

CONFORMED COPY

CREDIT NUMBER 3564-KH

Development Credit Agreement

(Demobilization and Reintegration Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 11, 2001

CREDIT NUMBER 3564 KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 11, 2001, between KINGDOM OF CAMBODIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated July 31, 2001 (Letter of Demobilization Program Development, hereinafter "LDPD"), from the Borrower describing a program of actions, objectives and policies designed to reduce poverty through the demobilization, reinsertion and reintegration of a large number of soldiers (the Program) and declaring the Borrower's commitment to the execution of the Program;

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

(C) the Borrower intends to obtain from: (i) Sweden a grant (the Swedish Grant) in an amount equivalent to two million four hundred thousand dollars (\$2,400,000) to assist in financing of the Project, including in particular Part B thereof, on terms and conditions set forth in an agreement (the Swedish Grant Agreement) to be entered into between the Borrower and the administrator of a trust fund to be established for such purposes; (ii) the Kingdom of the Netherlands a grant (the Dutch Grant) in an amount equivalent to two million dollars (\$2,000,000) to assist in financing the Project including in particular Part B thereof, on terms and conditions set forth in an agreement (the Dutch Grant Agreement) to be entered into between the Borrower and the administrator of a trust fund to be established for such purposes; (iii) Japan a grant (the Japanese Grant) in an amount equivalent to ten million dollars (\$10,000,000) to assist in financing the Project including in particular Part B thereof, on terms and conditions set forth in an agreement (the Japanese Grant Agreement) between the Borrower and Japan; and (iv) the World Food

Program (WFP) a grant (the WFP Grant) in an amount equivalent to two million dollars (\$2,000,000) to assist in financing the Project including in particular Part B thereof, on terms and conditions set forth in an agreement (the WFP Grant Agreement) to be entered into between the Borrower and WFP.

(D) 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 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 the 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) "AWPB" means the annual work program and budget to be prepared by the Borrower in accordance with paragraph I.3 of Schedule 4 to this Agreement;

(c) "CDAF" means Council for the Demobilization of the Armed Forces, or any successor thereof, established by the Borrower pursuant to Sub-Decree No. 41 dated 12 May 1999, whose role and functions are described in paragraph I.1 of Schedule 4 of this Agreement;

(d) "Cofinancing Grant" means any of the cofinancing grants referred to in Recital C of the Preamble to this Agreement, namely the Japanese Grant, the Swedish Grant, the Dutch Grant and the WFP Grant;

(e) "Eligible Categories" means categories 1, 2, and 3 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the 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;

(g) "Environmental and Social Guidelines" means the environmental and social guidelines to be adopted by the Borrower and setting out measures to mitigate adverse environmental or social effects that may result from the implementation of the Project, and comprised of a Resettlement Policy Framework (as hereinafter defined) and a Policy Framework for Indigenous People (as hereinafter defined), as such guidelines may be amended from time to time with the prior concurrence of the Association;

(h) "GS" or General Secretariat" means the executing body of CDAF, whose role and functions are described in paragraph I.1(b) of Schedule 4 to this Agreement;

(i) "Initial Deposit" means the initial amount to be deposited into the Project Account (as hereinafter defined) pursuant to Section 3.02 (b) of this Agreement;

(j) "MLMUC" means the Borrower's Ministry of Land Management, Urbanization and Construction or any successor thereto;

(k) "MND" means the Borrower's Ministry of National Defense or any successor thereto;

(l) "MoE" means the Borrower's Ministry of Environment or any successor thereto;

(m) "MoI" means the Borrower's Ministry of Interior or any successor thereto;

(n) "MoH" means the Borrower's Ministry of Health or any successor thereto;

(o) "MSALVY" means the Borrower's Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation or any successor thereto;

(p) "MWVA" means the Borrower's Ministry of Women and Veteran's Affairs or any successor thereto;

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

(r) "PIM" or "Project Implementation Manual" means the manual referred to in paragraph I.5(a) of Schedule 4 to this Agreement and comprising the policies, procedures and guidelines which shall be followed by the Borrower in the implementation of the Project;

(s) "Policy Framework for Indigenous Peoples" means the guidelines, principles and procedures for mitigating any adverse impact on indigenous people that may arise from the implementation of the Project and included in the Environmental and Social Guidelines;

(t) "Project Account" means the account referred to in Section 3.02(a) of this Agreement;

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

(v) "Provincial Veterans Committee" or "PVC" means a committee to be established by the Borrower in each of the provinces or municipalities where veterans will settle and whose role and functions are described in paragraph I.1(c) of Schedule 4 to this Agreement;

(w) "PDWVAs" means the provincial departments of MWVA;

(x) "Registration Data" means the socioeconomic data relating to each Veteran collected under the registration exercise conducted by the Borrower in preparation of the Project, as described in paragraph 19 (iii) of the LDPD;

(y) "Resettlement Policy Framework" means the policy framework for compensation, resettlement and rehabilitation of Affected Persons included in the Environmental and Social Guidelines and setting forth the guidelines, principles and procedures for mitigating any adverse impact that may arise from resettlement under the Project;

(z) "Special Account" means the account referred to in Part B.1(a) of Schedule 1 to this Agreement; and "Second Generation Special Account" means the

account referred to in Part B.1(b) of Schedule 1 to this Agreement; and

(aa) "Veterans" means the soldiers to be discharged by the Borrower from its armed forces in accordance with the criteria described in paragraph 19 (xiii), (xiv), and (xv) of the LDPD.

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 fourteen million seven hundred thousand Special Drawing Rights (SDR 14,700,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2004 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 February 15 and August 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 February 15 and August 15 commencing February 15, 2012 and ending August 15, 2041. Each installment to and including the installment payable on August 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 with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, social, and military demobilization 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. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, for purposes of financing its contribution to expenditures under the Project:

(a) open an account in the National Bank of Cambodia (the Project Account), and thereafter maintain said Project Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Project Account an initial amount equivalent to \$3,600,000;

(c) thereafter replenish the Project Account on a quarterly basis by depositing therein the amounts specified in the PMR or as needed, according to the discharge timetable specified in the AWPB; and

(d) and ensure that funds deposited into the Project Account in accordance with paragraphs (b) and (c) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit.

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

Section 3.04. For the purposes of Section 9.06 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 objectives of the Project; 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 and the SGSA, 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 Project Management Reports, 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 Project Management Reports 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. 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, which:

(a) (i) 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 (ii) show 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;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) subject to subparagraph (c) of this paragraph, the right of the Borrower to withdraw the proceeds of any Cofinancing Grant made to the Borrower shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; and

(c) subparagraph (b) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has appointed the procurement and financial management firm referred to in Section I.4 of Schedule 4 to this Agreement, under terms and conditions satisfactory to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement and established an adequate financial management system, satisfactory to the Association, to ensure proper accounting, monitoring and reporting of Project operations, resources and expenditures;

(b) the Borrower has opened the Project Account and made therein the Initial Deposit;

(c) the Borrower has adopted the PIM, in form and substance satisfactory to the Association;

(d) the Borrower has adopted the AWPB for the first year of the Project in form and substance satisfactory to the Association;

(e) the Borrower has adopted Sub-decrees establishing a PVC in each of the provinces or municipalities where Veterans will settle;

(f) the Borrower has made available to the Association the Registration Data relating to the 15,000 soldiers to be demobilized during the first year of the Project; and

(g) the Japanese Grant Agreement, the Swedish Grant Agreement, the Dutch Grant Agreement and the WFP Grant Agreement have been executed and delivered and all conditions precedent to their effectiveness or to the right of the Borrower to make withdrawals thereunder have been fulfilled.

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, namely that the Environmental and Social Guidelines have been duly authorized and approved by the Chairman of CDAF, in consultation with the Borrower's Minister responsible for Environment, and are legally binding upon the Borrower in accordance with their 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 in charge of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Telex:

(583) 17770101 CMPP

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

KINGDOM OF CAMBODIA

By /s/ Roland Eng

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian C. Porter

Authorized Representative

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) Goods	12,140,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services and Training	1,920,000	100%
(3) Incremental Operating Costs	480,000	100%
(4) Unallocated	160,000	
TOTAL	14,700,000	

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 "incremental operating costs" means the reasonable cost of incremental expenses incurred by the Borrower on account of Project implementation, management and monitoring, including office supplies, telecommunications expenses, vehicle operation and maintenance, audits under Article IV of this Agreement, travel costs including per diem, bank charges (which expenditures would not have been incurred absent the Project), but excluding salaries or salary supplements of officials of the Borrower's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,440,000, may be made in respect of Categories 1, 2, and 3 on account of payments made for expenditures before that date but after April 1, 2001.

B. Special Account

1. (a) The Borrower may, for the purposes of the Project, open and maintain in US dollars a separate special deposit account at the National Bank of Cambodia on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of this Schedule.

(b) The Borrower may, for the purposes of Parts A, C and D of the Project, open and maintain in US dollars a separate SGSA at the National Bank of Cambodia or in a commercial bank, on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the SGSA shall be made in accordance

with the provisions of this Schedule and additional procedures that shall have been approved by the Association.

(c) Payments out of Special Account shall be made either (i) for Eligible Expenditures or (ii) into the SGSA, for payments of Eligible Expenditures, all in accordance with the provisions of this Schedule. For each payment made by the Borrower out of the Special Account or SGSA, 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 the Special Account has been duly opened, withdrawals from the Credit Account of amounts to be deposited into the 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 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 Special Account and the SGSA, shall not exceed \$3,680,000. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the 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 the 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 and the SGSA 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 the 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 Account 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 the Special Account or SGSA 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 Special Account or the SGSA where relevant (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 the Special Account or SGSA 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 the Special Account or SGSA.

(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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in its efforts to implement its Program, which includes: (i) demobilizing a large number of soldiers and promoting their successful reintegration into civilian life; and (ii) building and/or rebuilding human, social and economic capital for the Veterans and their families.

Part A: Preparation of Personnel Database and Management Information Systems

Completion of the establishment of the military personnel data base and computerized payroll system set up at GS in 1999, including the finalization of the identification and verification of the identity of enlisted soldiers, carrying out of data collection and data processing, development and maintenance of a personnel database, design of transparent information flow system for central and local levels, all through the provision of technical advisory services and training to relevant staff of the implementing agencies of the Borrower, as well as the acquisition of computer and other electronic equipment needed to carry out the activities under this Part A of the Project.

Part B: Demobilization

Carrying out of a formal and controlled discharge or transfer of soldiers from the army to civilian life, including the establishment of discharge centers where soldiers are assembled upon their discharge and implementation of specific discharge operations, as follows: provision of pre-discharge orientation and discharge certificates to soldiers, health screening, provision of a transitional safety net package to each Veteran and transportation to communities of settlement.

Part C: Reintegration

1. Provision of selected expert services to, or for the benefit of, Veterans including counseling, sensitization of local communities, skills development, needs assessments and referrals to provincial health facilities.
2. Provision of health care and of an economic assistance package to Veterans including housing, agricultural tools and other equipment.

Part D: Project Administration and Management

Facilitating the implementation of Project activities by strengthening the Borrower's agencies responsible for Project execution, through the provision of technical advisory services and training and the acquisition of vehicles, motorcycles, equipment and materials.

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods 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 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 provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for generators, sewing machines, bicycles, motorbikes, water pumps and other equipment shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestic manufacturers

The provisions of paragraphs 2.54 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

Draught animals under Part C of the Project estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed \$7,320,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement from UN Agencies

Vehicles and motorcycles under Part D of the Project may be procured from the Inter-Agency Procurement Office (IAPSO) of the United Nations 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 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 each contract for goods estimated to cost the equivalent of \$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 the first five contracts to be procured each year pursuant to Part C.1 of Section I of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Financial auditing services under Article IV of this Agreement estimated to cost less than \$100,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for 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.

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

SCHEDULE 4

Implementation Program

I. Overall Project Coordination and Management

1. Project coordination

(a) The Borrower shall maintain, at all times during the implementation of the Project, CDAF which shall be responsible for the demobilization and reintegration of soldiers and for providing policy coordination, guidance and supervision of all ministries and institutions involved in the implementation of its demobilization program. To this end, the Borrower shall provide CDAF with sufficient funds, staffing and other resources as shall be required to allow it to carry out its responsibilities under the Project.

(b) The Borrower shall maintain, at all times during the implementation of the Project, GS which shall be responsible for implementing CDAF's decisions, including with respect to the administration of the Project, and preparing the AWPBs.

(c) The Borrower shall implement the Project at the provincial level through the PVCs, which, under the direction and control of GS, shall be responsible for carrying out CDAF's decisions at the provincial level, and shall, to that end, be assisted by the provincial services of the Borrower's ministries.

2. Specific Responsibilities of Borrower's Agencies Involved in Project Implementation GS shall implement the Project in collaboration with, and with the assistance of, ministries and other agencies of the Borrower. In particular, GS shall:

(a) with the assistance of MWVA and other relevant agencies of the Borrower, collect all information and documentation regarding Veterans identified as vulnerable, prior to, and during each phase of, demobilization and provide these details to relevant ministries, institutions and non governmental organizations in support of the reintegration. During the reintegration phase, GS shall be assisted by PDWVAs, in their capacity as members of PVCs, in coordinating assistance to such Veterans;

(b) with the assistance of MoI, be responsible for establishing the necessary relationships with the provincial authorities to facilitate the reintegration of Veterans and their families into their communities;

(c) with the assistance of MLMUC and other concerned agencies of the Borrower, be responsible for facilitating land access and tenure for Veterans who have been ascertained to be landless or homeless or will settle into new areas following their discharge;

(d) with the assistance of MoH, design health assistance packages to Veterans; and

(e) with the assistance of MSALVY, carry out the "needs analysis" of the Veterans, with special emphasis on those identified as vulnerable, and in coordinate with all local and international institutions and the private sector to assure and verify an effective reintegration process in terms of service delivery.

3. Project Management

The Borrower shall manage the Project on the basis of Annual Work Programs and Budgets (AWPBs), which shall be satisfactory to the Association. To that end, the Borrower shall ensure that AWPBs are prepared following the normal budget calendar of the Borrower:

(a) a brief report on the results achieved with the previous year's AWPB compared to the objectives with an explanation of the reasons for any identified differences;

(b) a succinct presentation of the main problems encountered and the lessons learned;

(c) a clear description of the activities that are going to be undertaken to achieve those objectives and the performance monitoring indicators for that year;

(d) a detailed estimate of the costs to be incurred in carrying out these activities; and

(e) a financing plan showing how the costs are going to be financed.

4. The Borrower shall appoint, in accordance with the provisions of Section II of

Schedule 3 to this Agreement and terms and conditions satisfactory to the Association, and thereafter maintain at all times during the implementation of the Project a procurement and financial management firm which shall be responsible for managing, on behalf of the Borrower, procurement and financial management matters under the Project including the Special Account, the Second Generation Special Account and the Project Account. It is understood that, notwithstanding the above provision, the procurement functions of such firm shall cease upon completion of all procurement activities under the Project, as shall be reflected in the contract between the Borrower and such firm.

5. The Borrower shall:

(a) adopt, in a form and substance acceptable to the Association a PIM setting forth, inter alia: (i) details of all procurement, financial management and other administrative and organizational arrangements for implementation of activities under the Project, which procedures shall be consistent with those set forth in Article IV, Schedule 1 and Schedule 3 to this Agreement; (ii) performance indicators, monitoring and evaluation procedures for the Project; and (iii) guidelines and procedures to be used for carrying out a satisfactory needs assessment of the soldiers to be demobilized and their families and for designing and selecting a suitable reintegration package for each Veteran; and

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

II. Project Monitoring

The Borrower shall:

1. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, and referred to in the PIM, the carrying out of the Project and the achievement of the objectives thereof;

2. prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about twelve months following the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 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;

3. review with the Association, by November 30, 2002, or such later date as the Association shall request, the report referred to in paragraph 2 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; and

4. carry out every six months, beginning six months after the Effective Date, an external review of Project implementation and promptly thereafter submit to the Association the results of such review.

III. Other Covenants

1. The Borrower shall carry out the Project in accordance with the measures described in the Environmental and Social Guidelines and, without any limitation thereto, shall take timely action to ensure that any adverse environmental or social impact of the Project is effectively mitigated in a manner satisfactory to the Association. In particular, the Borrower shall take all such action as shall be necessary to ensure that land and other assets that may be required for carrying out the Project or any part thereof shall be either voluntarily provided for by the owners of such land and other assets in the benefiting community, under arrangements satisfactory to the Association, or be acquired under open and voluntary market transactions.

2. The Borrower shall make available to the Association, no later than January 15, 2002, or such later date the Association shall agree, the Registration Data relating to the soldiers to be demobilized during the second year of the Project.

