

CONFORMED COPY

February 28, 2002

H.E. Soukhanh Mahalath  
Minister of Finance  
Ministry of Finance  
Vientiane  
Lao People's Democratic Republic

Re: Japan Social Development Fund Grant for  
the Village Investment for the Poor Project  
Grant Number TF-026886

Excellency:

I am writing on behalf of the International Development Association (IDA) to indicate IDA's agreement, as administrator of grant funds provided by Japan under the Japan Social Development Fund, to make a grant in an amount not exceeding one million one hundred sixty one thousand United States dollars (US\$1,161,000) (the Grant) to the Lao People's Democratic Republic (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance with the project described in paragraph 1 of the Annex to this Letter Agreement (the Project) and on the terms and conditions set forth in the said Annex. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said Project and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,  
INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Ian C. Porter  
By \_\_\_\_\_  
Authorized Representative

AGREED:  
LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Soukanh Mahalat \_\_\_\_\_

Title Minister of Finance \_\_\_\_\_

Date February 22, 2002

**ANNEX**

**Objectives, Terms, and Conditions of the Grant**

1. Description of the Project

1.1. The objective of the Project is to assist the Recipient in improving the welfare of poor rural households and strengthening the capacity of rural communities.

The Project complements the Recipient's Agriculture Development Project (Credit No.3509-LA).

1.2. The Project consists of the following Parts, each of which includes the following activities (Activities):

Part A: Improved Food Security and Basic Services

1. Carrying out of small infrastructure investment and income-generating and other productive agricultural investment Sub-projects in Villages in the Project Provinces through the provision of Sub-grants to Villages through the Project Districts.
2. Facilitating the preparation of proposals for Sub-projects through the provision of technical assistance to village volunteers and community groups.

The Activities are estimated to cost the equivalent of US\$818,000.

Part B: Community Training

1. Strengthening the capacity of District staff, village volunteers and community groups at the provincial, district and village levels in the Project Provinces, through the provision of technical assistance for the preparation of implementation manuals, training modules and materials for the dissemination of information about the Project, including the role of the local administration and village communities in its implementation.
2. Strengthening the capacity of District staff, village volunteers and community groups at the provincial and district levels in the Project Provinces, through the provision of training in administration, monitoring and evaluation, financial management, survey and proposal development under the Project.

The Activities are estimated to cost the equivalent of US\$83,500.

Part C: Workshops, Information Dissemination, Monitoring and Evaluation

1. Carrying out of annual workshops to disseminate information relating to the implementation experience of the Project, provide training, and increase awareness among

stakeholders of the need for social capital development.

2. Developing a monitoring and evaluation system at the district and village levels to assist in the monitoring of the implementation of the Project and the provision of guidance in implementing adjustments to the activities under the Project, through the provision of technical assistance.

The Activities are estimated to cost the equivalent of US\$76,000.

Part D: Program Implementation and Coordination

Strengthening the implementation and coordination of Project activities through the provision of technical assistance to the four Provincial Project Implementing Offices and participating district staff and the provision of vehicles and office equipment to the Project Coordination Office and the Provincial Project Implementing Offices.

The Activities are estimated to cost the equivalent of US\$183,500.

1.3. For purposes of this Letter Agreement the following 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) “Development Strategy for Ethnic Minorities” means the strategy, adopted by the Recipient as part of the Implementation Manual, for the carrying out of the Project in areas where Ethnic Minorities are present, acceptable to IDA;

(c) “District Committee” means the existing committee or the committee to be established in the Project Districts to carry out the technical review of Sub-projects under Part A.1 of the Project; and the term “District Committees” means, collectively, all of such District Committees;

(d) “Ethnic Minorities” means those social groups in the Lao PDR that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;

(e) “Fiscal year” and “FY” mean the Recipient’s fiscal year commencing on October 1 and ending on September 30;

(f) “Implementation Manual” means the manual to assist the Project Coordination Office and the Provincial Project Implementation Office in each Project Province in the implementation of Parts A.1 of the Project, and to assist Villages in the implementation of Sub-projects under Part A.1 of the Project, through the description of, *inter alia*, procurement procedures and standard documentation, reporting requirements, manual and computerized accounting procedures, Project performance indicators, environmental criteria and the Development Strategy for Ethnic Minorities applicable to Sub-project design, maintenance provisions for works to be carried out under the Sub-project and criteria for the selection of Sub-projects, as such manual may be amended from time to time with the agreement of IDA;

(g) “Project District” means any of the districts in the Project Provinces selected by the Recipient, in consultation with IDA, for participation in the Project, and the term “Project Districts” means, collectively, all of such Project Districts;

(h) “Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons” means the framework adopted by the Recipient on February 5, 2001, acceptable to IDA;

(i) “Project Provinces” means the Recipient’s provinces of Attapeu, Champasak, Khammouane and Saravanne;

(j) “Second Generation Special Account” means the account referred to in paragraph 4.8 of the Annex to this Letter Agreement, and the term “Second Generation Special Accounts” means, collectively, all of such Second Generation Special Accounts;

(k) “Special Account” means the account referred to in Section 4.7 of this Letter Agreement;

(l) “Sub-grant” means a grant made available by the Recipient out of the proceeds of the Grant to a Project District for a Sub-project under Part A.1 of the Project, and the term “Sub-grants” means, collectively, all of such Sub-grants;

(m) “Sub-project” means a specific investment project carried out under Part A.1 of the Project and utilizing the proceeds of a Sub-grant, and the term “Sub-projects” means, collectively, all of such Sub-projects;

(n) “Sub-project Agreement” means the agreement to be entered into between the Village Committee and the Village;

(o) “Village” means a sub-unit of a District; and

(p) “Village Committee” means a committee established for reviewing Sub-project proposals and endorsing those which meet criteria outlined in the Implementation Manual, which includes a Village Head or a Deputy, a Women’s Union representative, and a Youth representative.

## 2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Project, through its Ministry of Agriculture and Forestry and the Provincial Government of each of the Project Provinces, with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Project and the use of the proceeds of the Grant as IDA shall reasonably request; (d) from time to time exchange views with IDA's representatives on the progress and results of the Project; and (e) take all necessary measures required to enable IDA to visit the territory of the Lao People’s Democratic Republic for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Project a report, in form and substance satisfactory to IDA, on the results and impact of the Project.

2.2. The Recipient shall, for purposes of coordinating Project implementation and reporting, maintain until completion of the Project, a Central Project Coordination Office in the Department of Planning

of the Recipient's Ministry of Agriculture and Forestry, headed by a National Project Coordinator comprising a Section for the Project, including a Coordinator.

2.3. The Recipient shall, for purposes of coordinating Project implementation and reporting at the provincial level, maintain until completion of the Project, a Provincial Project Implementation Office in the Office of the Director of the Provincial Agriculture and Forestry Office, in each of the Project Provinces, with competent staff in adequate numbers, including a Provincial Project Coordinator and a Section for the Project, including a Coordinator.

2.4. In carrying out Part A.1 of the Project, the Recipient shall:

- (a) avoid adverse effects on Ethnic Minorities caused or likely to be caused by the Project;
- (b) apply the Development Strategy for Ethnic Minorities in a manner and substance acceptable to IDA; and
- (c) through a process of informed participation, involve concerned Ethnic Minorities in the design and implementation of Sub-projects and works so as to ensure that the benefits received by the Ethnic Minorities under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

2.5. In carrying out Part A.1 of the Project, the Recipient shall:

- (a) take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers;
- (b) where the acquisition of land or assets or the displacement of villagers is unavoidable under proposed works or a proposed Sub-project, ensure that the Village shall, before carrying out the works which would result in such acquisition or displacement, make available to such villagers, compensation and rehabilitation measures in accordance with the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons; and
- (c) in the event that two hundred or more villagers are adversely affected by a Sub-project:
  - (i) prepare a resettlement plan in accordance with the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and furnish such plan to IDA for approval; and
  - (ii) prior to the carrying out of Sub-projects, ensure that all Affected Persons shall have been compensated and provided with other rehabilitation measures in accordance with the provisions of said plan.

2.6. In carrying out Part A.1 of the Project, the Recipient shall, for purposes of appraising

Sub-projects proposals, maintain or establish and thereafter maintain:

(a) a District Committee in each Project District carrying out Part A.1 of the Project, such Committee to include the District Head or his Deputy, the District Agriculture and Forestry Office Coordinator for Part A.1 of the Project, the District Treasurer or the Finance Officer, a Rural Development Committee member, a representative of the Lao Women's Union, and a technical resource person from the farming systems extension workers of the District Agriculture and Forestry Office; and

(b) a Village Committee in each Village carrying out Part A.1 of the Project.

2.7. The Recipient shall cause the Village Committee to appraise Sub-projects under Part A.1 of the Project and to furnish appraised Sub-projects to the respective District Committee for approval.

2.8. The Recipient shall cause the District Committee to select and approve Sub-projects under Part A.1 of the Project in accordance with the following criteria:

(a) each Sub-project proposed shall be an infrastructure investment project, an income-generating investment project or an otherwise productive agricultural investment project which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it;

(b) no Sub-project shall include a Sub-grant of more than \$1,500 equivalent;

(c) each Sub-project shall include a contribution by villagers, in cash or in kind, equal to at least 10% of the estimated cost of the Sub-project; and

(d) no Sub-project shall: (i) include expenditures intended for a military or paramilitary purpose; (ii) relate to the manufacture or use of environmentally hazardous goods (including asbestos and pesticides), arms or drugs; or (ii) include the financing of government salaries.

2.9. In carrying out Part A.1 of the Project the Recipient shall, through the relevant District Agriculture and Forestry Office, ensure that, prior to the carrying out of works under a Sub-project, the District Committee shall have completed a technical review of such Sub-project and shall have confirmed the following:

(a) the criteria described in paragraph 2.9 of this Annex have been complied with;

(b) necessary funding to fully finance the proposed Sub-project has been obtained, including a Sub-grant and a contribution by villagers, in cash or in kind, equal to at least 10% of estimated cost of the Sub-project;

(c) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Affected Persons have been considered

in the design of the Sub-project in accordance with the Implementation Manual;

(d) the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and the resettlement plan, as the case may be, has been complied with, and, if applicable, appropriate compensation and rehabilitation arrangements have been completed and are acceptable to the Affected Persons as set forth under the Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons and paragraph 2.5 of this Annex;

(e) a Sub-project Agreement has been entered into and an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Implementation Manual; and

(f) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with terms acceptable to IDA and has been included in the Sub-project agreement, which shall include assignment of maintenance responsibilities in the respective Village, the preparation of training programs to strengthen the maintenance capabilities of the Village, and the identification of available sources of financing to carry out such programs.

### 3. Procurement

3.1. Except as IDA shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Project are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

### 4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Project:

<u>Category</u>	<u>Amount of the Grant Allocated (in United States dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services	416,000	100%
(2) Training	15,500	100%

(3) Goods	46,000		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(4) Sub-grants	600,000		100% of Sub-grant amount disbursed
(5) Incremental operating costs:			
(a) auditing costs	15,000	100%	
(b) other	68,500		95% FY 2001/2002, FY 2002/2003, FY 2003/2004
<b>TOTAL</b>	<b><u>1,161,000</u></b>		

For purposes of this paragraph:

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

(b) the term “local expenditures” means any expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term “Incremental operating costs” means reasonable expenditures directly related to the administration of the Project, incurred by the Recipient (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel and per diem, office supplies, workshops and committee meetings, operation and maintenance of motor vehicles for Project staff and consultants responsible for Project implementation, bank charges, and auditing costs, but excluding salaries.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of IDA or for goods produced in or works and services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, or for any import of goods, works if such payment or import, to IDA’s knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United



Nations;

(b) No withdrawals shall be made from the Grant Account after February 29, 2004 or such later date that IDA shall establish by notice to the Recipient (the Closing Date); and

(c) If, in IDA's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, IDA may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in IDA's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Project. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. IDA may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) services of consulting firms costing less than US\$50,000 equivalent per contract; (b) services of individual consultants costing less than US\$25,000 per contract; (b) contracts for goods costing less than US\$25,000; (c) training; (d) Sub-grants; and (e) incremental operating costs, all under such terms and conditions as IDA shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

4.7. To facilitate the carrying out of the Project, the Recipient may open and maintain in United States dollars a separate special deposit account (the Special Account) in Bank of the Lao People's Democratic Republic (the Recipient's Central Bank) on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

4.8. The Recipient may, for the purposes of the Project, open and maintain in United States dollars a Second Generation Special Account in each of the Project Provinces in a commercial bank, on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each of the Second Generation Special Accounts shall be made in accordance with the provisions of Attachment II to this Annex and additional procedures that shall have been approved by IDA.

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to IDA, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Project.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account and the Second Generation Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to IDA, consistently applied, by independent auditors acceptable to IDA; (ii) furnish to IDA as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as IDA shall have reasonably requested; and (iii) furnish to IDA such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as IDA shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after IDA has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable IDA's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

6. Suspension and Cancellation

6.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the International Bank for Reconstruction and Development (IBRD) has made a loan with the guarantee of the Lao People's Democratic Republic, to make withdrawals under any loan agreement with the IBRD or any development credit agreement with IDA shall have been suspended.

6.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to IDA, within six months after the effective date hereof, to carry out the Project.

## **Procurement and Consultants' Services**

### Section I. Procurement of Goods and works

#### Part A: General

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 following provisions of Section I of this Schedule.

#### Part B: Procurement Procedures

##### 1. International Shopping

Goods estimated to cost less than US\$25,000 equivalent per contract, up to an aggregate amount not to exceed US\$31,000 equivalent, may 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.

##### 2. National Shopping

Goods estimated to cost less than US\$5,000 equivalent per contract, up to an aggregate amount not to exceed US\$6,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### 3. Procurement from UN Agencies

Vehicles may be procured from the United Nation's Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

##### 4. Community Participation

Goods and works required for Part A.1 of the Project shall be procured in accordance with procedures acceptable to the Bank.

#### Part C: Review by IDA of Procurement Decisions

##### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to IDA 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 IDA, and with the provisions of said paragraph 1.

## 2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of US\$25,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Recipient shall provide to IDA a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Recipient shall provide to IDA 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. Consultants' Services

### Part A: General

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 Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines), and the following provisions of this Section I.

### Part B: Procedures for the Selection of Consultants

#### 1. Selection Based on Consultants' Qualifications

Services for specialists in rural development, community development training, Monitoring and Evaluation, audit, as well as the national coordinator for the project under paragraph 1.1 of the Annex estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

#### 2. Individual Consultants

Services for translation, workshop facilitation, data processing, and accounting under paragraph 1.1 of the Annex 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 IDA 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 IDA 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 IDA, 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 US\$50,000 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 US\$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to IDA for its prior review and approval. The contract shall be awarded only after 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.

**Attachment II**

**Special Accounts**

1. For the purposes of this Attachment:

(a) the term "eligible Categories" means the Categories (1) through (5) set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of paragraph 4.2 of the Annex to this Letter Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to US\$100,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

2. Payments out of the Special Account shall be made either (i) for eligible expenditures, or (ii) into the Second Generation Special Accounts exclusively for payments for eligible expenditures, in accordance with the provisions of this Attachment.

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

(a) The Recipient shall furnish to IDA a request or requests for a 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, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to IDA the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the 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 Special Account and/or the Second Generation Special Accounts for eligible expenditures. All such deposits shall be withdrawn by IDA from the Grant Account under the eligible item(s), 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 Special Account and/or the Second Generation Special Accounts, the Recipient shall, at such time as IDA shall reasonably request, furnish to IDA such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account and the Second Generation Special Accounts;

(c) if, at any time, IDA 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 Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA shall have been satisfied that all such amounts remaining on deposit in the Special Account and/or the Second Generation Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If IDA shall have determined at any time that any payment out of the Special Account or out of any Second Generation Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to IDA, the Recipient shall, promptly upon notice from IDA: (A) provide such additional evidence as IDA may request; or (B) deposit into the Special Account or cause the relevant Provincial Project Implementation Office to deposit into the respective Second Generation Special Account (or, if IDA shall so request, refund to IDA) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless IDA shall otherwise agree, no further deposit by IDA into the 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 IDA shall have determined at any time that any amount outstanding in the Special Account or in any of the Second Generation Special Accounts will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from IDA, refund to IDA such outstanding amount.

