

**CONFORMED**

**CREDIT NUMBER 3676 LA**

# **Development Credit Agreement**

**(Financial Management Capacity Building Project)**

**between**

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 19, 2002**

**CREDIT NUMBER 3676 LA**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated August 19, 2002, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Borrower) and 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 October 6, 1999) (the General Conditions), 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) "Business Improvement Office" means the Borrower's office established within the Office of the Prime Minister on February 11, 2002 for the purpose of providing a government focal point to supervise and coordinate its enterprise reform activities, or any successor thereto.

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

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

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

(f) “Operations Manual” means the manual, satisfactory to the Association, for the purposes set forth in paragraph 2 of Schedule 4 to this Agreement, as said manual may be revised from time to time with the prior agreement of the Association.

(g) “PIU” means the Project Implementation Unit, established by the Borrower in its Ministry of Finance on May 21, 2002, for the purposes set forth in paragraph 1(b) of Schedule 4 to this Agreement.

(h) “Project Steering Committee” means the committee established by the Borrower for purposes of preparing and implementing the Borrower’s Financial Management Adjustment Credit and to be maintained for the purpose of implementing the Project in accordance with the provisions of paragraph 1(a) of Schedule 4 to this Agreement.

(i) “SCB” means any one of the Borrower’s state-owned commercial banks, and the term “SCBs” means, collectively, each of said SCB.

(j) “SOE” means any one of the Borrower’s state-owned enterprises, and the term “SOEs” means, collectively, each of said SOE.

## **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 six million eight hundred thousand Special Drawing Rights (SDR 6,800,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may open and maintain in Dollars in the Bank of Lao PDR, in accordance with terms and conditions satisfactory to the Association, a Special

Account. 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 April 30, 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 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 April 15 and October 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 April 15 and October 15 commencing October 15, 2012 and ending April 15, 2042. Each installment to and including the installment payable on April 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. (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 its Ministry of Finance, with due diligence and efficiency and in conformity with appropriate administrative, management, financial and banking standards and practices, and shall provide, and cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(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 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 9.06 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 continued achievement of the objectives 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 a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations related to the Project.

(b) The Borrower shall

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Accounts for each fiscal year audited, in accordance 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 its financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements, records and accounts and a 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 accounts and financial statements, and the audit thereof, and concerning said auditors, 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 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 paragraph 3 of Schedule 4 to 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; and

- (ii) 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 calendar quarter 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 calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. 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 Borrower shall have established a financial management system, in a manner and substance satisfactory to the Association;
- (b) the Borrower shall have appointed to the PIU, a qualified and experienced Assistant Project Director and a qualified and experienced Project accountant, pursuant to paragraph 1(b) of Schedule 4 to this Agreement; and
- (c) the Borrower shall have adopted a Project Operations Manual, pursuant to paragraph 2 of Schedule 4 to this Agreement.

Section 5.02. 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.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. 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 6.02. 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)	(1-202) 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 PDR, 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) Goods	570,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(2) Consultants' services		
(a) Audit of Project Accounts	20,000	88%
(b) Other	3,580,000	88%
(3) Training and study tours	1,800,000	100%
(4) Incremental Operating Costs	160,000	100%
(5) Unallocated	670,000	
TOTAL	<u>6,800,000</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 incurred by the Project Implementation Unit and the Business Improvement Office in managing and coordinating the implementation of the Project, including costs of office equipment and communication, which expenditures would not have been incurred absent the Project, but excluding staff salaries.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) consultants’ services under contracts with individuals, costing less than \$50,000 equivalent each; (c) consultants’ services under contracts with firms, costing less than \$100,000 equivalent each; (d) training and study tours; and (e) 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 implementing its structural adjustment macro-economic reform program through capacity building activities and technical assistance that support its program in the areas of financial sector reform, public sector reform and SOE reform.

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:      Financial Sector Reform**

Carrying out of a reform program on the financial sector, including: the design and implementation of individual restructuring plans for SCBs; the development and implementation of a legal and institutional framework for the resolution by SCBs of non-performing loans; the strengthening of the Bank of Lao PDR's capacity to supervise SCBs; strengthening the capacity of BOL to monitor and support SCBs' restructuring plans; and the development of a policy, legal and regulatory regime for the monitoring of public procurement and a rural and micro finance pilot scheme, through the provision of consultants' services, training, workshops, study tours and equipment and the development and installation of a management information system for the Bank of Lao PDR's supervision and examination activities.

#### **PART B:      Public Sector Reform**

Carrying out of a program on capacity building for the Borrower in respect of public sector reform, including: budget planning, execution and control; enabling transparency in the budgetary process and public finances; public disclosure of financial information; and public sector accounting and auditing standards; through the provision of consultants' services, training, and workshops therefor.

#### **PART C:      SOE Reform**

Carrying out of a program on capacity building for the Borrower in respect of SOE reform, including: oversight of the financial and operational performance of SOEs; SOE restructuring; and development and implementation of tariff policies; through the provision of consultants' services, office equipment and training therefor.

PART D:      Project Implementation Unit Support

Strengthening of the Project Implementation Unit's capacity for Project implementation on, inter alia, financial management and audits, through the provision of vehicles, consultants' services, computer hardware and related software.

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The Project is expected to be completed by October 31, 2007.

### **SCHEDULE 3**

#### **Procurement**

Section I.      Procurement of Goods

Part A:        General

Goods shall be procured in accordance with: (a) the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

Part B:        International Competitive Bidding

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

Part C:        Other Procurement Procedure

1.                National Competitive Bidding

(a)        Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Guidelines and the provisions of this paragraph.

(b)        The procedures to be followed for national competitive bidding under sub-paragraph (a) of this paragraph, shall be those set forth in the Decree No. 95/PM dated December 5, 1995 on Government Procurement of Goods, Works Construction, Repairs and Services (hereinafter Decree 95/PM) and Implementing Rules and Regulations Labieb No. 1639/MOF dated December 22, 1998 on Government Procurement of Goods, Works Construction, Repairs and Services (hereinafter IRRs 1639/MOF) of the Lao People’s Democratic Republic, with the following clarifications required for compliance with the Guidelines:

(i)        no preference whatsoever will be given to a domestic bidder over foreign bidders or to an SOE over a non-SOE;

(ii) awards shall be made on the basis of the lowest evaluated bid, and any bid award based upon a point system, or any other criteria other than the lowest evaluated bid, shall be deemed invalid;

(iii) bids will not be automatically rejected for lack of effective competition solely on the basis of the number of bidders or because all bid prices substantially exceed the budget allocated and the provisions of paragraph (j) of Article 4 of the IRRs 1639/MOF will apply only as hereby modified by the provisions on rejections of bids set forth in paragraphs 2.59-2.62 of the Guidelines;

(iv) SOEs in the Borrower's country may participate only if they can establish that they: (i) are legally and financially autonomous, and (ii) operate under commercial law. No dependent agency of the Borrower shall be permitted to bid or submit a proposal for the procurement of goods or works under the Project; and

(v) the Borrower shall not require bidders or potential bidders to register as such with the relevant authority of the Borrower as a condition of bidding.

## 2. National Shopping

Locally manufactured equipment estimated to costs less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

## 3. Procurement from UN Agencies

Vehicles may be procured from the United Nations' Inter-Agency Procurement Services Office 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 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

(a) With respect to all contracts governed by Part B and with respect to the first contract for goods, regardless of its amount, governed by subparagraph (a) of Part C.1, Section I to this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost less than \$100,000 equivalent per contract and to be procured in accordance with the procedures referred to in paragraph 2 of Part C of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part D, 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: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

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.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$1,900,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for tasks that meet the requirements set forth in paragraph 3.7 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Quality-based Selection

Services for tasks that meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 3 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to all contracts 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, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Implementation Program**

#### Project Management

1. The Borrower shall:

(a) maintain the Project Steering Committee, under the direction of the Minister of Finance, and with membership acceptable to the Association, to provide policy direction and guidance, evaluate the Project outcome, and ensure inter-agency coordination in the implementation of the Project; and

(b) throughout the period of Project implementation, maintain the PIU, under the direction of a qualified and experienced manager, staffed with competent personnel in sufficient number and provided with adequate resources, including an Assistant Project Director, a Procurement Officer, a Project Accountant, and a Project Secretary, with qualifications and experience and terms of reference acceptable to the Association and selected in accordance with Part C.1, Section II of Schedule 3 to this Agreement, and provided with adequate resources, said Unit to be responsible for the day-to-day administration of the Project, including, overall project financial management, planning and budgeting, procurement of goods and consultants' services, and preparing consolidated financial statements, Financial Monitoring Reports, and progress reports.

2. The Borrower shall, through the PIU, prepare, adopt and thereafter apply the Operations Manual, acceptable to the Association, in the implementation of the Project, which Operations Manual shall provide, inter alia, for: (i) the procurement procedures for goods and services as set forth in Schedule 3 to this Agreement; (ii) financial management reporting procedures, including audit procedures as set forth in Article IV of this Agreement; and (iii) the Project Performance Indicators as set forth in the Supplemental Letter to this Agreement. The Borrower shall not abrogate, amend, assign, repeal, suspend or waive any of the provisions of the Operations Manual without the prior concurrence of the Association.

3. 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, by January 31, April 30, July 31 and October 31 of each year, commencing in 2002 a quarterly progress report, each such report integrating the results

of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 3, on the progress achieved in the carrying out of the Project during the preceding calendar quarter 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) promptly review with the Association each of the reports referred to in sub-paragraph (b) of this paragraph 3 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.

4. For the purposes of carrying out the audit under Section 4.01 of this Agreement, the Borrower shall, by December 31, 2002, or such later date as the Association may otherwise agree, retain the services of an external auditor with qualifications and experience and terms of reference acceptable to the Association, and selected in accordance with Section II, Part B of Schedule 3 to this Agreement.

## **SCHEDULE 5**

### **Special Accounts**

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 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: \$500,000 in respect of the Special Account of the Project, 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 \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.
2. Payments out of the respective 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 which does not exceed the aggregate amount of the Authorized Allocation. On the basis of 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.
  - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association a request for deposit 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 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 for the Special Account, 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 respective Parts of 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 for the respective Parts of the Project 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.