

**CONFORMED**

**CREDIT NUMBER 3675 LA**

# **Development Credit Agreement**

**(Poverty Reduction Project)**

**between**

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 19, 2002**

**CREDIT NUMBER 3675 LA**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated August 19, 2002, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (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 Borrower through its Poverty Reduction Fund with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Poverty Reduction Fund 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 the Poverty Reduction Fund.

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), constitute an integral part of this Agreement.

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) "Bank of Lao PDR" and the acronym "BOL" mean the Borrower's central bank, and any successor thereto;

(b) "Beneficiary" means a Project implementation team from a village or group of villages eligible to carry out a Sub-project under Part A of the Project;

(c) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(d) “District” means an administrative designation within a province of the Borrower;

(e) “Finance and Administration Manual” means the manual, satisfactory to the Association, for the purposes set forth in paragraph A of Section II to Schedule 1 of the Project Agreement, as the same may be amended from time to time with the agreement of the Association;

(f) “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with the provisions of Section 4.02 of this Agreement;

(g) “Fiscal Year” means any twelve-month period corresponding to any of the Borrower’s financial years, which period commences on October 1 and ends on September 30 in each calendar year, and the term “Fiscal Years” means, collectively, each of said Fiscal Year;

(h) “Fund Grant Agreement” means the agreement entered into between the Borrower and the Poverty Reduction Fund, pursuant to the provisions of Section 3.02 of this Agreement;

(i) “Grant” means the grant made available by the Borrower to the Poverty Reduction Fund under the Fund Grant Agreement;

(j) “Khet” means in the Lao language a grouping of villages of a district within the territory of the Borrower;

(k) “MOF” means the Borrower’s Ministry of Finance, and any successor thereto;

(l) “Operations Manual” means the manual, satisfactory to the Association for the purposes set forth in paragraph A to Section II of Schedule 1 to the Project Agreement, as the same may be amended from time to time with the prior agreement of the Association;

(m) “Poverty Reduction Fund” or “PRF” means the entity established and operating pursuant to the Borrower’s Decree of the Prime Minister on the Establishment of the Poverty Reduction Fund, No.73/PM, dated May 31, 2002 and provided with legal personality distinct from that of the Borrower and possessing administrative, managerial, technical and financial autonomy under the Borrower’s laws and regulations, for purposes of supporting small-scale village investment and services and strengthening local capacity for village development, and any successor thereto;

(n) “Project Agreement” means the agreement entered into between the Association and the Poverty Reduction Fund of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(o) “Project province” means the provinces of Houa Phan, Savannakhet and Champasak in the territory of the Borrower and such other provinces selected by the Poverty Reduction Fund and approved by the Association;

(p) “Provincial project account” means the bank account opened and maintained by a provincial-level office of the Poverty Reduction Fund in a commercial bank of the relevant province into which proceeds of the Grant are placed;

(q) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(r) “Sub-grant” means a sub-grant in United States Dollars made or to be made available by the Poverty Reduction Fund out of the proceeds of the Grant to a village or group of villages to finance the carrying out of the corresponding Sub-project under Part A of the Project in accordance with the provisions of the relevant Sub-grant Agreement, and the term “Sub-grants” means, collectively, more than one Sub-grant;

(s) “Sub-grant Agreement” means the agreement to be entered into between the Poverty Reduction Fund and a Beneficiary for purposes of providing a Sub-grant pursuant to the provisions of Schedule 3 to the Project Agreement, as the same may be amended from time to time with the prior agreement of the Association, and the term “Sub-grants” means collectively all said Sub-grant Agreements; and

(t) “Sub-project” means a specific community public capital investment or services project for improving economic or social services or for rehabilitating existing or developing new village-based community infrastructure, to be carried out by a Beneficiary utilizing the proceeds of a Sub-grant and its own resources and additional funding to be provided by the Borrower in accordance with the provisions of Schedule 3 to the Project Agreement, and the term “Sub-projects” means, collectively, more than one Sub-project.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million three hundred thousand Special Drawing Rights (SDR 15,300,000).

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, works and services required for Parts B and C of 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) by the Borrower on account of withdrawals made by a Beneficiary under a Sub-grant under Part A of the Project to meet the reasonable cost of goods, works and services required for a Sub-project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a separate special deposit account in the Bank of Lao PDR 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 Loan Account and pay to the Association 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 cancelled.

Section 2.03. The Closing Date shall be March 31, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each December 15 and June 15 commencing on December 15, 2012 and ending June 15, 2042. Each installment to and including the installment payable on June 15, 2022 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, shall cause the Poverty Reduction Fund to perform in accordance with the provisions of the Project Agreement all the obligations of the Poverty Reduction Fund therein set forth in respect of the Project, all with due diligence and efficiency and in accordance with administrative, financial and technical practices and social and environmental standards, 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 the Poverty Reduction Fund to perform such obligations), and shall not take or permit to be taken any action which would prevent or obstruct on such performance.

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

(b) The Borrower shall exercise its rights under the Fund Grant 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 the Poverty Reduction Fund, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Fund Grant Agreement, or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project, and to be financed out of the proceeds of the Credit, shall be governed by the provisions of Schedules 2 and 3 to the Project Agreement.

Section 3.04. 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 the Poverty Reduction Fund pursuant to Section 2.05 of the Project Agreement.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 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 Borrower's progress reporting obligations set out in this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

## **ARTICLE V**

### **Remedies of the Association**

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

(a) that the Poverty Reduction Fund shall have failed to perform any of their respective obligations under the Project Agreement, so as to affect materially and adversely the carrying out of the Project;

(b) that as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Poverty Reduction Fund will be able to perform its obligations under the Project Agreement; and

(c) that the legal status of the Poverty Reduction Fund shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Poverty Reduction Fund 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 events are specified:

(a) that any event specified in the 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; and

(b) that the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

## **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 Project Agreement has been duly authorized or ratified by the Poverty Reduction Fund and is legally binding upon the Poverty Reduction Fund in accordance with its terms;

(b) the Fund Grant Agreement shall have been signed between the Borrower and the Poverty Reduction Fund 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 is legally binding upon the parties thereto in accordance with its terms;

(c) the Operations Manual and Finance and Administration Manual shall have been duly approved and adopted by the Poverty Reduction Fund;

(d) the Poverty Reduction Fund shall have selected districts, in a manner and substance satisfactory to the Association, that are eligible under Part A of the Project to participate in the implementation of the Project;

(e) a management information system shall have been established by the Poverty Reduction Fund, satisfactory to the Association, and is operable;

(f) the Poverty Reduction Fund has adopted an accounting system, satisfactory to the Association, in accordance with the relevant provisions of the Operations Manual and the Finance and Administration Manual;

(g) the Poverty Reduction Fund has identified and calculated the first round of district budget ceilings in a manner and substance acceptable to the Association; and

(h) the Poverty Reduction Fund shall have appointed to its staff: (i) a qualified and experienced finance and administration manager assigned to the national-level Project office; (ii) two qualified and experienced accountants assigned to the national-level Project office; and (iii) one qualified and experienced accountant assigned to each of the province-level Project offices; all in accordance with the time-bound action plan referred to Section 3.02 (a) of the Project Agreement.

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) that the Project Agreement has been duly authorized or ratified by the Poverty Reduction Fund, and is legally binding upon the Poverty Reduction Fund in accordance with its terms; and

(b) that the Fund Grant Agreement has been duly authorized or ratified by the Borrower and the Poverty Reduction Fund and is legally binding upon the Borrower and the Poverty Reduction Fund 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 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	856-21-412142

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By

/s/

Soukanh Mahalath  
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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-grants	11,840,000	100% of amount of Sub-grant disbursed
(2) Consultants' services:		88%
(a) Audit services	40,000	
(b) Others	1,936,000	
(3) Goods	200,000	100 % of foreign expenditures, 100% of local expenditures (ex- factory cost), and 90% of local expenditures for other items procured locally
(4) Works	24,000	90%
(5) Incremental operating costs	780,000	95%
(6) Refunding of Project Preparation Advance	480,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
TOTAL	<u>15,300,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the Poverty Reduction Fund (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel and per diem, office supplies, utilities, rent, email internet fees, staff insurance, maintenance of office equipment, and operation and maintenance of vehicles, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) expenditures under Sub-grants; (ii) service contracts for the employment of individual consultants valued at less than \$50,000 equivalent each; (iii) service contracts for the employment of consulting firms valued at less than \$100,000 equivalent each; (iv) expenditures for goods under contracts costing less than \$50,000 equivalent each; (v) expenditures for civil works under contracts costing less than \$25,000 equivalent each; and (vi) expenditures for incremental operating costs; 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 its on-going efforts to alleviate poverty throughout its territory by, inter alia: (a) financing community infrastructure activities, and other community public capital investments endeavors at the village level; and (b) building local capacity at the village level in poor districts to manage public investment planning and implementation.

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: Village Sub-project Grants**

Carrying out of Sub-projects through the provision of Sub-grants made available by the Poverty Reduction Fund out of the proceeds of the Grant to a village or group of villages to finance the carrying out of the corresponding Sub-project in accordance with the provisions of the relevant Sub-grant Agreement.

#### **Part B: Local Capacity Building**

Strengthening of Beneficiary capacity to implement Sub-projects under Part A of the Project, including Sub-project identification, planning and implementation, through the provision of technical assistance, training, and goods for provincial technical support teams, and district and khet facilitators.

#### **Part C: National Project Management**

Strengthening the management and operation of the Poverty Reduction Fund through the provision of technical assistance, vehicles and other goods.

\* \* \*

The Project is expected to be completed by September 30, 2007.



### **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 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 \$1,800,000 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 shall be limited to an amount equivalent to \$900,000 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 SDR 2,400,000.

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 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 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 the 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 the 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 Grant Agreement**

The Fund Grant Agreement shall be valid for 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 the Poverty Reduction Fund on a non-reimbursable grant basis, and otherwise to take all action necessary to permit the Poverty Reduction Fund to carry out the Project and ensure the achievement of the objectives thereof.
2. The obligation of the Poverty Reduction Fund to promptly inform the Borrower of any condition which obstructs or threatens to obstruct with the implementation of the Project and the achievement of the objectives thereof.
3. The obligation of the Poverty Reduction Fund, 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 the Poverty Reduction Fund's performance of its obligations under the Fund Grant Agreement.
4. The obligation of the Poverty Reduction Fund to carry out the Project in accordance with this Agreement, the Project Agreement, the Fund Grant Agreement, the Operations Manual, and the Finance and Administration Manual, and at all times ensure that only Sub-projects that comply with the Fund Grant Agreement and said manuals will be financed from the proceeds of the Credit.
5. The mutual obligation of the Borrower and the Poverty Reduction Fund to take steps to ensure that: (a) in the event of the existence of any potential adverse environmental effects arising from the implementation of any Sub-project, the environmental action plan shall be carried out in a manner acceptable to the Association and monitored on a regular basis by both the Borrower and the Poverty Reduction Fund; and (b) adequate operational procedures shall be maintained at all times to enable both the Borrower and the Poverty Reduction Fund to monitor and evaluate, on a regular basis and based on indicators acceptable to the Association, the prompt carrying out of the foregoing.
6. The obligation of the Poverty Reduction Fund to promptly refund to the Borrower any proceeds from the Credit not used for the purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner in which does not comply with the provisions of this Agreement or the Project Agreement.
7. A provision stipulating that, in case of conflict between any of the provisions contained in the Fund Grant Agreement, the Operations Manual or the Finance and Administration 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.