

CONFORMED COPY

CREDIT NUMBER 2943 LA

Development Credit Agreement
(Third Highway Improvement Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 20, 1997

CREDIT NUMBER 2943 LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 20, 1997, 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;

WHEREAS: (B) The Borrower intends to obtain from the Nordic Development Fund (the "NDF") a credit (the "NDF Credit") in an amount equivalent to five million five hundred sixty thousand dollars (\$5,560,000) to assist in the financing of Parts B (1) (a), (b) and (c) of the Project, on terms and conditions set forth in an agreement (the "NDF Credit Agreement") to be entered into between the Borrower and NDF; and

WHEREAS: (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.

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, with the modifications set forth below (the "General Conditions") constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

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

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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

(a) "BCEL" means the Borrower's Banque du Commerce Exterieur Lao;

(b) "DCTPC" means, collectively, the Borrower's provincial Divisions of Communication, Transport, Post and Construction;

(c) "Environmental Guidelines" means the Guidelines for Reducing Environmental Effects of Road Projects approved by the Borrower pursuant to its Prime Ministerial Decree No. 05/PM dated January 16, 1995;

(d) "Fiscal Year" means the twelve (12)-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;

(e) "MCTPC" means the Borrower's Ministry of Communication, Transport, Post and Construction, and any successor thereto;

(f) "PCU" means the Project Coordination Unit established within MCTPC pursuant to MCTPC's Decree No. 0074, dated January 14, 1994;

(g) "Road Maintenance Program" means the Borrower's four (4)-year (1997-2001) rolling annual programs for the routine and the periodic maintenance of the roads within its territory, which programs are approved

by the Borrower on an annual basis to include the necessary budgetary allocations and public investments for the financing thereof, as such programs may be adjusted from time to time in agreement with the Association;

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

(i) "SRBCC" means the Savannakhet Road and Bridge Construction Company, a state-owned public enterprise of the Borrower established and operating pursuant to the Business License No. 475 issued by the Borrower's Ministry of Finance dated December 6, 1994.

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-four million six hundred thousand Special Drawing Rights (SDR 34,600,000).

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 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 United States dollars a separate special deposit account in the BCEL 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 March 15 and September 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 March 15 and September 15 commencing September

15, 2007 and ending March 15, 2037. Each installment to and including the installment payable on March 15, 2017 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 (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) Requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) Requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

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

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

Section 3.03. For the purposes of Section 9.07 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, or cause to be maintained, separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than four (4) months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 (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.

ARTICLE V

Remedies of the Association

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

(a) The NDF Credit Agreement shall have failed to become effective by September 1, 1997, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Association, that adequate funds for Parts B (1) (a), (b) and (c) of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the NDF Credit shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the NDF Credit Agreement; or

(ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Association, that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the NDF Credit Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower shall have adopted by Ministerial Decision (Khotoklong) the numbering and referencing systems for its road network and the official numbering of its national roads.

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

Section 6.03. The obligations of the Borrower under Article III and IV of this Agreement shall cease and determine on the date on which this Agreement shall terminate, or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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:

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

Cable address:

MINFINANCE
Vientiane

Telex:

4369
MOF LS

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Hiem Phommachanh

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Javad Khalilzadeh-Shirazi

Acting Regional Vice President
East Asia and Pacific

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) Works	28,380,000	95%
(2) Goods	300,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 90% of local expenditures for other items procured locally
(3) Consultants' services including audits) and training	620,000	100%
(4) Operating costs	150,000	100%
(5) Unallocated	5,150,000	

TOTAL 34,600,000

2. For the purposes of this Schedule:

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

(b) The term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) The term "Operating costs" means payments made for expenditures on account of the operation and maintenance of road services vehicles, buildings and equipment and the supervision of road services personnel under the Project, and for expenditures by PCU personnel for supplies, transportation and communications, but excluding any salaries of any such personnel.

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) goods under contracts valued at less than the equivalent of fifty thousand dollars (\$50,000) each; (ii) works under contracts valued at less than the equivalent of two hundred fifty thousand dollars (\$250,000) each; (iii) contracts for the employment of consulting firms valued at less than the equivalent of one hundred thousand dollars (\$100,000) each; (iv) contracts for the employment of individuals valued at less than the equivalent of fifty thousand dollars (\$50,000) each; (v) overseas and local training; and (vi) 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: (i) reduce road transport costs throughout its territory by constructing and upgrading priority roads; (ii) implement routine and periodic road maintenance programs on the basis of cost-effective competitive bidding procedures; and (iii) improve the effectiveness of its overall institutional capacity to manage road construction and maintenance activities, at both the national and provincial levels.

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: Road Improvement and Maintenance Works

1. Upgrading about two hundred kilometers (200 kms) of the Banlak 35-Pakse Road No. 13 to bituminous surface standard.
2. Constructing about seven kilometers (7 kms) stretch of Road No. A-1, connecting Road No. 9 and Road No. 11.
3. Implementing the Road Maintenance Program by carrying out: (a) periodic road maintenance of about six hundred kilometers (600 kms) of high priority roads throughout the Borrower's territory; and (b) routine road maintenance on an aggregate of about thirteen thousand seven hundred kilometers (13,700 kms) throughout the Borrower's core road network of about six thousand three hundred twenty-four kilometers (6,324 kms) during the period 1997-2001.

4. Provision of goods (including vehicles), office supplies, technical support equipment and consultants' services in respect of the foregoing.

Part B: Institutional Strengthening

1. Strengthening MCTPC , through the provision of consultants' services, by: (a) enhancing its capacity for overall Project implementation; (b) strengthening its capacity to organize and manage the implementation of the Road Maintenance Program; (c) assisting and training MCTPC Planning and Technical Division personnel in the preparation of medium-term road investment plans; (d) assisting MCTPC personnel to conduct feasibility, design, engineering and local transport sector studies and to prepare future road projects; and (e) assisting MCTPC to develop its accounting and independent external auditing capabilities.

2. Training of MCTPC managerial and engineering staff through fellowships, conferences, seminars, study tours and short-term courses locally and abroad.

3. Provision of goods (including vehicles), office supplies and technical support equipment in respect of the foregoing.

* * * * *

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 Bank in January 1995 and revised in January and August 1996 (the "Guidelines") and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of Contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost the equivalent of nineteen million dollars (\$19,000,000) or more each.

(c) Preference for Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to works to be carried out by domestic contractors.

(d) Dispute Review Board

Each contract for works estimated to cost the equivalent of fifty million dollars (\$50,000,000) or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(e) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost the equivalent of ten million dollars (\$10,000,000) or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than the equivalent of seven hundred thousand dollars (\$700,000), up to an aggregate amount not to exceed the equivalent of nine million four hundred twenty thousand dollars (\$9,420,000), may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Except as provided in paragraph 3 below, goods estimated to cost more than the equivalent of fifty thousand dollars (\$50,000) per contract, up to an aggregate amount not to exceed the equivalent of three hundred sixty thousand dollars (\$360,000), shall be procured under contracts awarded on the basis of international shopping procedures, and goods estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) per contract, up to an aggregate amount not to exceed the equivalent of one hundred thousand dollars (\$100,000), shall be procured under contracts awarded on the basis of national shopping procedures, all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from United Nations Agencies

Vehicles and office supplies may be procured from the United Nations Inter-Agency Procurement Services Organization in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association 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 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 works estimated to cost the equivalent of two hundred fifty thousand dollars (\$250,000) or more the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply. With respect to each contract for goods estimated to cost the equivalent of fifty thousand dollars (\$50,000) or more the procedures in Paragraph 2 of Annex 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines"). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifi-

cations thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) each; or (b) contracts for the employment of individual consultants estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to the equivalent of one hundred thousand dollars (\$100,000) or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to the equivalent of fifty thousand dollars (\$50,000) or above.

SCHEDULE 4

Implementation Program

For the purpose of Section 3.01 of this Agreement and without any limitation or restriction upon any of the provisions of this Agreement, the Borrower shall carry out the Project in accordance with the following Implementation Program:

1. The Borrower shall maintain the PCU within MCTPC until completion of the Project. The Borrower shall ensure that the PCU is headed by an experienced and qualified coordinator, and shall continue to vest the PCU with such responsibilities, funds, staff and other requisite resources as shall be required to enable it to undertake the overall supervision and coordination of the Project.

2. Not later than December 31, 1997, the Borrower shall organize and carry out a technical workshop, based on terms of reference acceptable to the Association, for the timely and efficient commencement of Project implementation activities.

3. The Borrower shall:

(a) Carry out the Road Maintenance Program with due diligence and efficiency, and ensure that at least sixty percent (60%) of the volume of routine maintenance works under the Program shall be undertaken on the basis of competitive bidding procedures acceptable to the Association;

(b) Not later than March 31 in each Fiscal Year, beginning in Fiscal Year 1997-98, furnish to the Association for its approval the proposed annual periodic road maintenance work program under the Road Maintenance Program for the next Fiscal Year, and ensure that only road segments selected on the basis of multiple criteria comprising a mandatory economic evaluation, geographical distribution, traffic volumes, network connectivity and year-round accessibility. The economic evaluation shall be based on the use of a maintenance planning system satisfactory to the Association;

(c) Not later than March 31 in each Fiscal Year, beginning in Fiscal year 1997-98, furnish to the Association for its approval the proposed annual routine road maintenance work programs under the Road Maintenance Program for the next Fiscal Year, and ensure that the road segments for the first year routine maintenance are those that are specified in the MCTPC's Five-Year Core Road Network Routine Maintenance Plan. The additional road segments covered by each following annual work program will be identified by MCTPC's Road Administration Division within the core network of six thousand three hundred twenty-four kilometers (6,324 kms) as defined in the Five-Year Road Maintenance Plan issued by said Division in January 1997;

(d) Take all action necessary to ensure that all road improvement, construction, maintenance and periodic spot improvement works under the Road Maintenance Program are at all times carried out in conformity with the Environmental Guidelines, and otherwise in a manner which ensures that any adverse environmental impact is effectively mitigated in a timely manner satisfactory to the Association; and

(e) Not later than October 31 in each Fiscal Year, shall review with the Association the progress achieved, during the immediately preceding Fiscal Year, in carrying out the Road Maintenance Program and the adequacy of its financing and related budgetary allocations, and thereafter shall promptly take such remedial action, satisfactory to the Association, as shall be necessary to achieve the objectives of said Program.

4. Not later than June 30 in each Fiscal Year and until the completion of the Project, the Borrower shall cause to be carried out, through an independent consultant, a technical audit of Project implementation.

5. The Borrower shall, not later than December 31, 1997, complete the privatization of the SRECC in accordance with the modalities adopted by the Borrower under the Third Structural Adjustment Credit for the privatization of its state-owned enterprises (IDA Credit No. 2811-LA).

6. Without any restriction or limitation upon any of the provisions of the General Conditions or of this Agreement, the Borrower shall, through the PCU:

(a) (i) furnish to the Association not later than June 30 and December 31 in each Fiscal year, commencing in Fiscal Year 1998, a semi-annual progress report on the implementation of the Project, of such scope and in such detail as the Association shall reasonably request;

(ii) not later than December 31 in each Fiscal Year, organize and carry out annual Project review meetings and prepare an annual progress report on the implementation of the Project, based on terms of reference satisfactory to the Association, to be reviewed at these meetings; and

(iii) as part of each said annual review, prepare and carry out a follow-up time-based action plan, satisfactory to the Association, to remedy any deficiencies in Project implementation identified during such review; and

(b) Furnish to the Association, not later than thirty (30) days after each March 31, June 30, September 30 and December 31 in each Fiscal Year, based on terms of reference acceptable to the Association, consolidated quarterly report on the financial condition of the Project, including the status of the procurement of goods and services required for Project implementation.

7. Without any restriction or limitation upon the provisions of Section 9.06 of the General Conditions or upon any of the provisions of this Agreement: (a) not later than June 30, 1999, the Borrower shall conduct, on the basis of terms of reference acceptable to the Association, a comprehensive mid-term review of the progress achieved to date by the Borrower in implementing the Project; and (b) promptly thereafter, taking into account the Association's recommendations pursuant to such review, the Borrower shall carry out the Project with due diligence and efficiency and shall take all remedial measures needed to achieve the objectives thereof.

8. The Borrower shall:

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

(b) Prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2001,

a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) Review with the Association, by December 31, 2001, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special 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 in respect of the Project;

(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 three million dollars (3,000,000) 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 one million five hundred thousand dollars (\$1,500,000) until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of four million Special Drawing Rights (SDR 4,000,000).

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

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of six hundred thousand dollars (\$600,000) shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

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 respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the 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.

