

CONFORMED COPY

CREDIT NUMBER 3179 KH

Development Credit Agreement

(Second Social Fund Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 19, 1999

CREDIT NUMBER 3179-KH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 19, 1999, between KINGDOM OF CAMBODIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Social Fund of the Kingdom of Cambodia (SFKC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SFKC the proceeds of the Credit on a non-reimbursable grant basis as provided in this Agreement; and

(C) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and SFKC;

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 December 2, 1997) 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 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and "Participating Countries" means, collectively, all such countries."; and

(b) the second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Administrative Manual" means the manual, dated September 20, 1995, adopted by SFKC setting out the financial and administrative procedures for the day-to-day operation and administration of SFKC, including its accounting, financial and auditing procedures; as same may be amended from time to time, and such term includes any schedules to the Administrative Manual;

(b) "Affected Person" means, individually, a person who, on account of the implementation of Part A of the Project, or any part thereof, has or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including, but without limitation to, premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed; or (iii) business, occupation, work, or place of residence or habitat adversely affected, and the term "Affected Persons" means, collectively, more than one Affected Person;

(c) "Applicant" means any local community group or local public or private entity who shall have applied to SFKC for the financing and carrying out of a Sub-project, within any province of the Borrower, and who shall have entered into a Sub-grant Agreement, and the term "Applicants" means, collectively, more than one Applicant;

(d) "Fiscal Year" means any twelve-month period beginning on January 1 and ending on December 31;

(e) "Fund Agreement" means the agreement to be entered into between the Borrower and SFKC, pursuant to the provisions of Section 3.02 of this Agreement;

(f) "Guidelines for Resettlement and Compensation" means the guidelines for the resettlement and provision of compensation to Affected Persons, acceptable to the Association, adopted by the Borrower, and set forth in the Operational Manual, as such Guidelines may be amended from time to time in agreement with the Association;

(g) "MEF" means the Borrower's Ministry of Economy and Finance, or any successor thereto;

(h) "NBC" means the National Bank of Cambodia, the Borrower's central bank or any successor thereto;

(i) "NGO" means a non-governmental organization, and the term "NGOs" means, collectively, more than one NGO;

(j) "Operational Manual" means the manual, dated September 20, 1995, adopted by SFKC, setting out the operational and administrative procedures of SFKC in respect of the preparation, appraisal, processing, approval, financing, implementation and supervision of Sub-projects, including details of Sub-project eligibility, financing and appraisal criteria, as well as performance indicators, procurement, disbursement and supervision procedures; as same may be amended from time to time, and such term includes any schedules to the Operational Manual;

(k) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter of agreement, dated May 26, 1998, signed by the Association, and countersigned by the Borrower on June 9, 1998;

(l) "Royal Decree" means the Borrower's Royal Decree No. RD/1294/20, dated December 29, 1994, as amended by the Borrower's Royal Decree No. RD/0498/122, dated April 7, 1998, establishing SFKC as a separate autonomous public institution possessing independent juridical personality under the Borrower's laws and regulations;

(m) "SFKC" means the Social Fund for the Kingdom of Cambodia, established by the Royal Decree as a separate autonomous public institution with independent social legal status, and possessing full juridical personality as well as administrative, managerial, technical and financial autonomy under the Borrower's laws and regulations;

(n) "Sponsor" means any legal entity or group of entities, including public ministries, local governments, community groups and NGOs, which are eligible to sponsor an Applicant before SFKC for a Sub-project, and the term "Sponsors" means, collectively, more than one Sponsor;

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

(p) "Statutes" means the Statutes of SFKC in the form and substance annexed to the Royal Decree;

(q) "Sub-grant" means a grant made or proposed to be made out of the proceeds of the Credit by the SFKC under a Sub-grant Agreement to finance the carrying out of the corresponding Sub-project, and the term "Sub-grants" means, collectively, more than one Sub-grant;

(r) "Sub-grant Agreement" means an agreement to be entered into between SFKC, on the one hand, and an Applicant, together with a Sponsor or Sub-project Implementing Agency, as the case may be, on the other, in respect of a Sub-project to be financed by a Sub-grant;

(s) "Sub-project" means a specific investment project under Part A of the Project, to be carried out by an Applicant, Sponsor or Sub-project Implementing Agency, as the case may be, using the proceeds of a Sub-grant, in accordance with the provisions of this Agreement; and

(t) "Sub-project Implementing Agency" means a duly qualified legal entity responsible for implementing a Sub-Project, and the term "Sub-project Implementing Agencies" means, collectively, more than one Sub-project Implementing Agency.

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 seventeen million nine hundred thousand Special Drawing Rights (SDR 17,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for (i) 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; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of an Applicant, Sponsor or Sub-project Implementing Agency, as the case may be, under a Sub-grant to meet the reasonable cost of eligible expenditures relating to a Sub-project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain a separate special deposit account in NBC on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2002 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15, commencing August 15, 2009 and ending February 15, 2039. Each installment to and including the installment payable on February 15, 2019 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause SFKC to perform in accordance with the provisions of the Project Agreement all the obligations of SFKC therein set forth in respect of the Project, and shall take and cause to be taken all action, including the provision of funds (including counterpart foreign exchange), facilities, services and other resources, necessary or appropriate to enable SFKC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall make the entire proceeds of the Credit available, on a non-reimbursable grant basis, to SFKC pursuant to a Fund Agreement to be entered into between the Borrower and SFKC, under terms and conditions which shall have been approved by the Association and which shall include the terms and conditions set forth in Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights under the Fund Agreement in such a manner so as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the objectives of SFKC, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Fund Agreement, or any provision thereof.

Section 3.03. The Borrower shall at all times take, or cause to be taken, any and all action necessary to ensure SFKC shall enter into cooperative arrangements with ministries and agencies of the Borrower, and with bilateral and multilateral donor agencies, to achieve the purposes and objectives of the Royal Decree and the Statutes. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such cooperative arrangements.

Section 3.04. 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 the Project Agreement.

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by SFKC in respect of the Project pursuant to Section 2.05 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section, and those for the Special Account, for each Fiscal

Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) 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, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; 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.

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) the Borrower or SFKC shall have failed to perform any of their respective obligations under the Fund Agreement, so as to affect materially and adversely the carrying out of the Project;

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

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified: namely, that any event specified in paragraph (a) 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 Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Fund Agreement shall have been signed between the Borrower and SFKC and shall have entered into effect, pursuant to the provisions of Section 3.02 of this Agreement and Section 2.02 of the Project Agreement; and

(b) the Operational Manual and Administrative Manual shall have been revised pursuant to the provisions of paragraph 4 (b) (i) of Schedule 1 to the Project Agreement, and the revised versions thereof shall have been duly approved by the Association, and adopted by SFKC.

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

(a) the Project Agreement has been duly authorized or ratified by SFKC, and is legally binding upon SFKC in accordance with its terms; and

(b) the Fund Agreement has been duly authorized or ratified by the Borrower and SFKC, and is legally binding upon the Borrower and SFKC in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Telex:

(583) 17770101 CMPP

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

KINGDOM OF CAMBODIA

By /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ngozi Okonjo-Iweala

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
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(1)	Sub-grants	15,460,000	100% of amounts of Sub-grants disbursed
(2)	Consultants' services	1,390,000	100%
(3)	Goods	190,000	100% of foreign expenditures, 80% of local expenditures
(4)	Operating costs	280,000	80%
(5)	Works	70,000	90%
(6)	Refunding of Project Preparation Advance	290,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	220,000	
	TOTAL	17,900,000	

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means the incremental operating costs incurred under the Project by SFKC on account of (i) travel costs and allowances, (ii) maintenance of vehicles and equipment, (iii) banking charges, and (iv) office rent, supplies and utilities.

3. Notwithstanding the provisions of paragraph 1 hereinabove, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of a Sub-grant, unless the Sub-grant has been provided in accordance with the procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Operational Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) civil works and consulting firms not exceeding the equivalent of \$100,000; (b) goods and individual consultants not exceeding the equivalent of \$50,000; and (c) training and operational costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

1. The objective of the Project is to assist the Borrower in its on-going efforts to alleviate poverty throughout its territory by inter alia: (a) financing social and economic infrastructure activities, and other socially and economically productive endeavors; (b) creating sustainable employment opportunities; (c) expanding opportunities for local communities to identify and develop local infrastructure and related socio-economic needs; and (d) developing appropriate infrastructural design costing and investment criteria.

2. 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: Sub-projects

Financing of specific investment projects through provision of Sub-grants for

rehabilitating and developing social and economic infrastructure, including development of post conflict new settlement communities, and for other socially productive activities throughout the territory of the Borrower.

Part B: Institutional Support to SFKC

(1) Supporting SFKC to strengthen its overall administrative, legal, managerial and operational capacities, as well as its ability to coordinate and monitor the overall implementation of the Project, through the provision of consultants' services.

(2) Strengthening the capacity of SFKC to, inter alia: (i) process, appraise, finance and supervise the implementation of Sub-projects; and (ii) carry out Applicant, Sponsor and Sub-project Implementing Agencies assessments, financial planning and management, procurement, disbursements and promotional activities, through the provision of consultants' services.

(3) Strengthening the capacity of SFKC to establish cooperative operational arrangements with ministries and agencies of the Borrower and with bilateral and multilateral donor agencies, through the provision of consultants' services.

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) The term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project, as well as amounts paid or to be paid under Sub-grants, 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 \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation for the Special Account shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into

the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

(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 respective Eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

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

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

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

SCHEDULE 4

Terms and Conditions of the Fund Agreement

The Fund Agreement shall be valid for a period of at least five (5) years, and shall include the following terms and conditions satisfactory to the Association:

1. The obligation of the Borrower to transfer the proceeds of the Credit, required for the implementation of the Project, to SFKC on a non-reimbursable grant basis, and otherwise to take all action necessary to permit SFKC to carry out the Project and ensure the achievement of the objectives thereof, including the prompt provision of counterpart funds (including foreign exchange) required therefor.
2. The obligation of SFKC to promptly inform the Borrower of any condition which interferes or threatens to interfere with the implementation of the Project and the achievement of the objectives thereof.
3. The obligation of SFKC, at the request of the Borrower, to exchange views with the Borrower with regard to the progress of the Project and the achievement of the objectives thereof, and SFKC's performance of its obligations under the Fund Agreement.
4. The obligation of SFKC to carry out the Project in accordance with this Agreement, the Project Agreement, the Fund Agreement, the Operational Manual and the Administrative Manual, and at all times to ensure that only Sub-projects that comply with the Fund Agreement and said manuals will be financed from the proceeds of the Credit.
5. The obligation of the Borrower to ensure that its ministries and departments responsible for reviewing the Sub-projects shall provide their no-objection or reasons for objection, as the case may be, in respect of said Sub-projects within ten working days of receipt of the necessary documentation from SFKC.
6. The mutual obligation of the Borrower and SFKC to take steps to ensure that: (a) in the event of the existence of any potential adverse environmental effects or resettlement of persons, as the case may be, arising from the implementation of any Sub-project, the environmental or resettlement action plan, as the case may be, shall be carried out in a manner acceptable to the Association and monitored on a regular basis by both the Borrower and SFKC, and, in the case of resettlement, shall be in accordance with the Guidelines for Resettlement and Compensation; (b) all Affected Persons shall be rehabilitated and compensated prior to the commencement of execution of the corresponding Sub-projects, and in accordance with the Guidelines for Resettlement and Compensation; and (c) adequate operational procedures shall be maintained at all times to enable both the Borrower and SFKC to monitor and evaluate, on a regular basis and based on indicators acceptable to the Association, the prompt carrying out of each of the foregoing.
7. The obligation of SFKC to promptly refund to the Borrower any proceeds from the Credit not used for purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner which does not comply with the provisions of this Agreement or the Project Agreement.
8. A provision stipulating that, in case of conflict between any of the provisions contained in the Fund Agreement, the Operational Manual or the Administrative Manual, on the one hand, and those set forth in this Agreement and the Project Agreement, on the other, the provisions of this Agreement and the Project Agreement shall at all times prevail.

