

CONFORMED COPY

CREDIT NUMBER 3483 RW

Development Credit Agreement
(Rural Sector Support Project)

between

REPUBLIC OF RWANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 25, 2001

CREDIT NUMBER 3483 RW

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 25, 2001, between REPUBLIC OF RWANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated January 26, 2001, describing a program of actions, objectives and policies designed to reform and improve the rural sector of its economy (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support the execution of the Program through a series of credits over a period of fourteen years, the proceeds of such credits to be utilized by the Borrower in the carrying out of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project;

(D) Part G.1 of the Project will be carried out by Banque Nationale du Rwanda (BNR) with the Borrower's assistance, and as part of such assistance the Borrower will make available to BNR part of the proceeds of the Credit as provided in this Agreement; and

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

Agreement and in the Project Agreement of even date herewith between the Association and BNR;

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) "Beneficiary" means: (i) a community represented by a CDC (as hereinafter defined) to which or for whose benefit a Grant or Subloan is made or proposed to be made; (ii) a Community-Based Group to whom or for whose benefit a Grant or Subloan is made or proposed to be made; (iii) public research and development institutions; and (iv) private sector operators, including farmers, each of which has met the eligibility criteria set out in the Project Implementation Manual and the requirements of Schedule 4 to this Agreement and the Schedule to the Project Agreement, and which, as a result, has received or is entitled to receive, a Subloan or a Grant for the carrying out of a Subproject;

(b) "BNR" means Banque Nationale du Rwanda, the Borrower's Central Bank, established and operating pursuant to the Borrower's Law of April 24, 1964 (BNR's Statutes) as amended to the date of this Agreement;

(c) "CDC" means the Committee Development Committee established and operating as an autonomous entity in the Borrower's territory under the Borrower's laws and made up of members of the administration of a participating commune and elected members of its civil society;

(d) "Community-Based Group" means any group of two or more individuals residing in the Borrower's territory that organizes itself for the purpose of submitting or carrying out a Subproject;

(e) "district Commune" means a legal entity of the Borrower, established to exercise limited jurisdiction over a designated area and population within the territory of the Borrower pursuant to the Law of November 23, 1963 on Communal Organization, as amended to the date of this Agreement;

(f) "Eligible Categories" means: (i) Category (2) set forth in the table in

Part A.1 of Schedule 1 to this Agreement in respect of the Special Account for Part G.1 of the Project; and (ii) Categories (1) and (3) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement in respect of the Special Account for Parts A through F and Part G.2 of the Project;

(g) "Eligible Expenditures" means the expenditures for goods and services referred to in: (i) Section 2.02 (a) (i) of this Agreement in respect of the Special Account for Part G.1 of the Project and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories; and (ii) in Section 2.02 (a) (ii) in respect of the Special Account for Parts A through F and Part G.2 of the Project and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Expenditures;

(h) "Facilities" means the Rural Investment Facility, the Local Infrastructure Facility and the Rural Technology Facility;

(i) "Grant Agreement" means an agreement between the Borrower and a Beneficiary setting forth the terms and conditions under which proceeds of the Credit shall be made available to the Beneficiary for the purpose of financing Subprojects under Part G.2 of the Project;

(j) "Grant" means a grant made or proposed to be made by the Borrower to a Beneficiary for the financing of a Subproject under Part G.2 of the Project;

(k) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(l) "local administrations" means administration structures established and operating in the Borrower's territory under the Borrower's laws;

(m) "Local Infrastructure Facility" means the facility referred to in Part G.2 of the Project to be established and managed by the Borrower;

(n) "MINAGRI" means the Borrower's Ministry of Agriculture, Animal resources and Forestry;

(o) "MINITERE" means the Borrower's Ministry of Land, Human Resettlement and Environment;

(p) "NTB" means the Borrower's National Tender Board established and operating under the Borrower's laws;

(q) "PAC" means the Project Advisory Committee referred to in paragraph 3 (a) of Schedule 4 to this Agreement;

(r) "Participating Agreement" means any agreement entered into by BNR and a PFI pursuant to Section 2.01 (c) of the Project Agreement and for the purposes of Part G.1 of the Project;

(s) "Participating Financial Intermediary" or "PFI" means any development bank, commercial bank or financial institution registered in the territory of the Borrower as may be designated by BNR on the basis of eligibility criteria satisfactory to the Association and with which BNR shall have entered into a Participating Agreement;

(t) "Program Implementation Manual" means the manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(u) "Project Agreement" means the agreement between the Association and BNR of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

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

(w) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on January 5, 2001 and on behalf of the Borrower on January 25, 2001;

(x) "Project Year" means the 12 month period beginning from the Effective

Date and ending 12 months thereafter and each successive 12 month period following thereafter;

(y) "PSCU" means the Project Support and Coordinating Unit referred to in paragraph 4 (b) of Schedule 4 to this Agreement;

(z) "PTC" means the Prefectural Tender Council of the Borrower established and operating under the Borrower's laws;

(aa) "Rural Investment Facility" means the facility referred to in Part G.1 of the Project to be established and managed by BNR;

(bb) "Rural Technology Facility" means the facility referred to in Part G.2 of the Project to be established and managed by the Borrower;

(cc) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement;

(dd) "Subloan" means a loan or credit made or proposed to be made by a PFI to a Beneficiary for a Subproject to be carried out under Part G.1 of the Project;

(ee) "Subproject" means a subproject proposed under Parts A through E and Part G of the Project by a Beneficiary or a Community-Based Group for funding under Part G.1 of the Project; and

(ff) "Subsidiary Financing Loan Agreement" means the agreement to be entered into between the Borrower and BNR pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Financing Loan 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 thirty seven million two hundred thousand Special Drawing Rights (SDR 37,200,000).

Section 2.02. 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, amounts to be paid) by the Borrower or BNR on account of withdrawals made under a Subloan or a Grant to meet the reasonable costs of goods, works and services required for a Subproject to be financed under Part G of the Project and in respect of which the withdrawal from the Credit Account is requested; and (ii) 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 through F of the Project and to be financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be December 31, 2005 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 June 15, 2011 and ending December 15, 2040. Each installment to and including the installment payable on December 15, 2020 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.

Section 2.09. BNR is, with respect to Part G.1 of the Project, designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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 Parts A through F and Part G.2 of the Project through MINAGRI with due diligence and efficiency and in conformity with appropriate financial, environmental, technical and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause BNR to perform in accordance with the provisions of the Project Agreement all the obligations of BNR therein set forth, shall take and cause to be taken all action, including the provisions of funds, facilities, services and other resources, necessary or appropriate to enable BNR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) 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 Parts A through F and Part G.2 of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) The Borrower shall make the proceeds of the Credit allocated to Category (2) in the table in Schedule 1 to this Agreement available to BNR under a subsidiary financing loan agreement to be entered into between the Borrower and BNR, under terms and conditions which shall have been approved by the Association including the retention from the said proceeds by BNR of an administration fee which shall be specified in the Subsidiary Financing Loan Agreement.

(e) The Borrower shall exercise its rights under the Subsidiary Financing Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Financing Loan Agreement or any provision thereof.

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 for the future operation of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that 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 Part G.1 of the Project shall be carried out by BNR pursuant to Section 2.04 of the Project Agreement.

Section 3.05. The Borrower shall: (i) open and maintain a Project Account at BNR on terms and conditions satisfactory to the Association; (ii) promptly thereafter make an initial deposit into the Project Account in an amount equivalent to \$50,000 to finance the Borrower's initial contributions to the costs of the Project; (iii) make the following deposits into the Project Account: (A) an amount equivalent to \$200,000 no later than six months after the beginning of the first Project Year, and (B) an

amount equivalent to \$250,000 no later than one month after the beginning of the second, third and fourth Project Years; and (iv) use the funds deposited in the Project Account exclusively for purposes of the Project.

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 Parts A through F and Part G.2 of the Project of the departments or agencies of the Borrower responsible for carrying out Parts A through F and Part G.2 of 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 Accounts 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 Parts A through F and Part G.2 of the Project in order to enable the Borrower, not later than eighteen months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said

report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) BNR shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BNR will be able to perform its obligations under the Project Agreement;

(c) BNR's Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially the ability of BNR to perform any of its obligations under the Project Agreement; and

(d) the Borrower and any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BNR or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

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 opened the Project Account and deposited therein the initial amount referred to in Section 3.05 (ii) of this Agreement;

(b) the Borrower has: (i) established the PSCU in a form and with functions satisfactory to the Association; and (ii) assigned to the PSCU adequate staff with qualifications and experience satisfactory to the Association;

(c) the Borrower has adopted the Project Implementation Manual in a form and substance satisfactory to the Association;

(d) the Borrower has appointed a Project auditor satisfactory to the Association;

(e) the Borrower has established a financial management system for the Project in form and substance satisfactory to the Association;

(f) the Borrower has prepared and furnished to the Association a procurement plan for the first Project Year in form and substance satisfactory to the Association; and

(g) the Subsidiary Financing Loan Agreement has been executed by the Borrower and BNR.

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 Project Agreement has been duly authorized or ratified by BNR, and is legally binding upon BNR in accordance with its terms; and

(b) the Subsidiary Financing Loan Agreement has been duly authorized or ratified by the Borrower and BNR and is legally binding upon the Borrower and BNR in accordance with its terms.

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

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

For the Borrower:

Ministry of Finance and Economic Planning
P. O. Box 158
Kigali
Republic of Rwanda

Cable address:

Telex:

MINFIN-RWANDA

22687

MINFIN-RAW

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)

Facsimile:

(202) 477-6391

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

REPUBLIC OF RWANDA

By /s/ Richard Sezibera

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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) Grants	12,120,000	100% of amounts disbursed
(2) Subloans	5,620,000	100% of amounts disbursed
(3) Civil Works	9,730,000	95%
(4) Goods	310,000	100% of foreign expenditures and 95% of local expenditures
(5) Consultants' services, training and audits	4,510,000	100%

(6)	Operating Costs	740,000	85%
(7)	Refunding of Project Preparation Advance	430,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8)	Unallocated	3,740,000	
	TOTAL	37,200,000	

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) the term "Operating Costs" means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, office space rental and utilities, Special Account banking charges, communications, vehicle operation, maintenance and insurance, travel and supervision costs but excluding salaries of officials of the Borrower's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) a Subloan unless the Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to the Project Agreement;

(b) a Grant unless the Grant has been made in accordance with eligibility criteria and on terms and conditions set forth or referred to in the Project Implementation Manual and Schedule 4 to this Agreement; and

(c) payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts not exceeding \$50,000 equivalent each; (ii) civil works under contracts not exceeding \$100,000 equivalent each; (iii) consulting firms under contracts not exceeding \$50,000 equivalent each; (iv) individual consultants under contracts not exceeding \$25,000 equivalent each; and (v) Operating Costs and training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall open and maintain in dollars in its Central Bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment two special deposit accounts, namely: (i) Special Account A for Parts A through F and Part G.2 of the Project; and (ii) Special Account B for Part G.1 of the Project. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of this Schedule. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a 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.

2. Except as the Association shall otherwise agree, after the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals from the Credit Account of amounts to be deposited into the said Special

Account shall be made as follows:

(a) Each application for withdrawal from the Credit Account shall be supported by a Project Management Report.

(b) Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the said Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the said Special Account, shall not exceed the equivalent of \$4,000,000 in respect of Special Account A and \$4,000,000 in respect of Special Account B. Each such deposit into the said Special Account shall be withdrawn by the Association from the Credit Account under one or more of the said Special Account's Eligible Categories.

3. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

4. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

5. (a) If the Association determines at any time that any payment out of a Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment.

(b) If the Association determines at any time that any amount outstanding in a Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 a Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Operation of Special Account When Withdrawals Are
Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means: (i) in respect of Special Account A, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 2,500,000; and (ii) in respect of Special Account B, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 2,500,000.

2. Withdrawals of a Special Account's Authorized Allocation and subsequent withdrawals to replenish the said Special Account shall be made as follows:

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

(b) For replenishment of the said Special Account, the Borrower shall furnish to the Association requests for deposit into the said Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said 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 said Special Account for Eligible Expenditures. Each such deposit into the said Special Account shall be withdrawn by the Association from the Credit Account under one or more of the said Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Credit allocated to said Special Account's 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 in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are
Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Association from the Credit Account under one or more of the said Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the said Special Account, shall not exceed the equivalent of \$4,000,000 in respect of Special Account A and \$4,000,000 in respect of Special Account B.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in revitalizing its rural economy through: (i) the promotion of investments in the agricultural sector; (ii) the equipping of farmers and other private sector groups, and relevant Borrower institutions with basic institutional and technical capacities; (iii) the improvement and raising of productivity in the agricultural services delivery system; (iv) small-scale rural infrastructure development and maintenance; (v) the rehabilitation of marshland and hill-side farming; (vi) the promotion of commercial and export agriculture; and (vii) the diversification of economic activities in the off-farm sector of the rural areas.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Rehabilitation of Farmed Marshland and Hill-side Areas

The management by farmers of marshland and hill-side crops through: (i) the adoption by the farmers of efficient and sustainable technologies and practices; (ii) the rehabilitation and development by private operators of infrastructure on farmed marshland; (iii) the construction of small-scale drainage and irrigation infrastructure on farmed marshlands; (iv) the rehabilitation and development of soil and natural resources conservation and construction of infrastructure on about 4,000 to 6,000 hectares of marshlands and hill-sides; (v) the provision of technical advisory services on cropping and water management technologies; (vi) the training of farmer groups and other private sector operators in construction, management, and maintenance of land and water conservation infrastructure; and (vii) the provision of institutional support to producer organizations and community groups.

Part B: Promotion of Commercial and Export Agriculture

Reinvigorating the tea and coffee sectors and fostering growth in emerging export sub-sectors through: (i) the provision of technical advisory services to farmers and other private sector operators on production and post harvest technologies; (ii) the provision of financing for research and development and agricultural production, post harvest and marketing infrastructure; (iii) the provision of technical advisory services and matching grants to strengthen the capacities of farmer organizations; (iv) the provision of financial and other resources for the establishment of farmer-owned commercial enterprises and technical support entities; and (v) facilitation of access to financing of productive

technologies.

Part C: Support to the Agricultural Services Delivery Systems

Strengthening agricultural research through: (i) the provision of financial resources and technical advisory services to strengthen the capacities of private and restructured public research and development institutions to adapt, and disseminate improved farming, conservation, and post-harvest technologies; (ii) the provision of training for farmer organizations on the techniques of participatory research and extension services delivery; and (iii) the provision of technical advisory services to private operators willing to invest in services delivery activities.

Part D: Small-Scale Rural Infrastructure Development

Upgrading and expanding of small-scale transport infrastructure in the rural areas, and facilitating access to adapted post-harvest and marketing infrastructure and appropriate means of rural transport, through: (i) the provision of institutional and financial assistance to support the local communities to plan and supervise the development of such infrastructure and carry out the maintenance thereof; (ii) the provision of technical advisory services to private operators investing in conservation, post-harvest, and transport infrastructure as well as the construction and maintenance of such infrastructure; and (iii) the development for farmer groups of post-harvest, marketing and water management infrastructure for agricultural production.

Part E: Promotion of Off-farm Productive Activities in Rural Areas

Revitalization of the rural economy and reduction of poverty in the rural areas and the rest of the Borrower's territory, through (i) the promotion of off-farm productive activities in the rural areas; (ii) preparation and piloting of local off-farm development strategies; (iii) the carrying out of research and development relating to selected off-farm production activities; (iv) the provision of training in enterprise development and management; and (v) the provision of seed-funding and facilitation of access to investment credit for such activities.

Part F: Program Support and Coordination

The provision of support for the carrying out of Program activities, through: (i) the establishment of a Project Support and Coordination Unit, including a Monitoring and Evaluation Division; (ii) the design and carrying out of a mechanism for: (A) the effective coordination of Program activities both centrally and at the level of individual executing agencies and Beneficiaries, and (B) the effective monitoring and evaluation of Program activities; (iii) the conducting of the rural sector survey and regular updating of the baseline data; and (iv) the carrying out of impact studies at local and community levels.

Part G: Funding Facilities

1. The establishment and management by BNR of a Rural Investment Facility to provide Subloans to qualified private sector operators (including farmer groups) willing to invest in activities, including: (i) the operation of farmer-owned commercial and technical support entities; (ii) the processing, conservation, and trading of crop, livestock, and forestry products; (iii) transport infrastructure construction and maintenance activities; (iv) the acquisition by farmers of appropriate means of rural transport; (v) investment by private operators in the construction and/or maintenance of production, post-harvest, marketing and transport infrastructure; (vi) investment by private operators in agricultural services delivery activities; and (vii) selected pilot off-farm productive activities.

2. The establishment and management by the Borrower of:

- (i) a Local Infrastructure Facility to provide matching grants to local administrations and other Beneficiaries for: (A) soil and water resources conservation infrastructure on marshlands and hill-sides; (B) transport infrastructure development and maintenance activities; and (C) construction of post-harvest and

other marketing and export cost reducing infrastructure; and

- (ii) a Rural Technology Facility to provide matching grants for activities to establish and support participatory agricultural services delivery systems, including: (A) the strengthening of the institutional, commercial, and technical capacities of farmer groups; (B) the strengthening of the capacities of agricultural research and extension systems to generate and extend improved technologies to farmers and enhance the delivery of services to Beneficiaries; and (C) the support to private operators to invest in the generation and dissemination of agricultural technologies.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good 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); 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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for: (i) works shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each; and (ii) goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than: (i) \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$12,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the

Guidelines; and (ii) \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent may be procured under contracts awarded in accordance with simplified bidding procedures satisfactory to the Association and consistent with the Project Implementation Manual.

(b) Contracts for furniture, equipment, vehicles and computers estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 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 from UN Agencies

Office equipment and vehicles, may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Community Participation

Goods and works for Subprojects to be financed through the Local Infrastructure Facility and the Rural Technology Facility shall be procured in accordance with paragraph 3.15 of the Guidelines and as specified in the Project Implementation Manual.

5. Commercial Practices

Items for the carrying out of Subprojects to be financed through the Rural Investment Facility by private sector operators may be procured in accordance with established commercial practices satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) the first five contracts for civil works to be carried out in five different districts (irrespective of cost); (ii) the first five contracts for civil works to be financed through the Local Infrastructure Facility and to be carried out in five different districts (irrespective of cost) ; and (iii) each contract for civil works estimated to cost \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to : (i) each contract for goods estimated to cost the equivalent of \$50,000 or more; and (ii) the first three contracts for goods regardless of cost, the procedures set forth in paragraphs 2 and 3 of the Appendix 1 of the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the 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

1. Except as otherwise provided in Part C of this Section, consultants' services for architectural, technical design and civil work supervision 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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for the training of local administrations and Community-Based Groups may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services for technical and financial audits 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 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services for technical studies and training 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 Consultants Guidelines.

4. Individuals Consultants

Services for: (i) the carrying out of technical studies for local administrations and assistance to local administrations for procurement activities concerning small civil works; and (ii) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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.

5. Single Source Selection

Services which are estimated to cost less than \$50,000 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.

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

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

(d) All terms of reference (other than those provided in the Project Implementation Manual); and all single source selection contracts shall be furnished to the Association for its prior approval. The contract in question shall be awarded only after the Association has given its prior approval to the said terms of reference and the said contracts.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, processes, timetables and criteria for the Project, including: (i) criteria for Subloans and Grants; and (ii) a requirement that a lease be granted to a Beneficiary for a period sufficiently long to enable that Beneficiary to carry out the specific Subproject under Part A of the Project, as specified in the Project Implementation Manual.

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

carrying out of the Project or the achievement of the objectives thereof.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

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

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

3. No later than eighteen (18) months after the Effective Date, the Borrower shall carry out, jointly with the Association and BNR a midterm review (the Midterm Review) of the progress made in carrying out the Project. The Midterm Review shall cover among other things:

(a) an assessment of (A) work programs prepared as of the date of the Midterm Review and the progress made in carrying out the said programs, (B) training provided under the Project, (C) procurement under the Project, (D) the extent to which actions described in the indicators set out in Schedule 5 to this Agreement have been carried out, and (E) plans made or proposed for updating said indicators; and

(b) a review of the state of any works carried out under the Project.

4. (a) The Borrower shall establish and thereafter maintain a Project Advisory Committee in a form and with functions, staffing and resources satisfactory to the Association. PAC's functions shall include the oversight and orientation of Program activities. The membership of PAC shall comprise: (i) the Minister responsible for Agriculture, Animal Resources, and Forestry as Chairman; (ii) representatives of the Ministries responsible for Finance; Planning; Local Administration; Land; Environment; Public Works; Commerce; and Industries; (iii) representatives of farmer organizations; and (iv) other private agribusiness sector representatives. The Coordinator of PSCU shall serve as the Secretary of PAC.

(b) The Borrower shall establish and thereafter maintain PSCU in a form and with functions, staffing and resources satisfactory to the Association. PSCU's functions shall include responsibility for: (i) the coordination of the preparation and implementation of all components of the Project; (ii) the consolidation of annual work programs and budgets; (iii) the establishment of a decentralized monitoring and evaluation system, including the establishment of a Monitoring and Evaluation Division; (iv) financial and administrative management of Project activities; (v) procurement activities under the Project with the exception of: (A) activities undertaken under the community-based components of the Project; and (B) activities financed through the Rural Investment Facility which are to be carried out by the Beneficiary Groups in accordance with commercial practices; (vi) the rehabilitation and development of farmed marshland and hill-side areas; (vii) the preparation and updating of the Project's Procurement Plan; (viii) the preparation of bidding documents; (ix) participation in bid evaluations; and (x) the monitoring and management of the execution of the respective contracts.

5. (a) The functions of the local administrations shall include their participation in: (i) procurement under the Project for community-based Subprojects; (ii) selection of Subprojects in accordance with the Subproject appraisal requirements and the approval process defined in the Project Implementation Manual; and (iii) the

monitoring and management of the execution of the contracts falling within their respective areas of responsibility, as prescribed in the Project Implementation Manual.

(b) NTB shall be responsible for: (i) the publication of Specific Procurement Notices; and (ii) reviews of bidding documents, bids opening, evaluation, and the recommendation of the award of contracts falling within its area of responsibility, as prescribed in the Project Implementation Manual.

(c) The Borrower shall: (i) appoint and assign to PCSU a Procurement Officer with qualifications and experience satisfactory to the Association; (ii) prepare and carry out a procurement training program satisfactory to the Association; and (iii) prepare and furnish to the Association an annual procurement plan for the first Project Year no later than June 30, 2001.

6. (a) The Borrower shall, for the purposes of Part G.2 of the Project, make the proceeds of the Credit available to a Beneficiary, on a grant basis for Subprojects, under an agreement, satisfactory to the Association, to be entered into between the Ministry responsible for Agriculture, acting on behalf of the Borrower, and the Beneficiary.

(b) The Grant Agreement shall provide for rights adequate to protect the interests of the Association and the Borrower, including to the extent that it shall be appropriate the right to require the Beneficiary to:

(i) carry out the Subproject with due diligence and efficiency and in accordance with sound administrative, financial, environmental, technical and managerial standards;

(ii) maintain adequate records for the Subproject concerned;

(iii) procure all goods, works and services required for a Subproject in accordance with the provisions of Schedule 3 to this Agreement;

(iv) use the goods, works and services so procured exclusively in the carrying out of the Subproject; and

(v) permit the Borrower to inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents.

(c) Without limitation or restriction upon the provisions of the preceding subparagraphs of this paragraph, a Grant Agreement shall: (i) specify the contribution to be made by a Beneficiary carrying out a Subproject to the total costs of the Subproject; and (ii) provide for the right of the Borrower to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Grant upon the failure by the Beneficiary to perform any of its obligations under the Grant Agreement.

SCHEDULE 5

Performance Indicators

The performance indicators for the Project shall include the following:

A. Sectors Indicators

1. The average household incomes among Beneficiaries are 20% higher than the baseline by the end of the Project.

2. The proportion of population under the poverty line among Beneficiary farmers is 15% lower than the baseline by the end of the Project.

B. End of Project Indicators

1. The average crop yields per hectare among Beneficiary farmers are 50% higher than the baseline by the end of the Project.

2. The average returns per labor unit among Beneficiary farmers is 50% higher than the baseline by the end of the Project.

C. Outcome/Impact Indicators

1. The marshland/hill-side and export crop farmers have adopted new and improved cropping technologies, including integrated pest management.

2. The quantities of fertilizers used per capita and per hectare among Beneficiary farmers are 50% higher than the baseline.

3. The quantities and shares of marketed crop output per household among beneficiary farmers are 50% higher than the baseline.

D. Output Indicators

1. (a) At least 1000 Farmer Organizations (FASDOs) have been trained in the management of marshland and hill-side crops.

(b) The total area of rehabilitated farmed marshlands and hill-sides have reached 4,000 and 2,000 hectares respectively.

2. (a) At least 12 farmer-owned commercial enterprises and technical entities (CETSEs) have been set up.

(b) The established CETSEs operate satisfactorily.

(c) The unit costs per hectare of export crops among Beneficiary farmers are 10% lower than the baseline.

(d) The total output of export crops among Beneficiary farmers is 25% higher than the baseline.

(e) The quantities of tea and coffee exports have increased by at least 50%.

(f) Export alternative crops have increased by at least 100%.

3. (a) The lead research and extension institutions have been restructured and strengthened.

(b) At least 500 FASDOs have been trained to participate in services delivery.

(c) At least 80 private agricultural services organizations (PASDOs) have been trained to participate in services delivery.

(d) At least 80% of FASDO members have adopted improved farming practices, including integrated pest management practices.

4. (a) At least 100 local community organizations have been trained in the maintenance and management of local transport infrastructure.

(b) At least 50 private sector operators have been trained in the construction and maintenance of post-harvest and transport infrastructure and equipment.

(c) Alternative appropriate means of rural transport have been introduced and disseminated.

5. Off-farm sector strategies and development plans have been prepared in 5 prefectures by the local administrations.

6. (a) Baseline rural sector survey carried out by the end of the first Project Year.

(b) Baseline indicator data base available by the end of the first Project Year.

(c) A Program Monitoring Guide and Impact Evaluation Guide available by the

middle of the first Project Year.

(d) An adequate level of the quality of monitoring and evaluation activities are achieved by the end of the first Project Year.

(e) Timeliness and quality of Project and financial management reporting are maintained throughout Project life.

(f) Effectiveness is achieved in the coordination of the activities of various Project executing agencies and Beneficiary communities.

