

**CONFORMED COPY**

**GRANT NUMBER TF053320-LA**

# **Japan PHRD Project Co-financing Grant Agreement**

**(Road Maintenance Program (Phase 2) Project)**

**between**

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION  
Acting as Administrator of Grant Funds Provided  
By Japan**

**Dated August 27, 2004**

**GRANT NUMBER TF053320-LA**

AGREEMENT, dated August 27, 2004, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) acting as Administrator in respect of grant funds provided by Japan.

WHEREAS (A) the Association has received a letter from the Recipient, dated January 10, 2001 (hereinafter the Letter of Development Program, Road Maintenance Project), describing a program designed to carry out the Recipient's "Strategic Directions for the Development of the Road Sector (2000)" to achieve sustainable preservation of road assets through the development and implementation of financing and road management systems, (the Program) and declaring the Recipient's commitment to the execution of such program;

(B) the Recipient has requested that the Association support the Recipient's execution of the Program through a series of credits over a period of approximately nine years to be utilized by the Recipient in the implementation of the Program;

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

(D) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the Policy and Human Resources Development Fund (PHRD) of Japan for funding Parts B.1(a), B.2(a), B.3(a), B.3(b)(i) and B.3(e) of the Project, and said request having been approved by Japan;

(E) the Recipient intends to contract from Swedish International Development Cooperation Association (SIDA) a grant in an amount equivalent to five million eight hundred thousand Dollars (\$5,800,000) to assist in financing Part A.2(c) of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and SIDA (hereinafter the SIDA Grant Agreement);

(F) the Recipient intends to contract from Nordic Development Fund (NDF) a credit in an amount equivalent to nine million two hundred thousand Dollars (\$9,200,000) to assist in financing Parts A.3, B.2(b)(ii), B.2(c), B.3(b)(ii), B.3(f) and C.1 of the Project and parts of Part A.1(b) of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and NDF (hereinafter the NDF Credit Agreement); and

(G) the Recipient intends to contract from the Asian Development Bank (ADB) a loan in an amount equivalent to one million Dollars (\$1,000,000) to assist in financing part of Part A.1(b) of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and ADB (hereinafter the ADB Loan Agreement);

WHEREAS the Association, as administrator of PHRD grant funds provided by Japan has agreed, on the basis, inter alia, of the foregoing, to extend the PHRD Grant to the Recipient upon the terms and conditions set forth in this Agreement; and

WHEREAS the Recipient and the Association intend, to the extent practicable, that the proceeds of the PHRD Grant provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit provided for in the Development Credit Agreement are made;

NOW THEREFORE, the parties hereto hereby agree as follows:

## **ARTICLE I**

### **General Conditions; Definitions**

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 except (11), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.05;
- (v) Article V;
- (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01, 9.03, 9.04, 9.05, 9.06, 9.07, and 9.08;
- (ix) Article X;
- (x) Article XI; and

- (xi) Sections 12.01 (b), 12.02 (b), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
  - (i) the term “Association,” wherever used in the General Conditions, other than in Sections 2.01 (6) and 6.02 (e) thereof, and the last use of such term in Section 5.01 thereof, means the Association acting as Administrator of the PHRD Grant, except that in Section 6.02, the term “Association” shall also include the Association acting in its own capacity;
  - (ii) the term “Borrower” wherever used in the General Conditions, means the Recipient;
  - (iii) the term “Development Credit Agreement,” wherever used in the General Conditions, means this Agreement;
  - (iv) the term “Credit,” wherever used in the General Conditions, means the PHRD Grant;
  - (v) the term “Credit Account,” wherever used in the General Conditions, means the PHRD Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the PHRD Grant is credited; and
  - (vi) Section 4.01 shall be modified to read:

“Withdrawals from the PHRD Grant Account shall be made in Dollars; provided, however, that if the expenditures to be financed out of the proceeds of the PHRD Grant have been paid or are payable in another currency, the Administrator shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

## **ARTICLE II**

### **The PHRD Grant**

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the PHRD Grant in an amount equal to four million eight hundred thousand Dollars (\$4,800,000).

Section 2.02. (a) The amount of the PHRD Grant may be withdrawn from the PHRD Grant 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 services required for Parts B.1(a), B.2(a), B.3(a), B.3(b)(i) and B.3(e) of the Project and to be financed out of the proceeds of the PHRD Grant.

(b) The Recipient may open and maintain a separate special deposit account for the purposes of Parts B.1, B.2(a), B.3(a), B.3(b) and B.3(e) (the PHRD Grant Special Account) in the Bank of Lao PDR, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the PHRD Grant Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the following departments of MCTPC: Department of Roads for Parts A, B.1 and C, Department of Transport for Part B.2, and the Department of Personnel and the relevant DCTPCs for Part B.3, all with due diligence and efficiency and in conformity with appropriate administrative, construction, financial, engineering, and public road maintenance and management practices, and social and environmental standards, acceptable to the Association, 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out, and cause to be carried out, Parts B.1(a), B.2(a), B.3(a), B.3(b)(i) and B.3(e) of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the consultants' services required for Parts B.1(a), B.2(a), B.3(a), B.3(b)(i) and B.3(e) of the Project and to be financed out of the proceeds of the PHRD Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan for the continued achievement of the Project's objectives; and

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

#### **ARTICLE IV**

##### **Financial Conditions**

Section 4.01. (a) The Recipient shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the PHRD Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the PHRD Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 4 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the PHRD Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03 The Recipient shall, not later than March 31 in each year, commencing on March 31, 2005, and until completion of the Project, have the records and accounts of the RMF, which records and accounts reflect its operations, resources and expenditures, for each Fiscal Year audited, in accordance with appropriate auditing

principles consistently applied, by independent auditors acceptable to the Association, and 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.

## 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) Either the SIDA Grant Agreement, the NDF Credit Agreement or the ADB Loan Agreement shall have failed to become effective by June 30, 2005, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for Parts A.2(c), A.3, B.2(b)(ii), B.2(c), B.3(b)(ii), B.3(f) and C.1 of the Project, and part of Part A.1(b) of the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

- (b) (i) Subject to sub-paragraph (ii) of this paragraph (b):
- (A) the right of the Recipient to withdraw the proceeds of either the SIDA Grant, the NDF Credit, the ADB Loan or the PHRD Grant, made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the SIDA Grant Agreement, the NDF Credit Agreement, the ADB Loan Agreement or the PHRD Grant Agreement, as the case may be; or
  - (B) either the NDF Credit or the ADB Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Sub-paragraph (i) of this paragraph (b) shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(c) Any of the following instruments shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement: (i) Decree No. 09/PM establishing the Road Maintenance Fund dated January 15, 2001; (ii) Decree No.03/PM dated January 9, 2004 on “Government Procurement Of Goods, Construction, Maintenance And Service” and its Implementing Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004; (iii) the Recipient’s Letter of Development Program, Road Maintenance Project dated January 10, 2001; (iv) Ministerial Decision 2926/MCTPC dated July 29, 2003; (v) the Environmental Guidelines for Road Projects; and (vi) the Environment and Social Safeguards Framework; or any part thereof;

(d) A situation has arising which shall make it improbable that the Program or a significant part thereof will be carried out; and

(e) Any of the RMF, MCTPC and DCTPCs shall have had their respective legal mandates amended, suspended, abrogated, repealed or waived, or have been dissolved, reorganized or restructured.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur, subject to the proviso therein.

(b) the event specified in paragraph (b)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b)(ii) of that Section.

(c) any of the events specified in paragraphs (c) and (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Recipient.

## **ARTICLE VI**

### **Effectiveness, Termination**

Section 6.01. This Agreement shall become effective upon its execution by the parties hereto or the Effective Date of the Development Credit Agreement, whichever is later.

Section 6.02. This Agreement shall continue in effect until disbursement under this Agreement has been completed and the parties to this Agreement have fulfilled all their obligations hereunder, provided, however, that if the Development Credit Agreement terminates prior to the termination of this Agreement, this Agreement shall terminate automatically and shall cease to have any further force or effect.

Section 6.03. The date 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 Recipient; Addresses**

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance  
Post Office Box No. 46  
Vientiane  
Lao People's Democratic Republic

Telex:

4369  
MOF LS

Facsimile:

856-21-412142  
856-21-911370

For the Association:

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

Telex:

248423 (MCI)  
or 64145 (MCI)

Facsimile:

(1-202) 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 Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Somdy Douangdy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION  
Acting as Administrator of Grant Funds Provided by Japan

By /s/ Ian Porter

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the PHRD Grant**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the PHRD Grant, the allocation of the amounts of the PHRD Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the PHRD Grant Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services under Part B.1(a) of the Project	1,400,000	100%
(2) Consultants' services under Part B.2(a) of the Project	600,000	100%
(3) Consultants' services under Parts B.3(a) and B.3(e) of the Project	1,700,000	100%
(4) Consultants' services, training and workshops under Part B.3(b)(i) of the Project	1,100,000	100%
 TOTAL	 ----- \$4,800,000 =====	

2. For the purposes of this Schedule, the term "training and workshops" means local expenditures for the cost of training materials, facilities, course fees, travel and subsistence for trainees all in connection with in-country training.

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.

4. The Association may require withdrawals from the PHRD Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) consultants' services under contracts with firms costing less than \$100,000 equivalent each; (b) consultants' services under contracts with individuals costing less than \$50,000 each; and (c) training and workshops; all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any payment made from the PHRD Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the PHRD Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Association.

## SCHEDULE 2

### Description of the Project

The Project is the second phase of the Borrower's Program designed to carry out its "Strategic Directions for the Development of the Road Sector (2000)". The objective of the Project is to assist the Borrower in expanding sustainable maintenance of its road networks nationwide in order that: (a) national and local road assets are preserved to provide sustainable improved travel and access for road users and communities in most areas countrywide; and (b) sustainable financing and management of roads is operational countrywide with improved institutional capacity at central and local levels in the public and private sectors.

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: Preservation of the Road Network

1. National Roads: Carry out a program for: (a) routine maintenance of the national road network throughout the country, including emergency works of accident removal and landslide clearing, vegetation control, drainage clearing, potholes patching, edge repairs, and grading; and (b) periodic road maintenance, including regravelling, resealing, asphalt resurfacing, road safety improvements and bridge repairs, of about 1,800 kilometers of the national road network; and (c) rehabilitation of about 200 kilometers of the national road network.
2. Provincial, District and Rural Roads: Carry out a program for the: (a) routine maintenance of the provincial road network throughout the country, including emergency works, accident removal, landslide clearing, vegetation control, drainage clearing, potholes patching, edge repairs and grading on about 6,500 kilometers per year; (b) periodic maintenance, including regravelling, resealing, dust suppression, road safety improvements and bridge repairs, and rehabilitation of about 2,000 kilometers of the provincial road network; and (c) maintenance of the district and rural road networks, including routine maintenance and improvement of road structure and drainage.
3. Implementation Support: Support the supervision of routine and periodic maintenance, and rehabilitation of the national and provincial road networks, as the case may be, including the monitoring of safeguards including the provision of consultants' services to DOR and the DCPTC.

Part B: Capacity Building

1. Road Management and Financing: Carry out a program to: (a) enhance and implement sustainable procedures for planning, budgeting and implementing the preservation of road assets including roads and bridges on the national, provincial, district and rural road networks; and (b) enhance the procedures for financing the preservation of road assets through the strengthening of the operations of and the achievement of sustainable cost recovery objectives of the Road Maintenance Fund, and the development of sustainable cost-sharing arrangements for the financing of the preservation of local roads, through the provision of consultants' services.

2. Road Transport Management and Safety: Carry out a program to: (a) improve road transport and safety administration, including the provision of consultants' services to DOT on transport administration, vehicle registration and driver licensing computerized system, heavy transport management, and road safety; (b) expand on a nationwide basis the management of heavy transport control, including: (i) the provision of load control equipment; and (ii) the construction of 2 permanent weigh stations and 7 layby sites; and (c) develop and implement a series of road safety improvements.

3. Institutional Capacity Building: Carry out a program to strengthen the institutional capacity of entities involved in the Borrower's road sector through: (a) improvement of the organizational functions and key business processes of MCTPC and the DCTPCs; (b) human resources development of (i) MCTPC and (ii) the DCTPCs; (c) provision of information technology and communications for MCTPC and the DCTPCs; (d) provision of (i) district office facilities, (ii) motor vehicles, (iii) motorcycles, and (iv) office equipment for MCTPC and the DCTPCs; (e) strengthening service delivery in the construction industry, transport operations and engineering consulting profession; and (f) strengthening the effectiveness of environmental and social safeguards in road programs; including the provision of consultants' services, workshops and training.

Part C: Project Administration

Carry out a program to strengthen the capacity of the DOR and the DCTPCs to administer and monitor Project activities, including

1. Project monitoring, including Project management, implementation, and reporting, and the provisions of consultants' services therefor.

2. Budgetary support for operating costs, including incremental operating costs.
3. Financial and technical audits including provisions of consultants' services therefor.

\* \* \*

The Project is expected to be completed by September 30, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

B. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

##### B. Other Procedures

1. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

2. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section III. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more, all contracts for consultant services provided under single source selection, and all contracts provided by individual consultants, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

## **SCHEDULE 4**

### **Implementation Program**

#### Capacity Building

1. The Recipient shall, in carrying out Part B of the Project, by May 31, 2005, adopt and thereafter implement a detailed Human Resource Development Plan, including performance indicators to monitor its implementation, acceptable to the Association, and thereafter, by April 30 of each year, commencing April 30, 2006 and until completion of the Project, prepare and furnish to the Association for its approval, annual training programs and budget to be implementing commencing on October 1 of each year, the first such annual training program to be implemented commencing on October 1, 2006.

2. The Recipient shall by May 31, 2005, approve a detailed Information and Communications Technology Plan for MCTPC and DCTPCs under the Program, including performance indicators to monitor its implementation, acceptable to the Association.

3. The Recipient shall by June 30, 2005, design and furnish to the Association for its review and comments, a draft plan for undertaking improved organizational arrangements at the MCTPC and DCTPCs aimed at an efficient management of the Recipient's Program, under terms of reference acceptable to the Association, and by October 1, 2005, furnish to the Association a final plan, acceptable to the Association, having taken into account the Association's views thereon; and thereafter promptly implement said plan, in a manner and substance acceptable to the Association.

#### Monitoring and Evaluation

4. The Recipient 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 6 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, on or about April 30 and October 31 of each year, commencing October 31, 2005, 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, promptly after furnishing each aforementioned report to the Association, or at such 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.

## **SCHEDULE 5**

### **PHRD Grant Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories 1, 2, 3, and 4 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of services required for the Project to be financed out of the proceeds of the PHRD Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$400,000 to be withdrawn from the Grant Account and deposited into the Grant Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000, until the aggregate amount of withdrawals from the Grant Account allocated to Categories (1), (2), (3) and (4) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts B.1(a), B.2(a), B3(a), B.3.(b)(i) and B.3(e) of the Project shall be equal to or exceed the equivalent of \$1,000,000.
2. Payments out of the PHRD Grant Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the PHRD Grant Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective PHRD Grant Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the PHRD Grant Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the PHRD Grant Account and deposit into the PHRD Grant Special Account such amount or amounts as the Recipient shall have requested.
  - (b) (i) For replenishment of the PHRD Grant Special Account, the Recipient shall furnish to the Association requests for deposits into the respective PHRD Grant Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the PHRD Grant Account and deposit into the PHRD Grant Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the PHRD Grant Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the PHRD Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the PHRD Grant Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any PHRD Grant Special Account:

(a) if, at any time, the Association shall have determined that (i) the Recipient has an unrecovered or unresolved Special Account in respect of any Grant Agreement or Development Credit Agreement with the International Development Association or Loan Agreement with the International Bank for Reconstruction and Development; or (ii) all further withdrawals should be made by the Recipient directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the PHRD Grant Special Account;

(c) if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the PHRD Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) in respect of the PHRD Grant Special Account, once the total unwithdrawn amount of the PHRD Grant allocated to the eligible Categories for said PHRD Grant Special Account, minus the total amount of all outstanding special

commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation for such PHRD Grant Special Account .

Thereafter, withdrawal from the PHRD Grant Account of the remaining unwithdrawn amount of the PHRD Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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 PHRD Grant Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the PHRD Grant Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the PHRD Grant Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the PHRD Grant Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the PHRD Grant Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the PHRD Grant Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the PHRD Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## SCHEDULE 6

### Performance Indicators

Project Development Objectives	Outcome Indicators	Use of Outcome Information
<p>(a) National and local road assets are preserved to provide sustainable improved travel and access for road users and communities in most areas countrywide; and</p> <p>(b) Sustainable financing and management of roads is operational countrywide with improved institutional capacity at central and local levels in the public and private sectors.</p>	<p>Not applicable</p> <p>Routine maintenance on at least 90 percent, and periodic maintenance and rehabilitation on at least 8 percent, of the National and Provincial Road networks are funded by domestic revenues including those recovered from road users by September of each year</p>	<p>To gauge effectiveness of the Governments program for road asset management</p>
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
<p><b>Component One: Road Management and Financing</b> Management and financing of preservation of national and local roads</p>	<p><b>Component One:</b></p> <p>2,000 km of National Roads and 2,000 km of Provincial Roads at the national level are subject to periodic maintenance by the end of project</p> <p>Road Maintenance Fund annual revenue reaches LAK 100 billion by September 30, 2008</p>	<p><b>Component One:</b></p> <p>Implementing Agency to monitor progress and make case for continued support</p> <p>Inform high level decision makers of outcomes</p> <p>Inform annual public expenditure budgeting process and extent of road maintenance program</p>
<p><b>Component Two: Road Transport and Safety Management</b> Road Transport Management and Safety improved</p>	<p><b>Component Two :</b></p> <p>An integrated vehicle and driver registration system is established at MCTPC and the provinces by September 30, 2006</p> <p>Current level of compliance is retained (incidence of overloading exceeding 20 percent stays less than 10 percent) for the duration of the project</p>	<p><b>Component Two:</b></p> <p>Inform high level decision makers of outcomes</p> <p>Variations from targets will be used to re-evaluate capacity building strategy on an annual basis</p>

	<p>Road safety audits are mainstreamed for the National Road Network by September 30, 2007</p> <p>A program of hazardous locations improvements is implemented, as per Annual Work Program by September of each year</p>	
<p><b>Component Three: Institutional Capacity Building</b></p>	<p><b>Component Three:</b></p> <p>Performance levels in priority MCTPC / DCTPC functions attain the targets specified in the capacity building strategy by end of project</p> <p>New business process implemented for: (i) procurement; (ii) accounting; (iii) safeguards by end of project</p> <p>MCTPC and all DCTPC's have basic computing facilities and internet connection in DOR, DOT and DOP by end of project</p> <p>92 District offices constructed and operational by end of project</p> <p>Road contractors and road transport operators have active trade associations and internal quality standards by end of project</p> <p>Construction resource mapping completed and available to MCTPC by end of project</p>	<p><b>Component Three:</b></p> <p>Inform high level decision makers of outcomes and seek solutions to restraining problems</p>



<p>Road safety audits are mainstreamed for the National Road Network by September 30, 2007</p> <p>A program of hazardous locations improvements is implemented as per AWP by September of each year</p>	<p>Ongoing for one road</p> <p>As per AWP</p>								
<p><b>Component Three:</b> Performance levels in priority MCTPC / DCTPC functions attain the targets specified in the capacity building strategy provinces by end of project</p> <p>New business process implemented for: (i) procurement; (ii) accounting; (iii) safeguards provinces by end of project</p> <p>MCTPC and all DCTPC's have basic computing facilities and internet connection in DOR, DOT and DOP provinces by end of project</p> <p>92 District offices constructed and operational provinces by end of project</p> <p>Road contractors and road transport</p>	<p>To be established by September 2005</p> <p>To be established by September 2005</p> <p>To be established by September 2005</p> <p>To be established by September 2005</p>								



