

CONFORMED COPY

CREDIT NUMBER 3481 LA

Development Credit Agreement

(Road Maintenance Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 13, 2001

CREDIT NUMBER 3481 LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 13, 2001, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower dated January 10, 2001, describing a program designed to preserve the road network of the Borrower through the development and implementation of financing and management systems (the Program) and declaring the Borrower's commitment to the execution of such program;

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

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

(D) the Borrower intends to contract from the Nordic Development Fund (NDF) a loan in a principal amount equivalent to SDR4,500,000 (the NDF Loan) to assist in financing Parts A.1 (b)(i), A.2 (b)(i), A.3, B.1 (i), B.2 (i), B.3 (a), B.3 (c)(i), B.4 and B.5 (a) of the Project on conditions set forth in an agreement to be entered into between the Borrower and NDF (the NDF Loan Agreement); and

(E) the Borrower intends to contract from the Swedish International Development Cooperation Agency (Sida) a grant an amount equivalent to Swedish Kroner 140,000,000 (the Sida Grant) to assist in financing Parts A.1 (b)(ii), A.2 (b) (ii), B.1 (ii), B.3 (b) and B.5 (b) of the Project on conditions set forth in an agreement to be entered into between the Borrower and Sida (the Sida Grant Agreement); and

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

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.";

(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."; and

(c) Paragraph (c) of Section 9.06 is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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

(a) "Affected Person" means a person who, on account of the execution of Part A.1 of the Project, has or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected;

(b) "DCTPC" means the Department of Communication, Transport, Post and Construction, the Borrower's provincial branch of the Ministry of Communication, Transport, Post and Construction;

(c) "Environmental Guidelines" means the Borrower's Environmental Guidelines for Road Construction and Maintenance Projects, set out in the Prime Minister Decree 50/PM of April 1, 1995;

(d) "Fiscal Year" means the Borrower's fiscal year starting October 1 and ending September 30;

(e) "Guidelines for Compensation and Resettlement" means the Guidelines for Compensation and Resettlement prepared by the Borrower, dated August 28, 2000 and approved by the Association, as such Guidelines may be modified from time to time with the approval of the Association;

(f) "MCTPC" means the Borrower's Ministry of Communication, Transport, Post and Construction;

(g) "MCTPC Special Account" means the account established for the purpose of Parts A.1(a)(ii), A.1(c), A.1(d), B.1(iii), B.1(iv), B.2(ii), B.3(c)(ii), B.3(d) and B.3(e) of the Project and referred to in Section 2.02(b) of this Agreement;

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

(i) "Road Maintenance Advisory Board" means the advisory board established by Decree 05/PM dated January 15, 2001, having overall management of the Road Maintenance Fund, reporting to the Minister of Communication, Transport, Post and Construction, and comprising representatives of road users from the private sector and representatives of the Government;

(j) "Road Maintenance Fund" means the fund established by Decree 09/PM dated January 15, 2001 to finance road maintenance through road user charges;

(k) "RMF Special Account" means the account established for the purpose of Part A.1(a)(i) of the Project and referred to in Section 2.02(b) of this Agreement;

(l) "Secretariat" means the secretariat of the Road Maintenance Advisory Board; and

(m) "Special Accounts" means the RMF Special Account and the MCTPC Special Account, collectively, and the term "Special Account" means either of the Special Accounts.

## 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 this Agreement, an amount in various currencies equivalent to nineteen million two hundred thousand Special Drawing Rights (SDR19,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for 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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes the Project, open and maintain in Dollars two separate special deposit accounts (the RMF Special Account in respect of Part A.1 (a) (i) of the Project and the MCTPC Special Account in respect of Parts A.1 (a) (ii), A.1(c), A.1(d), B.1(iii), B.1(iv), B.2(ii), B.3(c)(ii), B.3(d) and B.3(e) of the Project) in Bank of Lao PDR on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 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 semi-annually on January 15 and July 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 semi-annual installments payable on each January 15 and July 15 commencing July 15, 2011 and ending January 15, 2041. Each installment to and including the installment payable on January 15, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified

for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MCTPC's Department of Roads with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental, financial and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

### 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 Accounts for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of

expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than October 1, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

#### ARTICLE V

##### Remedies of the Association

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

(a) Subject to paragraph (b) of this Section, the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part,

pursuant to the terms of the agreement providing therefor.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) 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 Disbursement Division of MCTPC's Department of Roads has been designated to manage the MCTPC Special Account;

(b) the Road Maintenance Fund has been designated to manage the RMF Special Account;

(c) the Secretariat of the Road Maintenance Advisory Board has been staffed in accordance with paragraph 1 of Schedule 4 to this Agreement;

(d) the consultant to assist MCTPC in operating the Road Maintenance Fund, the Road Maintenance Advisory Board and the Secretariat of the Road Maintenance Advisory Board, has been employed in accordance with the provisions of Schedule 3 to this Agreement;

(e) the financial management system for the Project, except for Part A.1 (a) (i) of the Project, has been established in a manner acceptable to the Association; and

(f) the NDF Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

Telex:

Facsimile:

MINFINANCE  
VIENTIANE

4369  
MOF LS

856-21-412408

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477-6391

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

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Vang Rattanaovong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian C. Porter

Authorized Representative

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		90%
(a) Part A.1 (a) (i) of the Project	12,280,000	
(b) Other (except Part A.2 and A.3 of the Project)	3,540,000	
(2) Goods (except for Part A.3 of the Project)	310,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally



(3)	Incremental operating costs:		
	(a) Relating to Project auditing	40,000	100%
	(b) Other	230,000	60% in FY 2001/2002, 50% in FY 2002/2003 and 40% thereafter
(4)	Consultants' services for Parts B.1(iii) B.1 (iv), B.2 (ii), and B.3 (d) and (e) of the Project	500,000	100%
(5)	Unallocated	2,300,000	
	TOTAL	19,200,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "other incremental operating costs" means expenditures for operation and maintenance of road service vehicles, and expenditures for supplies, transportation and communication of Project staff, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; and (ii) payments made for expenditures under Category 1 (a) set forth in the table in paragraph 1 of this Schedule unless and until the financial management system for Part A.1 (a) (i) of the Project has been established in a manner acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for (i) contracts for civil works costing less than \$600,000 equivalent each; (ii) contracts for goods costing less than \$50,000 equivalent each; (iii) incremental operating costs; and (iv) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in the sustainable maintenance of the national road network and in designing and testing financing and management systems for the sustainable maintenance of the local road network in the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet.

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. Periodic Maintenance and Rehabilitation Works

(a) Carrying out of periodic maintenance works (including regravelling,

resealing, thin asphalt overlay on paved roads and bridge decks, bridge repair, road marking and installation of road signs) on (i) about 1,100 kilometers of the national road network, and (ii) about 300 kilometers of the local road network in the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet.

(b) Provision of technical assistance (i) to MCTPC Department of Roads' Road Administration Division and the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet, for the management of the periodic maintenance of the national road network, and (ii) to the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet for the management of the periodic maintenance of the local road network.

(c) Acquisition of vehicles, office equipment, and road condition survey equipment.

(d) Construction of thirty-eight DCTPC-District office buildings in the provinces of Champassack, Luang Namtha, Luang Prabang and Savannakhet.

## 2. Routine Maintenance Works

(a) Carrying out of emergency works (including accident removal and landslide clearing) and routine maintenance works (including vegetation control, drainage clearing, pothole patching and edge repair) on (i) about 4,700 kilometers of maintainable sections of the national road network, and (ii) about 1,100 kilometers of maintainable sections of the local road network in the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet.

(b) Provision of technical assistance (i) to MCTPC Department of Roads' Road Administration Division and the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet, for the management of the routine maintenance of the national road network, and (ii) to the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet for the management of the routine maintenance of the local road network.

## 3. Heavy Transport Management Program

Implementation of a strategy to reduce overloading on the road network, through:

(a) the construction of about seven permanent axle load weight stations, including electronic scales and related small buildings, at strategic points on the national road network, and provision of office supplies and small generators;

(b) the construction of about seventeen laybys and related small buildings at strategic points on the national road network, including acquisition of mobile weight-scales and vehicles, and provision of related training to axle-load control patrols, and the provision of office supplies and small generators; and

(c) the strengthening of the project implementation capacity of the Department of Transport, including training and provision of technical assistance to the Department of Transport for the establishment of a partnership between MCTPC and representatives of the private transport industry, and the implementation of related policy reforms.

## Part B: Strengthening Institutional Capacity

### 1. Establishment of Road Management System

Development and establishment of an integrated road management system to cover all aspects of the road planning process for the national and local road networks, including provision of technical assistance and training (i) to MCTPC Department of Roads' Planning and Technical Division and Road Administration Division to make the road management system fully operational for the national road network; (ii) to MCTPC Department of Roads' Local Roads Division and the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet, to develop and test the road management system for the local road network; (iii) to the DCTPC of the province of Champassack for the introduction of the Integrated Rural Accessibility Planning

road prioritization procedure of the International Labor Organization; and (iv) to MCTPC Department of Roads' Planning and Technical Division, to carry out road condition surveys.

2. Road Maintenance Fund

Establishment of a sustainable financing mechanism for the maintenance of the national and local road networks, including provision of technical assistance and training (i) to the Road Maintenance Advisory Board, and (ii) to the Secretariat, for the efficient operation of the Road Maintenance Fund.

3. Strengthening Preparation, Execution and Monitoring of Projects

(a) Development of institutional capacity to manage projects through the provision of technical assistance and training to MCTPC's Department of Roads' Project Monitoring Division.

(b) Development of the capacity to manage financial aspects of projects to MCTPC's Department of Roads' Disbursement Division, the Secretariat and the DCTPCs of the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet.

(c) Provision of technical assistance to carry out annual (i) technical audits of Project activities, and (ii) financial audits of Project activities.

(d) Provision of technical assistance, training and operational support to MCTPC's Information Archive and Conference Center.

(e) Provision of training, including fellowships, English language training, workshop, seminars and study tours to staff of MCTPC and DCTPCs.

4. Development of Strategy for Strengthening Performance of the Local Contracting and Consulting Industry

Development and implementation by MCTPC, the Road Maintenance Advisory Board and the local contracting and consulting industry of a strategy for the strengthening of the local contracting and consulting industry.

5. Involvement of Road Users and Beneficiaries in Road Maintenance Activities  
Development and implementation of a program for the involvement of road users and beneficiaries in the delivery and management of road maintenance activities through:

(a) the provision of technical assistance to the Road Maintenance Advisory Board and MCTPC's Department of Roads for the establishment of associations to represent road users; and

(b) the provision of technical assistance to the Local Roads Division of MCTPC's Department of Roads and DCTPCs for the development and implementation of a strategy in the provinces of Champassack, Luang Namtha, Luang Prabang, and Savannakhet to involve villages in the maintenance of the local road network and development of small-scale community contractors.

\* \* \*

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with 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: Procurement Procedures

1. National Competitive Bidding

(a) Except as provided in paragraphs 4 and 6 of this Part, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the provisions of paragraph 1(b) of this Part B.

(b) The procedures to be followed for National Competitive Bidding under Section I, Part B (1) of Schedule 3 to the Development Credit Agreement shall be those set forth in the Decree No. 95/PM dated December 5, 1995 on Government Procurement of Goods, Works [Construction, Repairs] and Services (hereinafter Decree 95/PM) and Implementing Rules and Regulations [Labieb] No. 1639/MOF dated December 22, 1998 on Government Procurement of Goods, Works [Construction, Repairs] and Services (hereinafter IRRs 1639/MOF) of the Lao People's Democratic Republic, with the following clarifications required for compliance with the Guidelines:

- (i) in connection with any contract to be financed in whole or in part by the Credit, under National Competitive Bidding procedures no preference whatsoever will be given to a domestic bidder over foreign bidders or to a state company over a non-state company and goods may be purchased from abroad at a competitive price, even if domestic goods of the same quality are available; and
- (ii) in connection with any contract to be financed in whole or in part by the Credit, bids will not be automatically rejected for lack of effective competition solely on the basis of the number of bidders or because all bid prices substantially exceed the budget allocated and the provisions of paragraph (j) of Article 4 of the IRRs 1639/MOF will apply only as modified by the provisions on rejections of bids set forth in paragraphs 2.59-2.62 of the Guidelines.

2. International Shopping

Road condition survey equipment shall be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Except as provided in paragraphs 2 and 5 of this Part, goods shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Periodic maintenance works for the local road network estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement from UN Agencies

Vehicles shall be procured from the United Nations Inter-Agency Procurement Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

#### 6. Procurement of Small Works

Periodic maintenance works using the labor-equipment-supported based methodology on the local road network estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and works for the construction of district offices estimated to cost less than \$90,000 equivalent per contract, up to an aggregate amount not to exceed \$340,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

#### Part C: Review by the Association of Procurement Decisions

##### 1. Procurement Planning

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

##### 2. Prior Review

(a) With respect to (i) each contract for works estimated to cost the equivalent of \$600,000 or more and (ii) each contract for works procured under paragraph 6 of Part B of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods procured in accordance with paragraph 2 of Part B of this Section and each contract for goods procured in accordance with paragraph 3 of Part B of this Section estimated to cost the equivalent of \$50,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

##### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, 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 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 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: Procedures for the Selection of Consultants

1. Least-cost Selection

Services for road condition survey under Part B.1(iv) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 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 C: 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

1. The Borrower shall establish and thereafter maintain until completion of the Project, a Secretariat for the Road Maintenance Advisory Board, with competent staff in adequate numbers, including:

- (a) a Secretary;
- (b) a technical manager; and
- (c) a financial manager.

2. The Borrower shall maintain until completion of the Project, with competent staff in adequate numbers including a Director, the following units: the Project Monitoring Division, the Road Administration Division, the Planning and Technical Division, and the Disbursement Division of the Department of Roads, the Department of Transport, the Manpower Development Division of the Personnel Department of MCTPC and the DCTPCs.

3. The Borrower shall maintain in the Planning and Technical Division of the Department of Roads of MCTPC, until completion of the Project, the following competent staff whose qualifications shall include a working knowledge of English:

- (a) two staff for the management of the road conditions survey;
- (b) two staff for the management of the bridge management system; and
- (c) two staff for the management of the routine maintenance management system and monitoring and evaluation system.

4. In carrying out Part A.1 of the Project, the Borrower shall ensure that:

- (a) at least 60 days prior to the initiation of any works, the Environmental Guidelines and the Guidelines for Compensation and Resettlement are made freely available to the local population for consultation;

- (b) the works are carried out in accordance with appropriate engineering and environmental standards and practices that would minimize any acquisition of land, avoid involuntary displacement of Affected Persons (physically and economically), and avoid or minimize any negative environmental impact;

- (c) the Guidelines for Compensation and Resettlement have been complied with, and, if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Affected Persons as set forth under the Guidelines for Compensation and Resettlement and paragraph 4(d) of this Schedule; and

- (d) in the event that two hundred or more persons are adversely affected:

- (i) prepare a resettlement plan in accordance with the Guidelines for Compensation and Resettlement and furnish such plan to the Association for approval; and

- (ii) prior to the carrying out of the works, ensure that all Affected Persons shall have been compensated in accordance with the provisions of said plan.

5. The Borrower shall, not later than June 30 in each year, commencing June 30, 2002, and until completion of the Project, carry out a technical audit of Project implementation, in accordance with terms of reference acceptable to the Association.

6. In carrying out Part A.3 of the Project, the Borrower shall, not later than December 31, 2001, take all steps required to set the axle-load weight limit at 9.1 tons per axle.

7. The Borrower shall, not later than December 31, 2001, apply its location referencing system to all national and provincial roads that are in a passable condition.

8. In carrying out Part A.2 of the Project, the Borrower shall cause the provinces

of Champassack, Luang Namtha, Luang Prabang, and Savannakhet, to furnish to the Association, not later than November 1 in each year, starting November 1, 2001, and until completion of the Project, a report on the actual expenditures incurred for emergency and routine maintenance works during the previous Fiscal Year.

9. The Borrower shall:

(a) not later than September 30, 2002, prepare a draft long-term investment and maintenance plan to ensure sustainable preservation of the road network;

(b) furnish such plan to the Association and to the other donors and agencies participating in the road sector for comments; and

(c) not later than December 31, 2002, finalize such plan taking into account the comments of the Association and of the other agencies and donors.

10. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30 and October 31 in each year, commencing October 31, 2001, 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 thereafter each such 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

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of the RMF Special Account, Category (1) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement and, in the case of the MCTPC Special Account, Categories (1) (b), (2), (3) and (4) set forth in said table;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 in respect of the RMF Special Account and an amount equivalent to \$500,000 in respect of the MCTPC Special Account, to be withdrawn from the Credit Account and deposited into the respective 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 \$600,000 in respect of the RMF Special Account and an amount equivalent to \$250,000 in respect of the MCTPC Special Account, until (i) in respect of the RMF Special Account the aggregate amount of withdrawals from the Credit Account allocated to Category (1) (a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for the Part of the Project related to the



RMF Special Account shall be equal to or exceed the equivalent of SDR 3,000,000, and (ii) in respect of the MCTPC Special Account the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(b), (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 the Parts of the Project related to the MCTPC Special Account shall be equal to or exceed the equivalent of SDR 800,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

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

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective 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 with respect to the Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective 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 any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective 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 any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

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

