

CONFORMED COPY

CREDIT NUMBER 3532 VN

Development Credit Agreement
(Community-based Rural Infrastructure Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 6, 2001

CREDIT NUMBER 3532 VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 6, 2001, between SOCIALIST REPUBLIC OF VIETNAM (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 the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), 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 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(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."

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

(a) "Affected Persons" means persons who, on account of the execution of any Sub-project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Affected Person" means any of the Affected Persons.

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

(c) "Central Project Management Unit" and "CPMU" mean the unit established within the Borrower's Ministry of Planning and Investment to manage the overall implementation of the Project, in accordance with the provisions of paragraph A (1)(a) of Schedule 4 of this Agreement.

(d) "Commune Project Coordinating Committee" and "CPCC" mean the entity to be established in each Project Commune in accordance with the provisions of paragraph B (6) of Schedule 4 to this Agreement, and, with the participation of the population of said Commune, responsible for identifying appropriate Sub-projects for said Commune and, on behalf of said Commune, executing the Sub-project Agreement with the relevant Provincial Project Management Unit and implementing the Sub-project in accordance with the terms and conditions set forth therein.

(e) "Community Facilitators" and "CFs" mean persons contracted by the Provincial Project Management Units to assist each Project Commune, its population and Commune Project Coordinating Committee to carry out the community-based participatory process for the identification, planning and implementation of Sub-projects for said Commune.

(f) "CEMMA" means the Borrower's Committee on Ethnic Minorities and Mountainous Areas, and any successor thereto.

(g) "District People's Committee" means the local government at the district level.

(h) "Ethnic Minorities Action Plan" means the plan prepared on behalf of the Borrower, dated January 10, 2001, and referred to in Section 6.02 (a) of this Agreement, as said plan may be amended from time to time with the prior concurrence of

the Association.

(i) "Financial Management Manual" means the manual to be prepared and put into effect by the Borrower in accordance with the provisions of paragraph B (4)(b) of Schedule 4 to this Agreement, as said manual may be amended from time to time with the prior concurrence of the Association.

(j) "MOLISA" means the Borrower's Ministry of Labor, Invalids and Social Affairs, and any successor thereto.

(k) "MPI" means the Borrower's Ministry of Planning and Investment, and any successor thereto.

(l) "Project Communes" means, collectively, communes within the Project Provinces selected from the lists of poor communes established by CEMMA and/or MOLISA in accordance with the Borrower's programs of hunger eradication and poverty alleviation; and "Project Commune" means any of the Project Communes.

(m) "Project Districts" means, collectively, districts within the Project Provinces which have within their respective jurisdiction three or more Project Communes, said Districts having inter-commune Sub-projects eligible for financing pursuant to the provisions of the Project Implementation Plan; and "Project District" means any of the Project Districts.

(n) "Project Field Manual" means the manual to be prepared and put into effect by the Borrower in accordance with the provisions of paragraph B (5) of Schedule 4 to this Agreement, as said manual may be amended from time to time.

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

(p) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement.

(q) "Project Provinces" means the thirteen provinces included in the list set forth in the Annex to Schedule 2 to this Agreement, as such list may be amended from time to time by mutual agreement between the Borrower and the Association.

(r) "Provincial Project Management Unit" and "PPMU" mean the unit established within the Department of Planning and Investment of each Project Province, to manage the implementation of the Project within said Province, pursuant to the provisions of paragraph A (1)(b) of Schedule 4 to this Agreement.

(s) "Resettlement Policy Framework" means the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons prepared on behalf of the Borrower, dated January 10, 2001, and referred to in Section 6.02 (a) of this Agreement, as said framework may be amended from time to time with the prior concurrence of the Association.

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

(u) "Sub-project" means a specific investment project for the construction of small-scale infrastructure within a Project Commune, or for the construction of small-scale inter-commune infrastructure within a Project District under Parts A.2 and A.3 of the Project, respectively, utilizing the proceeds of the Credit.

(v) "Sub-project Agreement" means the agreement to be entered into between a Provincial Project Management Unit and the Commune Project Coordinating Committee of the relevant Project Commune, or between a Provincial Project Management Unit and the District People's Committee of the relevant Project District, in accordance with the

provisions of paragraph B (7) of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty-one million nine hundred thousand Special Drawing Rights (SDR 81,900,000).

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) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made by a Project Commune or a Project District, as the case may be, under a grant to said Project Commune or Project District to meet the reasonable cost of works required for the Sub-project in respect of which the withdrawal from the Credit Account is requested; and (ii) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A.1 and B of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. 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 December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2011 and ending June 15, 2041. Each installment to and including the installment payable on June 15, 2021 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 its Ministry of Planning and Investment with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and social practices, 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. 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 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan 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 March 31, 2002, or such later date as the Association shall agree, to prepare semi-annual 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 semester a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that the Borrower's decision establishing the Commune Project Coordinating Committees of the Project Communes shall have been amended, suspended, abrogated or repealed so as to affect materially and adversely the capacity of the Project Communes to carry out their respective Sub-projects and fulfill the objectives of the Project.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely the event specified in Section 5.01 of 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 taken all necessary action to enable the Commune Project Coordinating Committees to have the legal powers to enter into their respective Sub-project Agreements with the relevant Provincial Project Management Units and to implement such Sub-projects;

(b) (i) the Central Project Management Unit has been established within the Ministry of Planning and Investment in accordance with the provisions of paragraph A (1)(a) of Schedule 4 to this Agreement; and (ii) a Provincial Project Management Unit has been established within the Provincial Department of Planning and Investment of each Project Province in accordance with the provisions of paragraph A (1)(b) of said Schedule 4;

(c) the Borrower has adopted a project implementation plan and a financial management manual satisfactory to the Association in accordance with the provisions of paragraph B (4) of Schedule 4 to this Agreement;

(d) the Borrower has established a computerized information management system satisfactory to the Association, and has provided appropriate training to the relevant project staff in the use of said system, in accordance with the provisions of paragraph A (2) of Schedule 4 to this Agreement;

(e) the project management staff of the Central Project Management Unit and the Provincial Project Management Units have completed a course of project management

training satisfactory to the Association in accordance with the provisions of paragraph A (3) of Schedule 4 to this Agreement;

(f) the Central Project Management Unit has engaged an independent agency under terms of reference satisfactory to the Association, to monitor the implementation of the community-based participatory process and evaluate the project impacts, in accordance with the provisions of paragraph C (14) of Schedule 4 to this Agreement; and

(g) the Central Project Management Unit and the selected commercial banks through which the proceeds of the Credit will be made available to the Project Communes or Project Districts, as the case may be, have entered into written agreements satisfactory to the Association regarding the terms and conditions of such services.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and the Ethnic Minorities Action Plan have been duly authorized by the Borrower's Prime Minister and are legally binding upon the Borrower in accordance with their respective terms; and

(b) the Commune Project Coordinating Committees have the legal powers to enter into the Sub-project Agreements with the respective Provincial Project Management Units, and to implement the Sub-projects of the respective Project Communes in accordance with the terms of said Agreements.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Governor or any Deputy Governor of the State Bank of Vietnam is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

State Bank of Vietnam
49 Ly Thai To Street
Hanoi
Socialist Republic of Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK Hanoi	412248 NHTWVT	(84-4) 825-0612

For the Association:

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

Cable address:	Telex:	Facsimile:
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INDEVAS 248423 (MCI) or (1-202) 477-6391
Washington, D.C. 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 Hanoi, Socialist Republic of Vietnam as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By /s/ Le Duc Thuy
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom
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 under Part A.2 of the Project	63,250,000	100%
(2) Works under Part A.3 of the Project	11,770,000	80%
(3) Goods	1,400,000	100% of foreign expenditures 100% of local expenditures (ex-factory costs); and 75% of local expenditures for other items procured locally
(4) Consultants' services and training	4,270,000	100%
(5) Incremental Operating Costs	1,210,000	90%
TOTAL	81,900,000	

2. For the purposes of this Schedule:

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

(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) "Incremental Operating Costs" means the reasonable expenditures incurred by the Borrower for staff field allowances, travel and per diem costs, including for the Community Facilitators; the cost of operation and maintenance of office equipment and consumables, and other costs directly related to the administration of the Project (which expenditures would not have been incurred absent the Project).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of : (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,600,000, may be made in respect of Categories (1), (3), (4) and (5) on account of payments made for expenditures before that date but after December 31, 2000; and (b) payments for expenditures for works under Categories (1) or (2) for any Sub-project until a Sub-project Agreement in respect of such Sub-project has been entered between the relevant PPMU and the Commune Project Coordinating Committee on behalf of the beneficiary Project Commune, or between the relevant PPMU and the District People's Committee on behalf of the beneficiary Project District, as the case may be.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works for commune Sub-projects under contracts costing less than \$50,000 equivalent each; (c) works for inter-commune Sub-projects under contracts costing less than \$100,000 equivalent each; (d) services provided by consulting firms under contracts costing less than \$100,000 equivalent each; (e) services provided by individuals under contracts costing less than \$50,000 equivalent each; (f) training; and (g) Incremental Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to reduce poverty in some of the poorest rural communes in thirteen selected Provinces by: (i) developing the capacity of these communes to plan and manage development activities in a participatory manner; (ii) providing essential community-based infrastructures to such communes; and (iii) generating employment and direct income for the poor population of such communes.

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 objective:

Part A: Provision of Rural Infrastructure

1. Carrying out of a program to develop the capacity of the Project Communes to identify, plan and implement small-scale infrastructure sub-projects on a participatory basis.

2. Construction of eligible small-scale infrastructure sub-projects selected by the Project Communes.

3. Construction of eligible small-scale inter-commune infrastructure sub-projects selected by the Project Communes and implemented by the Project Districts.

Part B: Project Management Capacity

Strengthening of the capacity of the central and provincial project management units to supervise the implementation of the Project, and monitor and evaluate its impacts, through the provision of technical assistance and equipment.

* * *

The Project is expected to be completed by June 30, 2007.

ANNEX TO SCHEDULE 2

List of Project Provinces

1. Binh Dinh
2. Binh Phuoc
3. Binh Thuan
4. Khanh Hoa
5. Lam Dong
6. Ha Tinh
7. Nghe An
8. Ninh Thuan
9. Phu Yen
10. Quang Nam
11. Quang Ngai
12. Thanh Hoa
13. Thua Thien - Hue

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 (the Guidelines) subject to the modifications thereto set forth in paragraph 2 of this Part A, 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, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

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

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for domestically manufactured goods: The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the

territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Except as provided in paragraphs 3, 4 and 5 of this Part C, works on inter-commune Sub-projects under Part A.3 of the Project, up to an aggregate amount not to exceed \$14,800,000, and works on commune Sub-projects under Part A.2 of the Project; and (b) goods other than vehicles, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

(a) Goods other than vehicles, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$550,000 equivalent, and (b) approximately 35 motorcycles estimated to cost up to an aggregate amount not to exceed \$50,000 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 estimated to cost less than \$50,000 equivalent per contract (a) up to an aggregate amount not to exceed \$79,400,000 equivalent for commune Sub-projects under Part A.2 of the Project, and (b) up to an aggregate amount not to exceed \$3,700,000 equivalent for inter-commune Sub-projects under Part A.3 of the Project, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least 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. Direct Contracting

(a) Works for commune Sub-projects under Part A.2 of the Project in Project Communes located in very remote areas and of difficult access, under contracts estimated to cost less than \$50,000 equivalent each, up to an aggregate amount not to exceed \$3,900,000 equivalent, and (b) software and equipment which are of a proprietary nature, estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Community Participation

Works required for commune Sub-projects under Part A.2 of the Project, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured in accordance with procedures acceptable to the Association.

6. Procurement from UN Agencies

Motorcycles may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) Except as provided in sub-paragraph (b) of this paragraph 2, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to:

- (i) each contract for works for inter-communes Sub-projects under Part A.3 of the Project estimated to cost the equivalent of \$100,000 or more, and each contract for goods estimated to cost the equivalent of \$100,000 or more; and
- (ii) each year, in each Project Province, irrespective of the amount thereof: (A) the first contract for works for inter-commune Sub-projects under Part A.3 of the Project, procured in accordance with the provisions of paragraphs 1 or 3 of Part C above; (B) the first contract for works for commune Sub-projects under Part A.2 of the Project, procured in accordance with the provisions of paragraphs 1, 3 or 4 of Part C above; and (C) the first contract for goods procured in accordance with the provisions of paragraphs 1, 2 or 4 of Part C above.

(b) With respect to each contract referred to in clause (ii) of sub-paragraph (a) of this paragraph 2 procured in accordance with the provisions of paragraphs 2, 3 or 4 of Part C above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures or the execution of any contract under the procurement procedures for small works, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping or procurement of 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 D, 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 Association 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, respectively, to

"Participating Countries" and "Participating Country".

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. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed \$1,670,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for the design and implementation of training, monitoring and process monitoring activities, procured prior to January 2004, estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, including services of community facilitators, of specialists to support the CPMU, provide specialized training, support the participatory planning process and participate in project monitoring and evaluation, 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.

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 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 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 D, the

procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Project Management

1. The Borrower shall:

(a) establish and thereafter, throughout the period of project implementation, maintain the Central Project Management Unit within its Ministry of Planning and Investment, responsible for overall management of the Project, for inter-departmental and inter-agency cooperation and coordination, and for the monitoring and evaluation of Project impacts; said Unit to be provided with adequate resources, under the direction of qualified and experienced managers, and staffed by competent personnel in sufficient number, including without limitation a monitoring and evaluation team, a financial management team including project accountants and led by a chief financial officer, a field liaison team, a training coordinator, an engineer/procurement specialist, and an environmental and social safeguard officer, all under terms of reference satisfactory to the Association; and

(b) cause each Project Province to establish and thereafter, throughout the period of implementation of the Project, maintain a Provincial Project Management Unit within the Provincial Department of Planning and Development, responsible for the management and supervision of the Project implementation within said Province, including engagement, supervision of and support to the Community Facilitators, and review and approval of Sub-projects for Project Communes or Project Districts; each such Provincial Project Management Unit to be under the direction of qualified and experienced managers, staffed by competent personnel in sufficient number, and provided with adequate resources, all under terms of reference satisfactory to the Association.

2. The Borrower shall establish a computerized management information system satisfactory to the Association to ensure a prompt and efficient flow of information in regard to the implementation of the Sub-projects and support the Central and Provincial Project Management Units.

3. The Borrower shall carry out training for all project management staff in accordance with a project management training plan satisfactory to the Association, including without limitation training in financial management.

B. Project Implementation

4. The Borrower:

(a) shall prepare and adopt a project implementation plan satisfactory to the Association, which sets forth inter alia the training plan for Project management and staff at all levels, including training regarding ethnic minority issues; environmental protection and management measures; financial management guidelines; procurement guidelines and procedures; accounting, financial reporting and auditing systems and procedures; guidelines for carrying out a community-based participatory process; criteria for eligibility of Sub-projects and guidelines for preparation, approval and implementation of Sub-projects; and monitoring arrangements;

(b) shall prepare and adopt a financial management manual satisfactory to the Association, to serve as reference and training manual to project staff at all levels who are responsible for the financial management aspects of the Project or any part thereof; said manual shall set forth, inter alia, the organizational structures and responsibilities in regard to financial management, fund flow arrangement, staffing and training requirements, financial accounting systems, internal control mechanisms, financial reporting requirements and procedures, auditing arrangements, and samples and forms; and

(c) shall not amend, waive or abrogate the provisions of said plan and said manual without the prior concurrence of the Association.

5. To guide the Project Districts and Project Communes in the planning, preparation and implementation of their respective Sub-projects, the Borrower shall, on the basis of the Project Implementation Plan, prepare and, thereafter, put into effect a project field manual satisfactory to the Association, to provide, inter alia, guidelines, samples and eligibility criteria in regard to the design, costs, procurement and contract management for Sub-projects; guidelines for financial management; procedures for the approval of grants to assist in the financing of Sub-projects; and operation and maintenance requirements in respect of each Sub-project.

6. The Borrower shall ensure that each Project Commune shall establish a commune project coordinating committee with two representatives, one man and one woman, from each village within said commune; said committee shall undertake to identify appropriate Sub-projects for said commune with the participation of the commune inhabitants, plan the implementation of such Sub-projects, enter into Sub-project Agreements with the relevant PPMU, and supervise the implementation of the selected Sub-projects.

7. For each eligible Sub-project, the Borrower shall cause the relevant Provincial Project Management Unit to enter into a Sub-project Agreement with the Project Commune, or the Project District, as the case may be, satisfactory to the Association, such Sub-project Agreement to record the mutual rights and obligations of the PPMU on behalf of the Borrower, and the CPCC on behalf of the Project Commune, or the District People's Committee on behalf of the Project District, as the case may be, in respect of the execution of the Sub-project, including the construction methods; the procurement methods; the financing plan, including contribution by the beneficiaries, and the financial management procedures for the Sub-project; the requirements and procedures for monitoring the implementation of the Sub-project and reporting thereon; and the arrangements for the operation and maintenance of the commune or inter-commune infrastructure following completion of the Sub-project.

8. To assist the Project Communes and Project Districts in the implementation of eligible Sub-projects, the Borrower shall provide grants to such Communes and Districts out of the proceeds of the Credit, in accordance with criteria and procedures acceptable to the Association and set forth in the Project Implementation Plan.

9. For any Sub-project which would give rise to Affected Persons, the Borrower shall cause the relevant PPMU in coordination with the relevant Project Commune or Project District, as the case may be, to: (a) prepare a resettlement action plan, satisfactory to the Association, in accordance with the principles and procedures set forth in the Resettlement Policy Framework; and thereafter (b) implement said plan in a manner satisfactory to the Association.

10. The Borrower: (a) shall, and shall cause the Project Provinces, Project Districts and Project Communes to, implement the Ethnic Minorities Action Plan in a manner satisfactory to the Association; and (b) shall not amend, waive or modify the provisions of said Plan without the prior concurrence of the Association.

11. For each Sub-project, the Borrower shall cause the Project Commune, or the Project District, as the case may be, to: (a) carry out an environmental screening; (b) on the basis of such screening carry out an environmental review, a limited environment assessment, or a full environmental impact assessment, as appropriate, in accordance with the guidelines of the Project Implementation Plan and the Project Field Manual; and thereafter (c) incorporate adequate mitigating measures into its Sub-project.

12. The Borrower shall cause the PPMUs to: (a) prepare and, through the CPMU, furnish to the Association for its review, by January 31 of each year beginning in 2002, a list of contractors who shall have expressed interest in participating in the Project; and (b) make such list available to the Project Communes and Project Districts in order to assist them in their procurement activities.

C. Monitoring, Evaluation and Reporting

13. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association the carrying out of the Project and the achievement of the objectives thereof.

14. For purposes of paragraph 13 above, the Borrower shall, inter alia, appoint an independent agency under terms of reference satisfactory to the Association, to monitor in particular the implementation of the community-based participatory process in the identification and selection of proposed Sub-projects in the Project Communes.

15. The Borrower shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association:

(a) on or about March 31 and September 30 of each calendar year, commencing on March 31, 2002, semi-annual progress reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 13 of this Part C, on the progress achieved in the carrying out of the Project during the preceding calendar semester (or in the case of the last such report furnished for each calendar year, during the preceding two calendar semesters), and setting out any additional measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the following semester or calendar year, as the case may be;

(b) on or about September 30, 2003, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 13 of this Part C, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, and setting out any additional measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the remainder of the project period; and

(c) after furnishing each of the reports referred to in sub-paragraphs (a) and (b) of this paragraph 15, review the same with the Association and, thereafter, promptly 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (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 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 \$6,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 8,000,000.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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[s];

(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.

