to SCHEDULE 2****National Competitive Bidding Procedures**

The procedure to be followed for National Competitive Bidding shall be those set forth in the *Sub-decree 14 on Promulgating of the Standard Procedure for Implementing the World Bank and the Asian Development Bank Assisted Projects* dated February 26, 2007 and relevant provisions of the *Royal Government of Cambodia Externally Assisted Project Procurement Manual for Goods, Works and Services* with modifications set forth below in order to ensure economy, efficiency and transparency and broad consistency with the provisions of Section I of the *Guidelines for Procurement under IBRD Loans and IDA Credits* published by the Bank/Association in May 2004 and revised in October 2006 (the Guidelines) as required by paragraph 3.3 and 3.4 of the Guidelines.

**1. Eligibility**

The eligibility of bidders shall be as defined under Section I of the Guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section I of the Guidelines. Foreign bidders shall not be asked or required to form joint ventures with national bidders in order to submit a bid. Bidders located in the same province or city as the procuring entity shall not be given preference over bidders located outside that city or province.

**2. Qualification Criteria**

The assessment of the qualification of a bidder shall be conducted separately from the technical and commercial evaluation of the bid and in strict adherence to the qualification criteria that shall be clearly specified in the bidding documents. Such assessment shall only take into account a bidder's capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction and manufacturing facilities, and financial capacity.

**3. Bid Submission, Bid Opening and Bid Evaluation**

(a) The evaluation of a bid shall be made in strict adherence to the criteria that shall be clearly specified in the bidding documents and quantified in monetary terms for evaluation criteria other than price; merit points shall not be used in bid evaluation.

(b) No bidder shall be rejected on the basis of a comparison with the Recipient's estimate and budget ceiling without the Association's prior concurrence.

(c) A copy of the minutes of the public bid opening shall be promptly provided to all bidders and to the Association with respect to contracts subject to prior review.

(d) Neither shall all bids be rejected nor shall new bids invited without Association's prior written concurrence.

4. Complaints by Bidders and Handling of Complaints

The Recipient shall implement an effective and independent protest mechanism allowing bidders to protest and to have their protests handled in a timely manner.

5. Fraud and Corruption

The Association shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association.

6. Right to Inspect/Audit

Each bidding document and contract financed from the proceeds of the Financing shall include a provision requiring bidders, suppliers, contractors and subcontractors to permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by a bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice.

**APPENDIX****Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Development Credit Agreement” means the development credit agreement for a Rural Investment and Local Governance Project between the Recipient and the Association, dated June 18, 2003, as amended to the date of this Agreement (Credit No 3747-KH).
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “Operating Costs” means the reasonable costs of incremental expenditures incurred by the Recipient on account of implementation of Part B(1) 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, and costs for operation and maintenance of the motor vehicles, which expenditures would not have been incurred absent the Project, but excluding salaries or salary supplements.
7. “Original Project” means the Project described in the Development Credit Agreement.
8. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
9. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 10, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

10. “Workshops” means reasonable expenditures incurred by the Recipient for the workshops, including travel costs, lodging and travel per diem for workshop participants, preparation, translation and duplication of workshop materials, rental of audio-visual and other workshop-related equipment, rental of workshop venues, and consumables, but excluding fees paid to consultants and excluding salaries and salaries supplements, which expenditures would not have been incurred absent the Project.