

CONFORMED COPY

CREDIT NUMBER 3168-YEM

Development Credit Agreement

(Second Public Works Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 12, 1999

CREDIT NUMBER 3168-YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 12, 1999, between the REPUBLIC OF YEMEN (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through 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."

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

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

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) "Environmental Management Plan" means the Borrower's environmental management plan dated November 4, 1998, aimed at assuring: (i) the adequate development of a screening process to identify any potential negative environment impact under the Project and undertake mitigation measures to reduce any such impacts; (ii) the implementation of a practical monitoring program to determine the effectiveness and timeliness of said interventions; and (iii) the carrying out of effective capacity building and training activities so as to improve environmental awareness and sensitivity among Project staff, counterpart agencies and beneficiaries;

(b) "Investment Program" means a quarterly investment program consisting of Subprojects (as hereinafter defined) identified and appraised in accordance with the Manual of Procedures (as hereinafter defined) and referred to in paragraph (3) (b) of Schedule 4 to this Agreement;

(c) "Manual of Procedures" means the manual of the PMU (as hereinafter defined) specifying the managerial, financial, administrative, engineering and environmental policies and procedures for the execution of the Project and the eligibility criteria for selection of Subprojects (as hereinafter defined);

(d) "Performance Indicators" means the performance indicators agreed with the Association to be utilized by the Borrower to measure the progress in the carrying out of the Project and the degree to which the objectives thereof are being achieved, and referred to in paragraph 6 of Schedule 4 to this Agreement;

(e) "PMU" means the Project Management Unit established by the Borrower for the implementation of the Public Works Project (Credit Number 2878-YEM) and referred to in paragraph 3 (a) of Schedule 4 to this Agreement;

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

(g) "Staff Service Rules" means the rules issued by the Steering Committee (as hereinafter defined) dated July 14, 1996, specifying the employment and personnel policies of the PMU;

(h) "Steering Committee" means the Committee established and operating pursuant to the Borrower's Decree No. 3 of 1996, and referred to in paragraph 2 (a) of Schedule 4 to this Agreement; and

(i) "Subproject" means a specific development activity to be carried out under Part A of the Project utilizing the proceeds of the Credit.

## 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 thirty five million six hundred thousand Special Drawing Rights (SDR35,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 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 January 1 and July 1 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 January 1 and July 1 commencing July 1, 2009, and ending January 1, 2039. Each installment to and including the installment payable on January 1, 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 (6) 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 (5) years on such repayment of principal.

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

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

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

(b) Furthermore, before November 1 of each year commencing November 1, 1999, the Borrower shall furnish to the Association, for its review and comments, an estimate of: (i) the operational costs of the PMU for the subsequent year; and (ii) the counterpart funding required to be provided by the Borrower out of its own resources for Subprojects to be carried out during the subsequent year.

(c) Taking into account the comments of the Association, the Borrower shall: (i) ensure that adequate annual budgetary allocations are made prior to February 1 of each year to cover the counterpart funding required for the Subprojects to be implemented during such year; and (ii) deposit each quarter into a separate bank account the counterpart funds identified in the quarterly Project management reports referred to in Section 4.02 (a) of this Agreement.

(d) Moreover, the Borrower shall carry out the Environmental Management Plan with due diligence and efficiency and take all actions required on its behalf to ensure the effectiveness thereof.

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

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

Association, a plan for the future operation of the Project; and

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

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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, (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 and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the 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 separate accounts reflecting such expenditures;

(ii) retain, 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, 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than March 1, 2000, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

#### ARTICLE V

##### Termination

Section 5.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Planning and Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning and Development  
P.O. Box 175  
Sana'a  
Republic of Yemen

Cable address:

CENPLAN  
Sana'a

Telex:

2266 CENPLAN YE

For the Association:

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

Cable address:

INDEVAS

Telex:

248423 (MCI) or

Washington, D.C.

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.

REPUBLIC OF YEMEN

By /s/ Ahmed M. Sofan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jayanta Roy

Acting Regional Vice President  
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works	30,200,000	85%
(2) Goods	350,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 95% of local expenditures for other items procured locally
(3) Consultants' Services	2,900,000	100%
(4) PMU's Operational Costs	1,800,000	100%
(5) Unallocated	350,000	
TOTAL	<u>35,600,000</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 works, 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 works, goods or services supplied from the territory of the Borrower; and

(c) the term "operational costs" means expenditures under Part C of the Project incurred to finance the staffing and functioning costs of the PMU, the procurement and acquisition of office equipment, supplies and vehicles therefor, fuel and maintenance of vehicles, and travel and per diems of the members of the Steering Committee for attendance of its meetings.

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 expenditures for: (i) works, under contracts costing less than \$200,000 equivalent each; (ii) goods, under contracts costing less than \$50,000 equivalent each; (iii) services of consulting firms and services of individual consultants under contracts costing less than \$50,000 equivalent each, and (iv) 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 objectives of the Project are to assist the Borrower to carry out poverty alleviation measures, targeted to the country's poor communities, to create jobs and to provide needed infrastructure so as to improve services and environmental conditions affecting in particular women and children.

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: Community Infrastructure

Carrying out of Subprojects in selected rural and urban areas to construct, upgrade, rehabilitate and maintain community infrastructure, including: (i) potable water reservoirs and small water systems; (ii) sewerage, storm drainage and flood protection systems; (iii) roads and sidewalks; (iv) schools and health centers; and (v) other high-priority small-scale development activities.

#### Part B: Technical Assistance

Provision of technical assistance to design and implement a program aimed at ensuring the sustainability of Part A of the Project, including: (i) assistance to concerned local communities and governments in the preparation of proposals to adequately identify Subprojects for financing; (ii) preparation of feasibility studies, engineering design and tender documentation for Subproject proposal; (iii) supervision of construction during Subproject execution; (iv) benefit assessment surveys; (v) support for auditing of PMU; (vi) training and workshops in the area of Project implementation for consulting firms and contractors; (vii) preparation of environmental assessments and design of mitigation measures and monitoring systems thereof; and (viii) other technical advisory services necessary to improve the Borrower's capacities in community infrastructure sustainability, including training to the PMU staff.

#### Part C: Project Management

Implementation of a program designed to strengthen the administrative, financial and technical management capacities of the PMU and thereby further improve the selection, appraisal, supervision and post-evaluation of Subprojects and the overall positive impact of the Project, including provision of office equipment and vehicles.

\* \* \*

The Project is expected to be completed by December 31, 2002.



## SCHEDULE 3

### 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 International Bank for Reconstruction and Development (the Bank) in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: Other Procurement Procedures

###### 1. National Competitive Bidding

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

###### 2. International Shopping

Except as otherwise provided in paragraph 3 of this Part B, goods shall be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 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.

###### 4. Community Participation

Works required for Subprojects estimated to cost less than \$20,000 equivalent each and to be carried out by community-based organizations, may be procured in accordance with procedures acceptable to the Association, as set forth in the Manual of Procedures.

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

###### 1. Procurement Planning

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

###### 2. Prior Review

With respect to each contract for: (i) works, estimated to cost the equivalent of \$200,000 or more; and (ii) goods, estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 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 C, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

#### Section II. Employment of Consultants

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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for technical assistance under Part B of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for under Part B (i) of the Project which are estimated to cost less than \$50,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for under Part B (iv) of the Project and tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part D, the

procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

#### SCHEDULE 4

##### Implementation Program

1. The Borrower shall carry out the Project through the Steering Committee and the PMU in accordance with the Manual of Procedures, as such Manual may be updated from time to time by agreement between the Borrower and the Association.

2. (a) For the purpose of ensuring the proper coordination and execution of the Project, the Borrower shall maintain the Steering Committee throughout Project implementation, with membership and terms of reference satisfactory to the Association.

(b) The functions of said Steering Committee shall include, inter alia:

- (i) responsibility for investigation and recommendation of solutions arising in the course of carrying out the Project;
- (ii) entering into and termination of contracts for high-level staff of the PMU in accordance with the Staff Service Rules as stipulated by the Steering Committee;
- (iii) review and approval of the annual budget for the operation of the PMU and of Investment Programs;
- (iv) review each contract for the provision of goods and the carrying out of civil works with a value of \$200,000 or more prior to conclusion thereof by the PMU;
- (v) appointment and termination of auditors and review of auditor's reports; and
- (vi) review of annual staff performance reviews to be carried out in accordance with the Staff Service Rules by January 31 of each Fiscal Year.

3. (a) For the purpose of ensuring the proper supervision of the execution of the Project, the Borrower shall maintain the PMU throughout Project implementation with organization, staffing and terms of reference satisfactory to the Association.

(b) The Borrower shall ensure that the PMU will:

- (i) prepare quarterly Investment Programs consisting of Subprojects that have been appraised in accordance with the Manual of Procedures;
- (ii) prepare summary environmental assessments identifying any potential adverse environmental effects to be produced by proposed Subprojects;
- (iii) furnish to the Association proposed Investment Programs for its approval;
- (iv) afford the Association a reasonable opportunity to review such proposed Investment Programs;
- (v) conclude contracts for the provision of goods and the carrying out of civil works whose value shall be less than \$200,000 without the need to seek prior approval of the Steering Committee;
- (vi) exchange views with the Borrower and the PMU on said proposals; and
- (vii) thereafter, carry out said Investment Programs, as approved by the

mitigate any adverse Association, including measures to screen and environmental effects.

4. For purposes of Part A (vi) of the Project, the Borrower shall, from time to time:

(a) propose to the Association, for its review and approval, the financing out of the proceeds of the Credit of other activities that have a high labor content and positive impacts on the Borrower's economy, social development, education, health and environment; and

(b) upon the Association's approval of any such proposal, the Borrower, through the PMU, shall arrange for the identification and appraisal of the corresponding Subprojects, to be submitted for the Association's approval as provided in Paragraph 3 (b) of this Schedule.

5. (a) The Borrower shall enter into agreements satisfactory to the Association with governmental organizations (including any local government agency of the Borrower), non-governmental organizations, community organizations, or private firms that are selected for the purposes of carrying out Subprojects, providing, inter alia, for: (i) the institutional and operational arrangements to be undertaken for the preparation of the Subprojects; (ii) their obligation to carry out the Subprojects with due diligence and efficiency and in accordance with appropriate managerial, administrative, engineering, environmental and financial practices; and (iii) the establishment and maintenance of separate records and accounts adequate to reflect in accordance with sound accounting practices the operation, resources and expenditures in respect of each Subproject.

(b) Except as the Association shall otherwise agree, the Borrower shall not amend or fail to enforce the provisions of the agreements referred to in paragraph (a) of this paragraph.

6. The Borrower shall ensure that the PMU:

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

(b) without limitation or restriction upon the provisions of Sections 9.01 and 9.06 (a) of the General Conditions, furnish the following reports, of such scope and in such detail as the Association may reasonably request:

(i) quarterly reports on the progress achieved in the execution of the Project, including quarterly audit reports, within one (1) month after the end of each reporting period;

(ii) not later than January 31 of each year of Project implementation, a report integrating the results of the aforementioned quarterly progress reports, including a review of the Performance Indicators and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the subsequent period;

(c) review with the Association, not later than February 28 of each year until completion of the Project, or such later date as the Association shall request, the report referred to in subparagraph (b) (ii) hereof, and, thereafter, take all measures required to ensure the efficient implementation and completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set

forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of works, 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 \$4,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

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 the 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 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 for the Project, 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.

