LOAN NO. 768-VN

PROJECT LOAN AGREEMENT

(*Pro-Poor Partnerships for Agroforestry Development*)

between the

SOCIALIST REPUBLIC OF VIET NAM

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Dated 16 February 2009

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PROJECT LOAN AGREEMENT

PROJECT LOAN AGREEMENT dated 16 February 2009 between the SOCIALIST REPUBLIC OF VIET NAM (the "Borrower") and the INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (the "Fund").

WHEREAS (A) the Borrower has requested a loan (the "Loan") from the Fund for the purpose of financing the Pro-Poor Partnerships for Agroforestry Development, described in Schedule 1 to this Agreement (the "Project");

(B) the Borrower expects to obtain from the Global Environment Facility ("GEF") a grant (the "Co-financing") approximately in the amount of USD 650 000 to assist in financing the Project on terms and conditions to be set forth in an agreement between the Borrower and GEF (the "Co-financing Agreement"); and

(C) the Project shall be supervised and the Loan shall be administered directly by the Fund.

WHEREAS, on the basis of the above and other considerations, the Fund has agreed to extend the Loan to the Borrower on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Provisions

SECTION 1.01. *General Conditions*. (a) The Fund's General Conditions for Agricultural Development Financing dated 2 December 1998 (the "General Conditions") are annexed to this Agreement, and all provisions thereof (whether or not expressly mentioned herein) are made an integral part hereof. If any provision of this Agreement is inconsistent with a provision of the General Conditions, the provision of this Agreement shall govern, but no provision hereof shall limit the generality of any provision of the General Conditions.

(b) For the purposes of this Agreement, the General Conditions shall be modified as follows:

(i) Article III shall be deleted in its entirety;

(ii) wherever the expressions "Cooperating Institution", "the Fund in consultation with the Cooperating Institution" and all other similar expressions are used, they shall refer solely to the Fund; and

(iii) all references in the General Conditions to the "Cooperating Institution" shall be deemed to refer to the Fund.

SECTION 1.02. *Definitions*. (a) Wherever used in this Agreement, unless the context otherwise requires, the terms defined in the General Conditions and the Preamble to this Agreement shall have the respective meanings set forth therein. All references to person(s) in this Agreement shall include both genders and their use shall be considered synonymous with the terms "he" and "she".

(b) As used in this Agreement, the following terms shall have the following meanings:

"APIF" means Agribusiness Promotion Investment Fund.

"AWPB" means each annual work plan and budget for carrying out the Project during a particular Project Year, as described in Section 3.02.

"BISC" means Business and Investment Support Centre.

"CDB" means the Community Development Board.

"CDF" means Community Development Fund.

"CIG" means Common Interest Group.

"CMB" means Commune Management Board.

"CPC" means Commune People's Committee.

"DARD" means Department of Agriculture and Rural Development.

"Days" means calendar days during a Project Year.

"DOET" means the Department of Education and Training.

"DOLISA" means Department of Labour, Invalids and Social Affairs.

"DONRE" means Department of Natural Resources and Environment.

"DOST" means Department of Science and Technology.

"DPC" means District People's Committee.

"DPI" means Department of Planning and Investment.

"Effective Date" is the date on which the Fund dispatches notice to the Borrower after its acceptance that the conditions precedent specified in Section 7.01 have been fulfilled to the satisfaction of the Fund.

"ESIA" means Environmental and Social Impact Analysis.

"Fiscal Year" is each period beginning 1 January and ending 31 December.

"Lead Project Agency" is the Provincial People's Committee of the Bac Kan Province.

"Loan Closing Date" is the date six months after the Project Completion Date, or such later date as the Fund may designate by notice to the Borrower and the Lead Project Agency.

"Loan Service Payment Currency" is the currency of the Unites States of America.

"MOF" means Ministry of Finance of the Borrower.

"MTR" means mid-term review, described in Section 4.03.

"P135-II" means the Programme for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (2006-2010) Phase II.

"PIM" means the Project Implementation Manual referred to in paragraph 15 of Schedule 3 (I. Project Implementation).

"PMU" means Project Management Unit.

"PPC" means the Provincial People's Committee in Bac Kan Province;

"Project Commune" means each commune within a Project District selected to participate under the Project, in which the Project shall be implemented.

"Project Completion Date" is the sixth anniversary of the Effective Date, or such later date as the Fund may designate by notice to the Borrower and the Lead Project Agency.

"Project Party" includes each of the DARD, DOET, DOST, DPI, DONRE, DOLISA, Lead Project Agency, the PPC, PMU, the DPCs in the Project Districts, the CPCs, CMBs, in the Project Communes, and any others as may be agreed upon by the Borrower and the Fund.

"Project Year" or "PY" means (i) the period beginning on Effective Date and ending on the next following 31 December, and (ii) each period thereafter beginning on 1 January and ending on the earlier of 31 December or the Project Completion Date.

"PSC" means the Project Steering Committee.

"US Dollars" or "USD" means the currency of the United States of America.

"VBARD" means the Viet Nam Bank for Agriculture and Rural Development.

"VND" or "dong" means the currency of the Borrower.

SECTION 1.03. *References and Headings*. Unless otherwise indicated, references in this Agreement to Articles, Sections or Schedules refer to Articles, Sections or Schedules of this Agreement. The descriptive headings of such Articles, Sections and Schedules are given for convenience of reference only and do not form an integral part of this Agreement.

SECTION 1.04. *Obligations of the Borrower and the Project Parties*. The Borrower shall be fully responsible to the Fund for the due and timely performance of all obligations ascribed to it, the Lead Project Agency and all other Project Parties under this Agreement. To the extent any Project Party enjoys legal personality separate from the Borrower, any reference to an obligation of such Project Party in this Agreement shall be deemed an obligation of the Borrower to ensure that such Project Party performs such obligation. The acceptance by any Project Party of any obligation ascribed to it in this Agreement shall not affect the responsibilities and obligations of the Borrower hereunder.

ARTICLE II

The Loan

SECTION 2.01. *The Loan*. The Fund agrees to extend a Loan to the Borrower in the principal amount of SDR 14 110 000, for the purpose of financing the Project.

SECTION 2.02. *Accounts and Withdrawals*. The Fund shall open a Loan Account in the name of the Borrower and credit the principal amount of the Loan thereto. The Borrower may request withdrawals from the Loan Account from time to time between the Effective Date and the Loan Closing

Date in various currencies in respect of Eligible Expenditures and otherwise in accordance with Schedule 2 (Allocation and Withdrawal of Loan Proceeds) hereof, and Article IV (Loan Account and Withdrawals) and Section 6.02 (Currencies for Withdrawals) of the General Conditions.

SECTION 2.03. *Special Account.* (a) The Borrower, through MOF, shall open and thereafter maintain in the VBARD a Special Account denominated in USD, for the purpose of financing the Project. The Special Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by the Fund.

(b) After the Special Account has been duly opened, upon the Borrower's request, the Fund shall make one or more withdrawals of up to one million five hundred thousand United States dollars (USD 1 500 000) in the aggregate from the Loan Account on behalf of the Borrower and deposit such amount in the Special Account. When the aggregate amount of expenditures in the Loan Account equals or exceeds SDR 1 600 000, the Fund shall, upon the Borrower's request, increase eligibility for withdrawals up to an Authorized Allocation of two million two hundred thousand United States dollars (USD 2 200 000). The Fund shall replenish the Special Account from time to time upon request, in accordance with Section 4.08 of the General Conditions (Special Account) in such minimum amounts as the Fund may specify, by notice to the Borrower.

(c) The Special Account shall be operated by MOF in accordance with Section 4.08 of the General Conditions.

SECTION 2.04. *Use of Proceeds.* The Borrower and each Project Party shall ensure that the proceeds of the Loan are used exclusively to finance Eligible Expenditures in accordance with this Agreement and the General Conditions.

SECTION 2.05. *Service Charge.* The Borrower shall pay to the Fund a service charge at the rate of 0.75% per annum on the amount of the Loan outstanding from time to time, payable semi-annually on each 15 June and 15 December in the Loan Service Payment Currency.

SECTION 2.06. *Repayments of Principal.* The Borrower shall repay the outstanding principal amount of the Loan in fifty-nine equal semi-annual instalments of SDR 235 167 payable on each 15 June and 15 December commencing on 15 June 2019 and ending on 15 June 2048 and one final payment of SDR 235 147 payable on 15 December 2048, in the Loan Service Payment Currency.

ARTICLE III

The Project

SECTION 3.01. *Project Implementation.* The Borrower declares its commitment to the goals and purposes of the Project as stated in Schedule 1 hereof and, in furtherance of such goals and purposes, the Project shall be carried out in accordance with this Agreement, in particular in accordance with Section 7.01 of the General Conditions, and substantially in accordance with the AWPBs; the Procurement Plans; and the Project Implementation Manual.

SECTION 3.02. *Annual Work Plans and Budgets and Procurement Plans.* (a) The PMU shall prepare a draft consolidated AWPB for each Project Year. The draft consolidated AWPBs shall include, among other things, a detailed description of planned Project activities during the coming Project Year, and the sources and uses of funds thereof. In addition to the consolidated AWPB for the first Project Year, a Procurement Plan for all major procurement of goods, works and consulting services covering the initial 18 months after the Effective Date, and annually thereafter, shall be prepared by the PMU together with other concerned Project Parties.

(b) The PMU shall submit the draft consolidated AWPB and Procurement Plan to the PSC for its review and endorsement. When so endorsed, the PSC shall submit the draft consolidated AWPB and Procurement Plan to the Fund, for its comments and acceptance, no later than 60 days before the beginning of the relevant Project Year. If the Fund does not comment on the draft AWPB and Procurement Plan within 30 days after receipt, the AWPB and Procurement Plan shall be deemed approved. The Borrower shall ensure that each AWPB and Procurement Plan, substantially in the form so approved, is formally endorsed by the PPC in accordance with local practice. The PMU shall provide copies of the endorsed AWPB and Procurement Plan to the Fund, prior to the commencement of the relevant Project Year.

(c) The PPC shall adopt the respective AWPB and Procurement Plan substantially in the form approved by the Fund.

(d) If required, the PMU may propose adjustments to the AWPB during the relevant Project Year, which shall become effective upon approval by the PPC and the Fund.

SECTION 3.03. *Project Account.* Before the Effective Date, the PMU shall open and thereafter maintain in the Provincial State Treasury or another bank proposed by the Borrower and accepted by the Fund, a current account denominated in VND for Project operations, including receiving Loan proceeds from the Special Account and making payments for Project operations (the "Project Account"). The PMU shall be fully authorised to operate the Project Account.

SECTION 3.04. *Availability of Loan Proceeds.* (a) Without prejudice to Section 3.04 (b) below, the Borrower shall make the proceeds of the Loan available to the Lead Project Agency and each other Project Party in accordance with the AWPBs and its customary national procedures for development assistance to carry out the Project.

(b) In addition to the proceeds of the Loan, the Borrower shall make available to the Lead Project Agency and each other Project Party during the Project Implementation Period counterpart funds from its own resources in an aggregate amount of USD 2.41 million equivalent, in accordance with its customary national procedures for development assistance.

SECTION 3.05. *Additional Resources.* In addition to the proceeds of the Loan, the Borrower shall make available to the Lead Project Agency and each other Project Party, promptly as needed, such funds, facilities, services and other resources as may be required from time to time to carry out the Project in accordance with this Agreement, and in accordance with Section 7.03 of the General Conditions.

SECTION 3.06. *Procurement.* All procurement financed by the proceeds of the Loan shall be carried out in accordance with Schedule 4.

ARTICLE IV

Implementation, Reporting and Information

SECTION 4.01. *Monitoring.* As soon as practicable but in no event later than three (3) months after the Effective Date, the PMU shall establish and thereafter maintain an appropriate information management system to enable them to continuously monitor the Project in accordance with the Fund's "Guidelines for Project Monitoring and Evaluation", paragraph 4 of Schedule 3 (II. Additional Covenants) and Section 8.02 (Monitoring of Project Implementation) of the General Conditions, based on indicators agreed by the Borrower and the Fund.

SECTION 4.02. *Progress Reports.* (a) The PMU shall submit to the PPC and the Fund six-

monthly and consolidated annual progress reports on Project implementation, as required by Section 8.03 (Progress Reports) of the General Conditions, no later than two (2) months after the end of each six-monthly period during the Project Implementation Period.

SECTION 4.03. *Mid-Term Review.* (a) The Fund, jointly with the Borrower and the Lead Project Agency, shall carry out a review of Project implementation no later than 36 months after the Effective Date (the "Mid-Term Review"), based on terms of reference prepared by the PMU and approved by the Fund. Among other things, the Mid-Term Review shall consider the achievement of Project objectives and the constraints thereon, and recommend such reorientation as may be required to achieve such objectives and remove such constraints.

(b) The Borrower shall ensure that the recommendations resulting from the Mid-Term Review are implemented within a reasonable time thereafter and to the satisfaction of the Fund. It is agreed and understood that such recommendations may result in modifications to the Loan Documents or cancellation of the Loan.

SECTION 4.04. *Completion Reports.* The PMU shall submit to the Fund the completion report required by Section 8.04 (Completion Report) of the General Conditions, no later than six months after the Project Completion Date. In addition to those matters specified in said Section 8.04, the completion report shall detail: (i) the concrete steps taken by the Project to assure the sustainability of Project achievements over time; (ii) the extent to which benefits of the Project have reached the Target Group; and (iii) the impact of the Project on the livelihoods of the Target Group.

SECTION 4.05. *Evaluations.* The Borrower and each Project Party shall facilitate all evaluations and reviews of the Project that the Fund may carry out during the Project Implementation Period and for ten years thereafter, as required by Section 10.05 (Evaluations of the Project) of the General Conditions.

ARTICLE V

Financial Reporting and Information

SECTION 5.01. *Financial Statements.* The PMU shall maintain separate accounts and records and thereafter prepare the consolidated six-monthly and consolidated annual financial statements of the operations, resources and expenditures related to the Project required by Section 9.02 (Financial Statements) of the General Conditions in respect of each six-monthly period during each Fiscal Year and deliver such Financial Statement to the Fund within two (2) months after the end of each such period.

SECTION 5.02. *Audit Reports.* (a) As soon as practicable but no later than 90 days before the end of the first Fiscal year, and annually thereafter, the Borrower, through the Lead Project Agency, shall appoint, with the prior approval of the Fund, independent auditors selected in accordance with the procedures and criteria set forth in the Fund's "Guidelines on Project Audits (for Borrowers' Use)" (2003, as may be amended from time to time) to audit the financial statements relating to the Project for the first Fiscal Year. Thereafter, throughout the entire Project Implementation Period, as soon as practicable but in no event later than 90 days after the beginning of each succeeding Fiscal Year, the Borrower, through the Lead Project Agency and with prior acceptance of the Fund, shall either confirm the appointment of the same independent auditors, subject to satisfactory performance, or shall follow the same procedure to appoint new independent auditors for such Fiscal Year.

(b) the Borrower shall have the consolidated financial statements relating to the Project audited each Fiscal Year by such auditors in accordance with the International Standards on Auditing and the Fund's "Guidelines on Project Audits (for Borrowers' Use)" (2003, as may be amended from time to time) until the Loan Closing Date in accordance with Section 9.03 (Audit of Accounts) of the General

Conditions. In addition to the Audit Report on the consolidated financial statements, the auditors shall provide: (i) an opinion on the certified statements of expenditure as described in paragraph 4 of Schedule 2, and the operations of the Special Account; and (ii) a separate management letter, addressing the adequacy of the accounting and internal control systems. The PMU shall deliver the above mentioned items to the Fund within six months of the end of each such Fiscal Year. The PMU shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof.

ARTICLE VI

Remedies of the Fund

SECTION 6.01. *Suspension.* (a) The Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account in accordance with Section 12.01 of the General Conditions upon the occurrence of any of the events set forth therein or any of the events set forth below:

(i) The Project Director described under paragraph 5 of Schedule 3 (I. Project Implementation) hereof has been removed from the Project without the prior concurrence of the Fund;

(ii) the Fund, after consultation with the Borrower, has determined that the material benefits of the Project are not adequately reaching the Target group, or are benefiting persons outside the Target Group;

(iii) the Borrower has defaulted in the performance of any covenant set forth in paragraphs 1 to 9 of Schedule 3 (II. Additional Covenants), and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project;

(iv) the Project Implementation Manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project;

(v) the Fund has given notice to the Borrower that credible allegations of corrupt or fraudulent practices in connection with the Project have come to the attention of the Fund and the Borrower has failed to take timely and appropriate action to address the matters to the satisfaction of the Fund; and

(vi) procurement has not been or is not being carried out in accordance with Schedule 4 of this Agreement.

(b) Notwithstanding the above, the Fund shall suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Audit Report required by Section 5.02 has not been satisfactorily completed within twelve (12) months after the end of the Fiscal Year.

SECTION 6.02. *Cancellation.* The Fund may terminate the right of the Borrower to request withdrawals from the Loan Account in accordance with Section 12.02 of the General Conditions, upon the occurrence of any of the events set forth therein.

SECTION 6.03. *Acceleration.* The Fund may declare the outstanding principal amount of the Loan, together with all accrued and unpaid service charges thereon, immediately due and payable in

accordance with Section 12.05 of the General Conditions, upon the occurrence of any of the events set forth therein.

SECTION 6.04. *Other Remedies.* The remedies of the Fund set forth in this Article shall not limit or otherwise prejudice any rights or remedies available to the Fund under the General Conditions or otherwise, including but not limited to the right to refer any allegation of fraud and corruption to the national authorities.

ARTICLE VII

Effectiveness

SECTION 7.01. *Conditions Precedent to Effectiveness.* This Agreement shall become effective in accordance with Article XIII of the General Conditions (Effectiveness and Termination) subject to the fulfilment of the following conditions precedent:

(a) the PSC shall have been duly established in accordance with paragraph 3 of Schedule 3;

(b) the PMU shall have been duly established in accordance with paragraph 4 of Schedule 3;

(c) the Project Director shall have been duly appointed in accordance with paragraph 5 of Schedule 3;

(d) the Procurement Plan for the first eighteen months of the Project shall have been agreed by the Fund;

(e) The Borrower and PMU shall have duly opened the Special Account and Project Account, in accordance with Sections 2.03 and 3.03, respectively;

(f) this Agreement shall have been duly signed, and the signature and performance thereof by the Borrower shall have been duly authorised and ratified by all necessary administrative and governmental action; and

(g) a favourable legal opinion, issued by the legal counsel of the Borrower authorised to issue such opinions, in respect of the matters set forth in Section 7.02 hereof and in form and substance acceptable to the Fund, shall have been delivered by the Borrower to the Fund.

SECTION 7.02. *Legal Opinion.* The legal opinion required by Section 7.01 shall favourably address the following matters:

(a) the conditions precedent specified in paragraph (f) of Section 7.01 have been fulfilled;

(b) this Agreement is legally binding upon the Borrower in accordance with its terms regardless of any law to the contrary in its territory.

SECTION 7.03. *Deadline for Effectiveness.* If this Agreement does not become effective within 90 days after the date hereof or such later date as the Fund may designate, the Fund may terminate this Agreement and the other Loan Documents as provided in Section 13.03 of the General Conditions.

ARTICLE VIII

Miscellaneous

SECTION 8.01. *Representative.* The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 15.03 of the General Conditions.

SECTION 8.02. *Status of this Agreement.* The Borrower and the Fund agree that this Agreement constitutes an international agreement within the meaning of the Constitution of the Borrower, and is and shall be binding upon the Borrower in accordance with its terms regardless of any laws to the contrary in the territory of the Borrower.

SECTION 8.03. *Communications.* Except as otherwise expressly provided in the Loan Documents or requested by the Fund, the Borrower shall address all communications relating to this Agreement to the Fund.

SECTION 8.04. *Addresses.* The following addresses are specified for all notices, requests, reports and other communications given or made under this Agreement:

For the Borrower:

Ministry of Finance
28 Tran Hung Dao Street
Hanoi
Socialist Republic of Viet Nam

Facsimile Number: (844) 2220 8020

Copy to:

Provincial People's Committee of Bac Kan
Phung Chi Kien Ward
Bac Kan Town
Socialist Republic of Viet Nam

Facsimile Number: (84 281) 3871751

For the Fund:

International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome
Italy

Facsimile Number: (3906) 504 3463

SECTION 8.05. *Language of Communications.* All notices, requests, reports, documents and other information and communications relating to this Agreement, the Loan and the Project (including the reports required by Articles IV and V) shall be in the English language. This Agreement has been negotiated, drafted and signed in the English language.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorised representatives, have signed this Agreement in Rome, Italy, as of the date first above written.

SOCIALIST REPUBLIC OF VIET NAM

Authorized Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

President

SCHEDULE 1

Project Description

1. *Project Area*. The Project shall be carried out in approximately 48 communes across the districts of Pac Nam, Ba Be and Na Ri in the Bac Kan Province ("BK" or "Project Province") of the Borrower's territory (the "Project Area") (each such district, a "Project District").

2. *Target Group*. The Project shall target rural poor upland, especially female farmers, in the Project Area.

3. *Goal and Purpose*. The goal of the Project is to achieve sustainable and equitable poverty reduction and improved livelihoods of the rural poor in BK. The purpose of the Project is to establish a framework for sustainable and profitable agroforestry development in the Project Province.

4. *Components*. The Project shall consist of the following Components:

4.1. Sustainable and Equitable Forest Land Management. The objective of this component shall be the equitable allocation of forest land resources based on defined and operational sustainable management procedures. Such objective shall be achieved through implementation of relevant activities under the following sub-components: (i) Forest Land Use Planning and Allocation; and (ii) Forest Land Access and Use.

4.2. Generating Income Opportunities for the Rural Poor. The Project shall improve the livelihoods of the rural poor through investments in infrastructure, human capacity development, developing technology and agroforestry business management practices and effective service delivery systems. This component shall comprise the following sub-components: (i) Community Driven Technology and Service Development; and (ii) Investment for Growth.

4.3. Innovative Environmental Opportunities. The objective of this component is to develop socially, environmentally and economically sustainable sloping land conservation and protection systems, through the following activities: (i) Forage-based conservation and other innovative Sustainable Land Management and Sustainable Forest Protection programmes; (ii) Payment for Environment Service; and (iii) Eco-Tourism.

4.4. Project Management. The objective of this component is to enhance capacity to implement Project interventions in an efficient and effective manner, through: (a) the establishment of a Project Steering Committee (PSC); and (b) the establishment of a Project Management Unit (PMU).

SCHEDULE 2

Allocation and Withdrawal of Loan Proceeds

1. *Allocation of Loan Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan, the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category.

	Category	Loan Amount Allocated (Expressed in SDR)	% Eligible Expenditure
I.	Civil Works	370 000	100% net of taxes
II.	Technical Assistance, Training and Studies	2 900 000	100% net of taxes, co-financing and counterpart financing
III.	Contracted Technical Services	1 270 000	100% net of taxes, co-financing and counterpart financing
IV.	Agribusiness Promotion Investment Fund	1 340 000	100% net of taxes
V.	Community Development Fund	7 100 000	100% net of taxes and net of beneficiary contribution for investment programme
VI.	Vehicles, Goods and Equipment	430 000	100% net of taxes and counterpart financing
VII.	Salaries	120 000	100% net of taxes and counterpart financing
VIII.	Operations and Maintenance	190 000	100% net of taxes and counterpart financing
Unallocated		390 000	
Total		**14 110 000**	

2. *Certain Definitions*: For purposes of this Schedule, the following terms have the following meanings:

"Agribusiness Promotion Investment Fund" means grant funds awarded through a competitive process for pro-poor agribusiness investments.

"Community Development Fund" means funds managed by Project Communes for infrastructure, pro-poor agroforestry investment grants and service delivery to farmer groups.

"Contracted Technical Services" means Eligible Expenditures for financing contractual arrangements under forest land use planning and management, income generating opportunities, sustainable and innovative environmental opportunities and services under Project management.

"Operation and Maintenance" means Eligible Expenditures for Project vehicles and equipment, operation and maintenance, and incremental office overhead costs.

"Salaries" means Eligible Expenditures for staff positions directly related to Project implementation, in particular two national technical advisors attached to the PMU and the Commune accountants.

"Vehicles, Goods and Equipment" means Eligible Expenditures related to the purchase of five (5) vehicles and motorbikes, and items including training equipment and materials and facilities, newsletters and promotional booklets, PMU and District office facilities, office furniture and equipment.

3. *Minimum Withdrawal Amounts.* Withdrawals from the Loan Account shall be made in amounts no less than USD 20 000 or its equivalent, or such other amount as the Fund may designate from time to time.

4. *Statements of Expenditure.* Withdrawals from the Loan Account may be made against certified statements of expenditures in respect of Eligible Expenditures in such amounts as the Fund may designate from time to time by notice to the Borrower. The records evidencing such expenditures need not be submitted to the Fund, but shall be retained by the Borrower for inspection by the representatives of the Fund, in accordance with Sections 4.07 (Statements of Expenditure) and 10.03 (Visits, Inspections and Enquiries) of the General Conditions.

5. *Conditions Precedent to Withdrawal.* No withdrawals from the Loan Account shall be made until the AWPB for PY 1, including a Procurement Plan for the first 18 month' period, shall have been adopted by the PPC in accordance with Section 3.02 (c).

6. *Conditions Precedent to Disbursement.* (a) No disbursements shall be made in respect of expenditures under Category I (Civil Works), II (Technical Assistance, Training and Studies), III (Contracted Technical Services), IV(Agribusiness Promotion Investment Fund) and V (Community Development Fund) until the PIM shall have been approved by the Fund and adopted by the PPC, in accordance with paragraph 15 of Schedule 3 (I. Project Implementation);

(b) No disbursements shall be made in respect of expenditures under Category IV (Agribusiness Promotion Investment Fund) of the Allocation Table set forth in paragraph 1 above, related to paragraph 11 of Schedule 3, until: (i) the APIF Operational Manual shall have been developed by the PMU, submitted to the Fund for approval and adopted by the government of the Project Province; and (ii) the BISC shall have been established within the DPI.

(c) No disbursements shall be made in respect of expenditures under Category V (Community Development Fund) of the Allocation Table set forth in paragraph 1 above, related to paragraphs 8, 9 and, 13 of Schedule 3, until the CDF Operational Manual acceptable to the Fund, including the Community Development Boards (CDBs) Operational Charter, shall, under advice to the Fund of PPC decision, have become operational.

(d) No disbursements shall be made in respect of expenditures under Category V (Community Development Fund) of the Allocation Table set forth in paragraph 1 above, for specific activities related to forest land allocation and management described in paragraph 12 of Schedule 3 until an ESIA manual, acceptable to the Fund, shall, under advice to the Fund of PPC decision, have been developed and duly adopted.

SCHEDULE 3

Project Implementation and Additional Covenants

I. PROJECT IMPLEMENTATION

A. NATIONAL LEVEL

1. The Ministry of Finance of the Borrower (MOF), through the External Finance Department (EFD) or any successor thereof, shall be responsible, *inter alia*, for coordination between the Borrower and the Fund in accordance with the Borrower's regulations. The Ministry of Planning and Investment (MPI) shall be responsible for providing policy guidance and central coordination of ministries. Project management and implementation shall be decentralised to the Project Province and lower administrative entities.

B. ORGANISATION AND MANAGEMENT OF THE PROJECT

2. Lead Project Agency

2.1. *Designation and Responsibilities*. The Provincial People's Committee (PPC) of the Project Province, in its capacity as Lead Project Agency, shall be responsible for implementation of the Project, including: (a) recruiting/appointing Project staff in line with criteria approved by the Fund; (b) ensuring timely provision of counterpart funds in line with and as required by Section 3.04(b) of this Agreement; and (c) issuing guidelines and decisions for effective implementation of the Project. The Lead Project Agency shall be assisted in its tasks by the PSC and the PMU.

3. Project Steering Committee

3.1. *Establishment*. Before the Effective Date, the Lead Project Agency shall establish, and maintain throughout the entire Project Implementation Period, a PSC with responsibilities as set forth herein. The PSC shall meet at least semi-annually to approve and review progress of the Project including the APIF.

3.2. *Composition*. The PSC shall be composed of the provincial departments engaged in Project implementation, the provincial Women's Union and Farmer's Association chairpersons and the Chairpersons of the Project Districts, or their deputies, who are District Project Directors. The PSC shall be chaired by the Vice Chairperson of the Lead Project Agency.

3.3. *Responsibilities*. The PSC shall act as an advisory body to the Lead Project Agency in policy formulation, planning, coordination, supervision and monitoring of the activities, and shall be responsible for the conduct and activities of the PMU. In addition, the PSC shall be responsible for:

(a) ensuring coordination between the Project and other externally/internally financed projects/programmes and efficient use of Project financial and human resources;
(b) providing supporting policy framework and guidelines to the PMU for efficient Project implementation;
(c) soliciting/proposing Project supportive policy mechanisms to the Lead Project Agency for simplification of regulations;
(d) reviewing and approving the AWPBs for the Project;
(e) interfacing between PMU and the Lead Project Agency on matters of policy formulation, revision and implementation with a view to ensuring effective implementation of the Project;

(f) ensuring effective cooperation and coordination between the implementing agencies of the Project in the Project Province and instilling a system of accountability for performance and proper use of resources at all levels;

(g) reviewing Project progress reports and ensuring timely corrective action on management and implementation issues; and

(h) regarding the governance of the APIF: (i) approving the management, operational strategy and criteria for selection for the APIF (subject to the Fund's no-objection); (ii) guiding and directing the BISC with regards to the utilization of the APIF; (iii) reviewing and approving annual plans and funding targets; and (iv) supervising funds and fund management performance.

3.3.1. *Recruitment of PMU Staff.* Among other things, the PSC shall establish a council to conduct the recruitment, through a competitive and open process, of the following key staff: financial administrator, procurement administrator, monitoring and evaluation coordinator, agroforestry livelihoods technical specialist, and environment services technical specialist.

4. Project Management Unit (PMU)

4.1. *Establishment.* Before the Effective Date, the Lead Project Agency shall establish a Project Management Unit (PMU). The PMU shall report to the PSC but shall enjoy administrative autonomy in their day-to-day operations.

4.2. *Composition.* The PMU staff shall include a Project Director, financial and procurement officers, each with a monitoring and evaluation coordinator, an agroforestry livelihoods technical specialist, an environment services technical specialist, an office administrator, secretary, clerk and drivers, and any other additional staff as required. The PMU shall fill required positions following an open and competitive recruitment process open to candidates from both the public and private sectors.

4.3 *Responsibilities.* The PMU shall, *inter alia*, be responsible for the following:

(a) proposing Project supportive policy mechanisms to the PSC;

(b) preparing the consolidated AWPBs described in Section 3.02;

(c) ensuring effective coordination of Project activities at all levels;

(d) ensuring effective coordination and information sharing with other donor-funded projects/programmes;

(e) carrying out procurement in accordance with this Agreement;

(f) preparing terms of reference for, advertising and recruitment of staff;

(g) preparing financial statements and ensuring sound financial management;

(h) selecting and appointing auditors;

(i) preparing terms of reference for technical assistance and recruitment and supervision of technical assistance by both firms and individuals;

(j) preparing and submitting withdrawal applications from the Special Account, and ensuring adequacy and timely release of funds under the Project;

(k) compliance with reporting, monitoring and administration requirements set forth in this Agreement;

(l) maintaining the relevant Project Account;

(m) preparing and submitting the relevant Project's progress reports in accordance with this Agreement;

(n) establishing and implementing a monitoring and evaluation system at Project Commune, Project District and Project Province level and providing the results to the PSC; and

(o) establishing and implementing a proper participatory evaluation and impact assessment regime.

5. Project Director (PD)

5.1. *Appointment.* The Lead Project Agency shall appoint a Project Director before the Effective Date, subject to the prior approval of the Fund. The experience, background and terms of reference for the Project Director shall be approved by the Fund.

5.2. *Tenure.* The Project Director shall serve throughout the entire Project Implementation Period, and may only be removed by the Lead Project Agency after prior consultation with the Fund.

5.3. *Responsibilities.* The Project Director shall be dedicated to the Project on a full-time basis. The Project Director shall be the head of the PMU and shall generally be responsible for directing and supervising the work of the implementing agencies, at district and commune level in line with the Project's approach, operating schedule and procedures. The Lead Project Agency shall issue a decision giving the Project Director the necessary and adequate executive authority to ensure the smooth functioning of the PMU and of the Project Parties. The Project Director shall be the secretary of the PSC, and shall be responsible for interaction between the PSC, PMU, district and commune levels.

6. District Project Director (DPD)

6.1. *Appointment.* The Lead Project Agency shall appoint a District Project Director and District Project Facilitator for each Project District within 3 months from Effectiveness. The terms of reference for the District Project Directors shall be approved by the Fund.

6.2. *Tenure.* The District Project Directors and District Project Facilitators shall serve throughout the entire Project Implementation Period, and may only be removed by the Lead Project Agency after prior consultation with the Fund. The District Project Facilitators shall be dedicated to the Project on a full-time basis.

C. ADDITIONAL IMPLEMENTATION ARRANGEMENTS

7. *Commune Management Board.* At the Project Commune level, Commune Management Boards (CMBs) shall be established. In those communes where P135-II is being implemented, the Project shall be managed by the Commune P135-II Management Boards. Community Development Boards (CDBs) shall make proposals for the CDF to the CMBs, which shall provide a no-objection to the inclusion of CDB proposed investments in the Project Commune AWPB, and advise the CDB in cases where village choices conflict with planned P135-II or government investment plans.

8. *Community Development Fund (CDF).* Project Communes shall be allocated on average approximately USD 63 000 per annum based on a weighted formula including population size, poverty index and distance from the district centre. Whilst the Commune shall be the owner thereof, the CDF shall be managed through the Commune P135-II Management Board; and CDBs at the village level shall be implementation managers.

9. *Community Development Boards (CDB).* CDBs shall be established at the village level, chaired by the Village head and include village representatives nominated by the village community through a community meeting and public vote. At least 40% of the CDB members shall be from DOLISA registered poor households. The mandate, role, function, responsibilities and accountabilities of the CDBs shall be defined in an Operational Charter. Villages shall be assisted in establishing community development boards (CDBs), legislated by a provincial directive, to develop village-identified and implemented, but commune owned, investment programmes.

10. *Formation of Common Interest Groups (CIGs).* The formation of farmer CIGs, including both men and women, shall be encouraged, as a forerunner to the development of producer associations for

specific products. A legal framework for the formation of CIGs shall be developed for Provincial People's Committee (PPC) approval. Women's CIGs, formed out of Livelihood and Rights Clubs (LARCs), shall have opportunities to access labour-saving technologies through CDF investment and technology development programmes.

D. OPERATIONAL MANUAL

11. *APIF.* Only businesses registered for not less than two years shall be eligible for financing under the APIF. The APIF shall operate on a reimbursable basis, refunding up to 49% of pre-approved costs expended in accordance with approved APIF investment proposals and paid upon provision of satisfactory physical and financial evidence of the expenditure, in accordance with the terms and conditions of the relevant grant agreement. Grants for investments under this sub-component shall not exceed USD 100 000. APIF grants shall be awarded through a competitive process and investment proposals shall be evaluated, *inter alia*, against the following criteria:

(i) commercial viability of the proposal (financial and technical);
(ii) number of poor household beneficiaries and the level of benefit;
(iii) cost effectiveness of the public investment;
(iv) likelihood of flow on benefits to other enterprises and the wider community;
(v) environmental impact;
(vi) enterprise record of corporate responsibility; and
(vii) arrangements for maintenance of publicly funded infrastructure.

11.1. *APIF Operational Manual.* The APIF awards process shall be guided by an operational manual to be developed by the PMU and submitted to the Fund for approval as soon as possible after the Effective Date. The manual shall include sections on an information and awareness campaign, pre-qualification requirements and procedures, application procedures, technical feasibility and financial justification, selection criteria and procedures, financial management arrangements, procurement and reimbursement procedures and on-the-spot control and monitoring and evaluation.

12. *Project Environment and Social Impact Analysis.* Land allocation processes shall be guided by the Project ESIA and overseen by the Commune Councils and CFMBs. The ESIA process shall address: (i) social risks related to ensuring equity and maximising benefits to poor households, women and ethnic minorities; (ii) environmental risks related to minimising damage to the natural resource base and preserving biodiversity; and (iii) institutional sustainability risks related to inter-agency cooperation and the future rollout of the land use planning and allocation process across the Project Province.

13. *CDF Operational Manual and CDB Operational Charter.* The Project shall prepare a CDF Operational Manual acceptable to the Fund, including the CDB Operational Charter, which shall define the mandate, role, function, responsibilities and accountabilities of the CDBs, consistent with applicable regulations and rules.

14. *Output-Based Contracts.* Demand-driven competition between service providers for contracts based on farmers' needs shall be supported by the Project, between PY2 and PY6. The Lead Project Agency shall issue a Decision establishing a procedure for output-based contracts as specified in the PIM.

E. PROJECT IMPLEMENTATION MANUAL

15. *Preparation, Approval and Issuance.* The PMU shall prepare a draft Project Implementation Manual (PIM) to be submitted to the Fund for its approval. If the Fund does not comment on the draft

PIM within 60 days after receipt thereof, the PIM shall be deemed approved. The PMU shall promptly provide copies of the adopted final version of the PIM to the Fund and shall issue the PIM by a Decision of the Lead Project Agency. The PIM shall detail the Project implementation responsibilities in line with the Borrower's policy and the procedures to be followed for planning, budgeting, financing, loan and grant disbursement, reporting, procurement, preparation of accounts and auditing.

15.1. *Amendments and Conflict.* The PMU may propose amendments to the PIM from time to time, which shall become effective upon approval by the Fund. Any modification to the PIM shall be approved by the Fund. In the event of inconsistency or conflict between the terms of this Agreement and the PIM, the former shall prevail.

II. ADDITIONAL COVENANTS

1. *Gender Focus.* Gender equality, gender mainstreaming and specific targeting of women's participation in Project activities, shall be pursued through the following measures:

(a) Mainstreaming gender in all Project activities, including working towards increased women's participation in the Project's decision making processes;

(b) ensuring that no less than 40% of participants in job/skills training are women;

(c) promotion of women's savings and credit groups;

(d) terms of reference of Project staff shall include addressing of gender mainstreaming and gender issues as a cross-cutting area of concern across all activities;

(e) gender disaggregation of the monitoring indicators, as necessary, to allow Project management to assess Project impact on women and men, allowing them to respond to issues, challenges and opportunities; and

(f) provision of a budget to enable Project management to address gender-linked issues and constraints that may arise during implementation.

2. *Indigenous Peoples (IP) Concerns.* The Borrower shall ensure that the concerns of the IP are given due consideration in implementing the Project and, to this end, shall ensure that:

(a) The Project is carried out in accordance with the applicable provisions of the relevant IP national legislation;

(b) the IP are adequately and fairly represented in all local planning for Project activities;

(c) IP rights are duly respected;

(d) IP communities participate in policy dialogue and local governance;

(e) the terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected; and

(f) the Project shall not involve encroachment on traditional territories used or occupied by indigenous communities.

3. *Pest Management Practices.* As part of maintaining sound environmental practices as required by Section 7.15 of the General Conditions, the Borrower shall maintain appropriate pest management

practices under the Project and, to that end, shall ensure that pesticides procured under the Distribution and Use of Pesticides of the Food and Agriculture Organisation of the United Nations (FAO), as amended from time to time, and pesticides procured under the Project do not include any pesticide formulation which would be classified as Extremely Hazardous (Class Ia) or Highly Hazardous (Class Ib) according to the WHO Recommended Classification of Pesticides by Hazard and Classification 1996-97, as amended from time to time.

4. *Monitoring.* The PMU shall be responsible for establishing and maintaining a functioning and appropriate monitoring and evaluation (M&E) system. The M&E system shall incorporate the Fund's Framework for Results Impact Monitoring System (RIMS), with the main objective being to assess the impact of Project interventions on the lives of the Target Group.

5. *Insurance of Project Personnel.* The Lead Project Agency shall insure key Project personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

6. *Authorisations.* The Borrower shall provide any Project Party with such delegations of authority or other authorisations as may be required under its national procedures to implement the Project in accordance with this Agreement.

7. *Staffing.* The Borrower shall ensure that Project staff at all levels are recruited and retained on the basis of satisfactory employment contracts.

8. *Use of Project Vehicles and Other Equipment.* The Lead Project Agency shall ensure that:

(a) All vehicles and other equipment procured under the Project are allocated to the Project Parties for Project implementation;

(b) the types of vehicles and other equipment procured under the Project are appropriate to the needs of the Project; and

(c) all vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.

9. *Fraud and Corruption.* The Borrower shall promptly bring to the attention of the Fund any allegations or concerns of fraud and/or corruption in relation to the implementation of the Project of which it has knowledge or becomes aware.

SCHEDULE 4

Procurement

PART A. GENERAL

1. Procurement of goods, works and consulting services financed by the Loan shall be subject to the provisions of the IFAD "Procurement Guidelines" approved by the Executive Board in December 2004 (the "Procurement Guidelines") as such guidelines may be amended from time to time by the Fund. If any provision of the Procurement Guidelines is inconsistent with a provision of this Schedule, then the latter shall govern.

2. To the extent possible, the goods, works and consulting services shall be bulked into sizeable bid packages in such a manner as to permit the optimal use of competitive bidding.

3. Before the commencement of procurement and annually thereafter, the Borrower shall furnish to the Fund for approval, a Procurement Plan as described in Appendix 1, paragraph 1 of the IFAD Procurement Guidelines. The Procurement Plan shall specify, among others, the method of procurement for each contract to be financed from, and thresholds, ceilings and preferences to be utilised in the implementation of procurement under, the Project. The Procurement Plan shall also specify any additional requirements as may be set out in the IFAD Procurement Guidelines with respect to certain methods of procurement. The procurement plan shall be updated from time to time in accordance with Section 3.02 (a) of this Agreement to cover succeeding eighteen month periods.

4. Procurement shall be undertaken only during the Project Implementation Period.

5. No procurement shall be undertaken if it entails a payment to persons or entities, or an import of goods, prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations. The Fund shall inform the Borrower of any such persons, entities or import.

PART B. PROCUREMENT OF GOODS AND WORKS

6. The methods which are permitted for the procurement of goods and works are the following:

(i) International Competitive Bidding
(ii) National Competitive Bidding
(iii) International or National Shopping
(iv) Direct Contracting
(v) Procurement from United Nations Agencies
(vi) Procurement with Community Participation, which shall be carried out in accordance with procedures acceptable to the Fund and specified in the Procurement Plan.

PART C. PROCUREMENT OF CONSULTING SERVICES

7. The methods which are permitted for the procurement of consulting services are the following:

(i) Quality and Cost-Based Selection
(ii) Quality-Based Selection
(iii) Selection under a Fixed Budget
(iv) Least-Cost Selection
(v) Selection Based on Consultants' Qualifications
(vi) Single-Source Selection
(vii) Selection of Individual Consultants

PART D. PREFERENCE REQUIREMENTS

8. In the procurement of goods and works from the proceeds of the Loan, the country of the Borrower may be granted a margin of preference as provided in Paragraphs 55-59 (Domestic Preference) of the Procurement Guidelines. The Procurement Plan and all bidding documents shall clearly indicate the permitted preference to be granted, the manner in which the preference shall be applied in bid comparison and the information required to establish the eligibility of a bidder for such preference. The nationality of the manufacturer or supplier shall not be a condition for such eligibility.

PART E. REVIEW OF PROCUREMENT DECISIONS

9. The award of any contract for goods and works referred to in paragraph 6 above, estimated to cost USD 60 000 equivalent or more, shall be subject to prior review by the Fund. The aforementioned threshold may be modified from time to time as notified by the Fund to the Borrower.

10. The award of any contract for consulting services referred to in paragraph 7 above, estimated to cost USD 30 000 equivalent or more, shall be subject to prior review by the Fund. The aforementioned threshold may be modified from time to time as notified by the Fund to the Borrower.

11. All bidding documents and contracts for provision of goods, works and services financed by the Loan shall include provisions requiring bidders, suppliers, contractors, sub-contractors and consultants to:

a) allow full inspection by the Fund of all bid documentation and related records;
b) maintain all documents and records related to the bid or contract for three years after completion of the bid or contract; and
c) co-operate with agents of representatives of the Fund carrying out an audit or investigation.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

GENERAL CONDITIONS

FOR

AGRICULTURAL DEVELOPMENT

FINANCING

Dated 2 December 1998

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GENERAL CONDITIONS FOR AGRICULTURAL DEVELOPMENT FINANCING

2 December 1998

WHEREAS, the World Food Conference resolved that the International Fund for Agricultural Development (the "Fund") should be established to finance agricultural development projects and programmes in the developing countries; and

WHEREAS, the Agreement Establishing the International Fund for Agricultural Development (IFAD) provides that its objective shall be to mobilise additional resources to be made available for agricultural development in developing Member States; and

WHEREAS, said Agreement further provides that, in fulfilling its objective, the Fund shall provide financing for agricultural development projects and programmes in the form of loans and grants on such terms and conditions as the Fund deems appropriate; and

WHEREAS, the Executive Board of the Fund, at its Sixty-Fifth Session, approved and adopted these General Conditions for application as from its Sixty-Sixth Session;

NOW, THEREFORE, be it known that:

ARTICLE I

APPLICATION

SECTION 1.01. *Application of General Conditions.*

These General Conditions set forth certain terms and conditions generally applicable to agricultural development financing by the Fund. They apply to the Loan Agreement and any other Loan Document (as such terms are hereinafter defined), if and to the extent such Loan Document expressly so provides.

SECTION 1.02. *Inconsistency with Loan Documents.*

If any provision of the Loan Agreement or any other Loan Document is inconsistent with a provision of these General Conditions, the provision of such Loan Document shall govern.

ARTICLE II

DEFINITIONS

SECTION 2.01. *General Definitions.*

The following terms have the following meanings wherever used in these General Conditions:

"Borrower" means the party designated as such in the Loan Agreement.

"Cooperating Institution" means the institution designated as such in the Loan Agreement responsible for the administration of the Loan and the supervision of the implementation of the Project.

"Cooperation Agreement" means the agreement or agreements between the Fund and the Cooperating Institution (including, but not limited to, any letter of appointment) by which the Cooperating Institution agrees to act as such with respect to the Loan and the Project.

"currency" of a State or a territory means any coin or currency that is legal tender for the payment of public and private debts in such State or territory.

"Effective Date" means the date on which the Loan Agreement and any other Loan Document to which the Fund is party becomes effective provided in Section 13.02(a).

"Eligible Expenditure" means an expenditure that complies with Section 4.10.

"external debt" means any debt payable in a currency other than the currency of the Project Member State.

"Fiscal Year" means the twelve-month period designated as such in the Loan Agreement.

"freely convertible currency" means any currency so designated by the Fund at any time.

"Fund" means the International Fund for Agricultural Development.

"Guarantee Agreement" means any agreement between a Member State and the Fund by which such Member State guarantees the performance of the Loan Agreement or any other Loan Document, as such agreement may be amended or otherwise modified from time to time. The term "Guarantee Agreement" includes these General Conditions, to the extent applied thereto, and all schedules, annexes and agreements supplemental to the Guarantee Agreement.

"Guarantor" means any Member State designated as such in the Guarantee Agreement.

"Lead Project Agency" means the entity or entities designated as such in the Loan Agreement with overall responsibility for the implementation of the Project.

"Loan" means the loan extended by the Fund to the Borrower pursuant to the Loan Agreement.

"Loan Account" means the account in the books of the Fund opened in the name of the Borrower to which the amount of the Loan is credited.

"Loan Agreement" means the particular project loan agreement, programme loan agreement or other agreement pursuant to which the Fund has agreed to extend a Loan to the Borrower, and to which these General Conditions have been made applicable, as such agreement may be amended or otherwise modified from time to time. The term "Loan Agreement" includes these General Conditions to the extent applied thereto, and all schedules, annexes and agreements supplemental thereto.

"Loan Closing Date" means the date specified in the Loan Agreement as the date on which the right of the Borrower to request withdrawals from the Loan Account ends.

"Loan Document" means the Loan Agreement, Project Agreement, Guarantee Agreement and other agreement or document entered into by the Fund and any Loan Party or Project Party in connection with the Loan or the Project, as the same may be amended or otherwise modified from time to time. The term "Loan Document" includes these General Conditions to the extent applied thereto, and all schedules, annexes and agreements supplemental thereto.

"Loan Party" means each entity responsible, in whole or in part, directly or indirectly, for Loan Service Payments. The term "Loan Party", as applied to any unguaranteed Loan, includes the Borrower and, as applied to any guaranteed Loan, the Borrower and the Guarantor.

"Loan Service Payment Currency" means the freely convertible currency defined as such in the Loan Agreement.

"Loan Service Payment" means any payment required or permitted to be made by the Loan Parties to the Fund under the Loan Documents, including (but not limited to) any payment of the principal of, or interest, or service charge, on any Loan.

"Member State" means any Member State of the Fund.

"outstanding" means, in respect of the principal amount of the Loan, the aggregate amount withdrawn from the Loan Account upon request of the Borrower, or by the Fund on behalf of the Borrower, *less* any previous repayments, prepayments or refunds thereof.

"Project" means the agricultural development project or programme described in the Loan Agreement and financed, in whole or in part, by the Loan.

"Project Agreement" means any agreement between the Fund and any Project Party relating to the implementation of all or any part of the Project, as such agreement may be amended or otherwise modified from time to time. The term "Project Agreement" includes these General Conditions to the extent applied thereto, and all schedules, annexes and agreements supplemental thereto.

"Project Completion Date" means the date specified in the Loan Agreement on which the implementation of the Project is to be completed.

"Project Implementation Period" means the period beginning on the Effective Date and ending on the Project Completion Date, during which the Project is to be carried out.

"Project Member State" means the Member State in which the Project is carried out. The term "Project Member State" normally applies to the Borrower in unguaranteed Loans and the Guarantor in guaranteed Loans.

"Project Party" means each entity responsible for the implementation of the Project or any part thereof. The term "Project Party" includes (but is not limited to) the Lead Project Agency and any entity designated as a Project Party in the Loan Documents.

"Special Account" means the account of the Borrower referred to in Section 4.08 for financing the Project.

"Special Drawing Rights" or "SDR" mean special drawing rights as valued from time to time by the International Monetary Fund in accordance with its Articles of Agreement.

"SDR Equivalent" means, with respect to any amount expressed in any currency at the time of determination, the equivalent of such amount in SDR, as determined by the Fund in accordance with Article 5.2(b) of the Agreement Establishing IFAD.

"Subsidiary Agreement" means any agreement or arrangement (other than the Project Agreement) by which (i) the whole or part of the proceeds of the Loan are made available to any Project Party and/or (ii) any Project Party that undertakes to carry out the Project, in whole or in part, in either case as such agreement or arrangement may be amended or otherwise modified from time to time. The term "Subsidiary Agreement" includes (but is not limited to) any agreement or arrangement designated as such in the Loan Documents.

"Taxes" means all imposts, levies, fees, tariffs and duties of any kind imposed, levied, collected, withheld or assessed by or in the territory of any Member State at any time, including (but not limited to) value added, sales, income, property, mortgage, import and stamp taxes, but excluding tax on the overall income of Project employees who are nationals of the Project Member State.

"value date" means, in respect of any withdrawal from the Loan Account, the date on which such withdrawal is deemed made in accordance with Section 4.06 and, in respect of any Loan Service Payment, the date on which such Loan Service Payment is deemed made in accordance with Section 5.04.

SECTION 2.02. *Certain Definitions Applicable to Grants.*

If the Project is financed wholly or partially by a grant made by the Fund, the following terms have the following meanings whenever used in these General Conditions, if appropriate and as the context may require:

"Borrower" also includes the party designated as the "Recipient" in any grant agreement.

"Grant" means any grant extended to the Borrower pursuant to the Loan Agreement.

"Grant Account" means any account opened in the books of the Fund in the name of the Borrower to which the amount of the Grant is credited.

"Loan" also includes any Grant made by the Fund.

"Loan Account" also includes any Grant Account opened by the Fund in connection with the Project.

"Loan Agreement" also includes any grant agreement, financing agreement or other agreement that provides for financing by the Fund wholly or partially on a grant basis.

"Loan Party" also includes the party designated as the "Recipient" in any grant agreement.

SECTION 2.03. *Use of terms.*

As used in these General Conditions and the Loan Documents, except as the context otherwise requires, terms in the singular include the plural, terms in the plural include the singular, and masculine pronouns include the feminine.

SECTION 2.04. *References and Headings.*

Unless otherwise indicated, references in these General Conditions to Articles or Sections refer to Articles or Sections of these General Conditions. The headings of the Articles and Sections and in the Table of Contents of these General Conditions are given for the convenience of reference only and do not form an integral part of these General Conditions.

ARTICLE III

THE COOPERATING INSTITUTION

SECTION 3.01. *Appointment of the Cooperating Institution.*

The Fund shall appoint a suitable and competent institution acceptable to the Loan Parties to administer the Loan and supervise the Project. If for any reason a change of the Cooperating Institution becomes necessary, such a change shall be made by agreement between the Loan Parties and the Fund.

SECTION 3.02. *Responsibilities of the Cooperating Institution.*

The Cooperating Institution shall be responsible for:

(a) facilitating Project implementation by assisting the Loan Parties and the Project Parties in interpreting and complying with the Loan Documents;

(b) reviewing the Borrower's withdrawal applications to determine the amounts which the Borrower is entitled to withdraw from the Loan Account;

(c) reviewing and approving the procurement of goods, civil works and services for the Project financed by the Loan;

(d) monitoring compliance with the Loan Documents, bringing any substantial non-compliance to the attention of the Fund and recommending remedies therefor; and

(e) carrying out such other functions to administer the Loan and supervise the Project as may be set forth in the Cooperation Agreement.

SECTION 3.03. *Cooperation Agreement.*

The Fund shall enter into a Cooperation Agreement with the Cooperating Institution setting forth the terms and conditions of its appointment. In the event that any term of the Cooperation Agreement conflicts with Section 3.02, the terms of the Cooperation Agreement shall govern. The Fund or the Cooperating Institution shall furnish the Loan Parties with a copy of the Cooperation Agreement as soon as practicable after signature thereof, but failure to do so shall not impair or excuse the obligations of the Loan Parties or the Project Parties in respect of the Cooperating Institution under the Loan Documents.

SECTION 3.04. *Actions by the Cooperating Institution.*

Any action by the Cooperating Institution in accordance with the Cooperation Agreement shall be regarded and treated by the Loan Parties and the Project Parties as an action taken by the Fund.

SECTION 3.05. *Cooperation by the Loan Parties and the Project Parties.*

The Loan Parties and the Project Parties shall take all necessary or appropriate steps to enable the Cooperating Institution to carry out its responsibilities smoothly and effectively.

ARTICLE IV

LOAN ACCOUNT AND WITHDRAWALS

SECTION 4.01. *Loan and Grant Accounts.*

The Fund shall credit the principal amount of the Loan to the Loan Account and the amount of any Grant to the Grant Account.

SECTION 4.02. *Withdrawals from the Loan Account.*

The Borrower may from time to time request withdrawals from the Loan Account of amounts paid or amounts to be paid for Eligible Expenditures. The Loan Agreement may specify minimum amounts for withdrawals, in which case the Borrower shall finance Eligible Expenditures less than such minimum amounts by using the Special Account or its own resources.

SECTION 4.03. *Special Commitments by the Fund.*

Upon the Borrower's request, the Fund may make special commitments to pay amounts in respect of Eligible Expenditures, notwithstanding any subsequent suspension of the Borrower's right to request withdrawals, on such terms and conditions as the Borrower and the Fund may agree.

SECTION 4.04. *Applications for Withdrawal or Special Commitment.*

(a) When the Borrower wishes to request a withdrawal from the Loan Account or a special commitment, the Borrower shall deliver, by hand or mail, to the Cooperating Institution (with a copy to the Fund) an application in such form and substance as the Cooperating Institution shall reasonably request.

(b) The Borrower shall furnish to the Fund and the Cooperating Institution evidence, satisfactory to the Cooperating Institution, of the authority of the person or persons authorised to sign such applications and the authenticated specimen signature of each such person.

(c) The Borrower shall also deliver to the Cooperating Institution such documents and other evidence in support of such applications as the Cooperating Institution shall reasonably request, whether before or after the Cooperating Institution shall have permitted any withdrawal or special commitment requested in the application.

(d) Each such application, and the accompanying documents and other evidence, shall be sufficient in form and substance to satisfy the Cooperating Institution that the Borrower is entitled to a withdrawal from the Loan Account of the amount applied for, and that such amount will be used only for Eligible Expenditures.

(e) No such application shall be honoured if received by the Cooperating Institution before the Effective Date or after the Loan Closing Date.

(f) After receiving an application complying with this Section 4.04, the Cooperating Institution shall issue a payment request to the Fund for the amount which the Cooperating Institution has determined that the Borrower is entitled to withdraw.

SECTION 4.05. *Payment by the Fund.*

Upon receipt of an authenticated payment request from the Cooperating Institution, the Fund shall pay to, or to the order of, the Borrower the amount which the Fund has determined that the Borrower is entitled to withdraw.

SECTION 4.06. *Value Dates of Withdrawals.*

A withdrawal shall be deemed made as of the day on which the relevant financial institution debits the account chosen by the Fund for the purpose of disbursing such withdrawal.

SECTION 4.07. *Statements of Expenditure.*

(a) The Loan Agreement may provide that the Borrower may request withdrawals from the Loan Account on the basis of statements of expenditure. To the extent that the Borrower does so, the Borrower (or its designee approved by the Fund) shall retain all records evidencing such expenditures until ten years after the Loan Closing Date.

(b) If the Fund, any auditors of the Project, or the Cooperating Institution determine that any amount so withdrawn was not used for the purposes indicated in the relevant statement of expenditure, the Borrower shall promptly refund such amount to the Fund upon instructions by the Fund. Except as the Fund shall otherwise agree, such refund shall be made in the currency used by the Fund to disburse such withdrawal. The Fund shall credit the Loan Account by the SDR Equivalent of the amount so refunded.

SECTION 4.08. *Special Account.*

(a) The Loan Agreement may provide that the Borrower open and maintain a Special Account for financing all or a part of the Project, and that the Fund make one or more withdrawals from the Loan Account on behalf of the Borrower in an aggregate amount specified as the Authorized Allocation and deposit such amount in the Special Account.

(b) The Borrower shall make payments out of the Special Account exclusively for Eligible Expenditures.

(c) The Borrower may from time to time request replenishment of the Special Account for payments made out thereof. The Fund may designate minimum amounts for replenishments, which may be expressed as a percentage of the Authorized Allocation. Prior to or at the time of such request, the Borrower shall furnish to the Cooperating Institution such evidence as the Cooperating Institution shall reasonably request showing that such payments were made for Eligible Expenditures and the respective amounts and categories thereof.

(d) After receiving such request and evidence, the Cooperating Institution shall issue a payment request to the Fund for the amount which the Cooperating Institution has determined that the Borrower is entitled for replenishment.

(e) Based on such request, the Fund on behalf of the Borrower shall withdraw from the Loan Account and deposit into the Special Account the amount which the Fund determines that the Borrower is entitled for replenishment. The Fund shall debit the respective categories of Eligible Expenditure in the respective amounts indicated in the evidence furnished by the Borrower.

(f) The Fund shall make no further deposit into the Special Account when:

(i) the balance of the Loan Account, *less* any outstanding special commitment under Section 4.03, equals the SDR Equivalent of twice the Authorised Allocation;

(ii) the Borrower has failed to furnish in a timely manner the audit reports required by Section 9.03(b);

(iii) the Fund has notified the Borrower under Section 12.01 that its right to request withdrawals from the Loan Account has been suspended; or

(iv) the Fund determines that all further withdrawals shall be made directly from the Loan Account.

(g) If at any time the Fund determines that any payment out of the Special Account, or any portion thereof, was not made in accordance with this Section, the Borrower shall, promptly upon notice from the Fund, deposit into the Special Account or, if the Fund so requests, refund to the Fund an amount equal to the amount of such payment or such portion thereof. The Fund shall make no further deposit into the Special Account until the Borrower has made such deposit or refund.

(h) If at any time the Fund determines that the balance of the Special Account is no longer required or permitted to finance payments for Eligible Expenditures, the Fund may give notice thereof to the Borrower. The Borrower shall refund to the Fund such balance within 30 days after such notice. Upon receipt thereof, the Fund shall credit the Loan Account in the amount of such refund. Except as the Fund shall otherwise agree, such refund shall be made in the currency used by the Fund for the purpose of withdrawals from the Loan Account.

SECTION 4.09. *Allocations and Reallocations of Loan Proceeds.*

(a) The Loan Documents may allocate the principal amount of the Loan to categories of Eligible Expenditures and specify the percentages of such Eligible Expenditures to be financed by the Loan.

(b) If, upon request by the Borrower, the Fund reasonably estimates that the principal amount of the Loan allocated in the Loan Documents to any category of Eligible Expenditures will be insufficient to finance such Eligible Expenditures, the Fund may, by notice to the Borrower:

(i) reallocate to such category amounts of the Loan allocated to another category not needed to meet other Eligible Expenditures, to the extent required to meet the estimated shortfall; and

(ii) if such reallocation will not fully meet the estimated shortfall, reduce the percentage of such Eligible Expenditures to be financed by the Loan.

(c) In furtherance of its policy set forth in Article XI, the Fund may, by notice to the Borrower, increase or decrease the percentage of such Eligible Expenditures to be financed by the Loan to avoid the use of Loan proceeds to pay Taxes.

SECTION 4.10. *Eligible Expenditures.*

(a) The Loan shall be used exclusively to finance expenditures meeting each of the following eligibility requirements:

(i) The expenditure shall meet the reasonable cost (excluding Taxes) of goods, works and services required for the Project and to be financed by the Loan supplied from the territory of a Member State and procured in accordance with the procedures specified in the Loan Documents.

(ii) The expenditure shall be incurred during the Project Implementation Period, except that:

(A) expenditures to meet the costs of starting up the Project or fulfilling the conditions precedent to effectiveness of any Loan Document may be incurred before the Effective Date but after the date of the Loan Agreement; and

(B) expenditures to meet the costs of winding up the Project may be incurred after the Project Completion Date and before the Loan Closing Date.

(iii) The expenditure shall be incurred by a Project Party in a Member State.

(iv) The expenditure shall be incurred in accordance with the Loan Documents.

(b) The Fund may from time to time exclude generally certain types of expenditure from eligibility.

(c) Any payment to persons or entities, or for any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations shall not be eligible for financing by the Loan.

ARTICLE V

LOAN SERVICE PAYMENTS

SECTION 5.01. *Interest and Other Charges.*

(a) The Borrower shall pay any interest, service charge and other charges on the principal amount of the Loan outstanding from time to time at the rate specified in the Loan Agreement. Such interest and other charges shall accrue from the respective value dates on which amounts are deemed withdrawn from the Loan Account until the respective value dates on which amounts are deemed repaid, prepaid or refunded.

(b) Interest and other charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(c) If the rate specified in the Loan Agreement is variable, the Fund shall notify the Borrower, as soon as practicable, of the interest rate charged on the Loan in each interest period.

SECTION 5.02. *Repayments and Prepayments of Principal.*

(a) The Borrower shall repay the aggregate principal amount of the Loan withdrawn from the Loan Account by the Borrower, or by the Fund on its behalf, in instalments as specified in the Loan Agreement.

(b) The Borrower shall have the right to prepay all or any part of the principal amount of the Loan, as specified by the Borrower upon 45 days' notice to the Fund, provided that the Borrower pays all accrued and unpaid interest and other charges on the prepayment date. All prepayments shall be credited against the remaining Loan instalments in such manner as the Borrower and the Fund shall agree.

SECTION 5.03. *Manner and Place of Payment.*

(a) The Borrower shall make all Loan Service Payments in accordance with applicable laws, *provided, however*, that all Loan Service Payments shall be made without currency or other restrictions of any kind imposed by, or in the territory of, the Project Member State.

(b) All Loan Service Payments shall be paid to such account or accounts in such bank or other financial institution as the Fund may designate from time to time.

SECTION 5.04. *Values Dates of Loan Service Payments.*

Loan Service Payments shall be deemed made as of the day on which the relevant financial institution credits the account designated therefor.

ARTICLE VI

CURRENCY PROVISIONS

SECTION 6.01. *Denomination of the Loan.*

The principal amount of the Loan shall be expressed in Special Drawing Rights.

SECTION 6.02. *Currencies for Withdrawals.*

(a) Withdrawals from the Loan Account shall be made in the respective currencies in which expenditures to be financed out of the proceeds of the Loan have been paid or are payable, or in such currency or currencies as the Fund may from time to time select.

(b) The Loan Account shall be debited by the SDR Equivalent of the amount withdrawn determined as of on the value date of withdrawal. If the currency of withdrawal has been purchased by the Fund with another currency, the Loan Account shall be debited by the SDR Equivalent of the amount of such other currency.

SECTION 6.03. *Loan Service Payment Currency.*

All Loan Service Payments shall be made in the Loan Service Payment Currency specified in the Loan Agreement. The amount of any Loan Service Payment shall be the equivalent in Loan Service Payment Currency, as of the due date, of the SDR amount of such Loan Service Payment, as determined by the Fund in its sole discretion.

SECTION 6.04. *Valuation of Currencies.*

Whenever it is necessary for the purposes of any Loan Document to determine the value of one currency in terms of another, the Fund or the Cooperating Institution shall determine such value based on reasonable criteria. For purposes of this Section, the term "currency" includes the SDR.

SECTION 6.05. *Discontinuance of SDR as Loan Medium.*

In the event that the nature or composition of the SDR changes so as to make its continued use as a loan medium inappropriate in the view of the Fund, the Fund shall convert the principal amount of the Loan, and all other amounts expressed in SDR, into such other currency or unit of account as the Fund deems appropriate. The Fund shall promptly notify the Borrower of any such conversion. Such notice shall be deemed *ipso facto* to modify the Loan Documents accordingly.

ARTICLE VII

IMPLEMENTATION OF THE PROJECT

SECTION 7.01. *Project Implementation.*

The Lead Project Agency and each of the other Project Parties shall carry out the Project:

(a) with due diligence and efficiency;

(b) in conformity with appropriate administrative, engineering, financial, economic, operational, environmental and agricultural development practices (including rural development practices) and good governance;

(c) in accordance with plans, design standards, specifications, procurement and work schedules and construction methods agreed by the Borrower and the Cooperating Institution;

(d) in accordance with the provisions of the Loan Agreement, any Project Agreement and any other Loan Document; and

(e) so as to ensure the sustainability of its achievements over time.

SECTION 7.02. *Availability of Loan Proceeds.*

The Borrower shall make the proceeds of the Loan available to the Project Parties upon terms and conditions specified in the Loan Agreement or otherwise approved by the Fund for the purpose of carrying out the Project.

SECTION 7.03. *Availability of Additional Funds.*

In addition to the proceeds of the Loan, the Borrower shall make available to the Project Parties such funds, facilities, services and other resources as may be required from time to time to carry out the Project in accordance with Section 7.01.

SECTION 7.04. *Coordination of Activities.*

In order to ensure that the Project is carried out in accordance with Section 7.01, each Loan Party shall ensure that the relevant activities of its ministries, departments and agencies, and those of each Project Party, are conducted and coordinated in accordance with sound administrative policies and procedures.

SECTION 7.05. *Procurement.*

All goods, civil works and services financed by the Loan shall be procured and engaged in accordance with the procedures specified in the Loan Agreement.

SECTION 7.06. *Use of Goods and Services.*

All goods, services and buildings financed by the Loan shall be used exclusively for the purposes of the Project.

SECTION 7.07. *Maintenance.*

Each Project Party shall at all times operate, maintain, repair and replace all facilities and civil works used in connection with the Project with due diligence as required to carry out the Project in accordance with Section 7.01.

SECTION 7.08. *Insurance.*

(a) The Borrower or the Lead Project Agency shall insure all goods and buildings used in the Project against such risks and in such amounts as shall be consistent with sound commercial practice.

(b) The Borrower or the Lead Project Agency shall insure the goods imported for the Project and to be financed by the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation. For such insurance, any indemnity shall be payable in a freely usable currency to replace or repair such goods.

SECTION 7.09. *Subsidiary Agreements.*

(a) No Project Party shall enter into any Subsidiary Agreement, or consent to any modification thereof, inconsistent with the Loan Agreement or the Project Agreement.

(b) The Borrower and each Project Party shall exercise its rights under each Subsidiary Agreement to which it is party so that the interests of the Borrower and the Fund are fully protected and the Project is carried out in accordance with Section 7.01.

(c) No provision of any such Subsidiary Agreement shall be assigned, waived, suspended, abrogated, amended or otherwise modified without the prior consent of the Fund.

(d) The Borrower shall bear any foreign exchange risk under any Subsidiary Agreement to which it is party, unless such Subsidiary Agreement otherwise expressly provides.

SECTION 7.10. *Performance of the Project Agreement.*

The Loan Parties shall take all necessary or appropriate action within their powers to enable and assist the Lead Project Agency and any other relevant Project Party to perform its obligations under the Project Agreement. The Loan Parties shall forebear from, and shall not permit any third party to take, any action that would interfere with such performance.

SECTION 7.11. *Key Project Personnel.*

The Borrower or the Lead Project Agency shall appoint the Project Director and all other key Project personnel in the manner specified in the Loan Documents or otherwise approved by the Fund. All key Project personnel shall have qualifications and experience specified in the Loan Documents or otherwise approved by the Fund. The Borrower shall exercise best efforts to ensure continuity in key Project personnel throughout the Project Implementation Period.

SECTION 7.12. *Project Parties.*

Each Project Party shall, as required to carry out the Project in accordance with Section 7.01:

(a) promptly take all necessary or appropriate action to maintain its corporate existence and to acquire, maintain and renew its rights, properties, powers, privileges and franchises;

(b) employ competent and experienced management and personnel;

(c) operate, maintain and replace its plant, equipment and other properties; and

(d) not sell, lease or otherwise dispose of any of its assets.

SECTION 7.13. *Allocation of Project Resources.*

The Loan Parties and the Project Parties shall ensure that the resources and benefits of the Project, to the fullest extent practicable, are allocated among the target population using gender disaggregated methods.

SECTION 7.14. *Land Acquisition.*

The Loan Parties and the Project Parties shall take all such action as shall be necessary or appropriate to acquire, as and when needed, all such land and land rights as shall be required for carrying out the Project and shall furnish to the Fund, promptly upon its request or upon such acquisition, evidence satisfactory to the Fund that such land and land rights are available for Project-related purposes. In carrying out such acquisitions, the Loan Parties and the Project Parties shall observe all applicable national laws.

SECTION 7.15. *Environmental Factors.*

The Loan Parties and the Project Parties shall take all reasonable measures to ensure that the Project is carried out with due diligence in regard to environmental factors and in conformity with national environmental laws and any international treaties to which the Project Member State may be party.

SECTION 7.16. *Relending Rates.*

During the Project Implementation Period, the Project Member State and the Fund shall periodically review the interest rates applicable to any credits extended to Project beneficiaries which are financed (directly or indirectly) by the Loan. These reviews shall be conducted jointly with the objective of reaching or maintaining positive interest rates over time. The Project Member State shall take any appropriate measures, consistent with its policies and the Fund's policies, to achieve that objective. Among such measures, the Borrower and each Project Party extending such credits shall endeavour to minimise its costs. For purposes of this Section, the term "positive interest rate" means, in respect of any credit extended by any Project Party, an interest rate which, after giving effect to inflation, permits such Project Party to recover its costs and achieve sustainability.

SECTION 7.17. *Use of the Name and Insignia of the Fund.*

To the fullest extent practicable, all Project facilities and vehicles shall bear the name and insignia of the Fund and otherwise identify the Project as being financed by the Fund. Publications by any Loan Party or Project Party concerning the Project shall mention the Fund and its contribution to the Project.

SECTION 7.18. *Project Completion.*

The Project Parties shall complete the implementation of the Project by the Project Completion Date.

ARTICLE VIII

IMPLEMENTATION REPORTING AND INFORMATION

SECTION 8.01. *Implementation Records.*

The Project Parties shall maintain records and documents adequate to reflect their operations in implementing the Project (including, but not limited to, copies or originals of all correspondance, minutes of meetings and all documents relating to procurement) until the Project Completion Date, and shall retain such records and documents for at least ten years thereafter.

SECTION 8.02. *Monitoring of Project Implementation.*

The Project Party so designated in the Loan Documents shall:

(a) during the Project Implementation Period, gather all data and other relevant information (including any and all information specified in the Loan Documents or requested by the Fund from time to time) necessary to monitor the progress of the implementation of the Project and the achievement of its objectives; and

(b) during the Project Implementation Period and for at least ten years thereafter, adequately store such information, and, promptly upon request, make such information available to the Fund and its representatives and agents.

SECTION 8.03. *Progress Reports.*

The Project Party so designated in the Loan Documents shall furnish to the Fund and the Cooperating Institution progress reports on the Project at such intervals during the Project Implementation Period as shall be specified in the Loan Documents, in such form and substance as may be specified in the Loan Documents or as the Fund or the Cooperating Institution shall reasonably request from time to time. At a minimum, such reports shall address (i) quantitative and qualitative progress made in implementing the Project and achieving its objectives, (ii) problems encountered during the reporting period, (iii) steps taken or proposed to be taken to remedy these problems, and (iv) the proposed programme of activities and the progress expected during the following reporting period.

SECTION 8.04. *Completion Report.*

As promptly as possible after the Project Completion Date but in any event no later than the date specified in the Loan Documents, the Project Party so designated in the Loan Documents shall furnish to the Fund and the Cooperating Institution a report on the overall implementation of the Project, in such form and substance as may be specified in the Loan Documents or as the Fund or the Cooperating Institution shall reasonably request. At a minimum, such report shall address (i) the costs and benefits of the Project, (ii) the achievement of its objectives, (iii) the performance by the Loan Parties, the Project Parties, the Cooperating Institution and the Fund of their respective obligations under the Loan Documents, and (iv) lessons learned from the foregoing.

SECTION 8.05. *Plans and Schedules.*

The Project Parties shall furnish to the Cooperating Institution promptly upon their preparation, and to the Fund promptly upon its request, such plans, design standards, reports, contract documents, specifications and schedules relating to the Project, and any material modifications subsequently made therein.

SECTION 8.06. *Other Implementation Reports and Information.*

In addition to the reports and information required by the foregoing provisions of this Article:

(a) The Loan Parties and the Project Parties shall promptly furnish to the Fund and the Cooperating Institution such other reports and information as the Cooperating Institution or the Fund shall reasonably request on any matter relating to the Project or any Project Party.

(b) The Loan Parties and the Project Parties shall promptly inform the Fund and the Cooperating Institution of any condition that interferes with, or threatens to interfere with, the implementation of the Project or the achievement of its objectives.

ARTICLE IX

FINANCIAL REPORTING AND INFORMATION

SECTION 9.01. *Financial Records.*

The Project Parties shall maintain separate accounts and records in accordance with consistently maintained appropriate accounting practices adequate to reflect the operations, resources and expenditures related to the Project until the Loan Closing Date, and shall retain such accounts and records for at least ten years thereafter.

SECTION 9.02. *Financial Statements.*

The Project Party so designated in the Loan Documents shall deliver to the Fund and the Cooperating Institution detailed financial statements of the operations, resources and expenditures related to the Project at such intervals as may be specified in the Loan Documents.

SECTION 9.03. *Audit of Accounts.*

The Project Party so designated in the Loan Documents shall:

(a) each Fiscal Year, have the accounts relating to the Project (including the Special Account and statements of expenditure) audited in accordance with appropriate auditing principles consistently applied by independent auditors specified in the Loan Documents.

(b) as soon as available after the end of each Fiscal Year but in any event not later than the date specified in the Loan Documents, furnish to the Fund and the Cooperating Institution a certified copy of the audit report. In addition to verifying Project accounts, the report shall address the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of Project assets, the adequacy of documentation maintained by the Project Party on relevant transactions, and such other matters as the Fund or the Cooperating Institution shall reasonably request. To the extent that any withdrawals of Loan proceeds during the Fiscal Year were made on the basis of statements of expenditure, the report shall include a separate opinion stating that the proceeds of the Loan withdrawn from the Loan Account on the basis of such statements of expenditure were used for the purposes for which they were provided.

SECTION 9.04. *Other Financial Reports and Information.*

In addition to the reports and information required by the foregoing provision of this Article:

(a) The Loan Parties and the Project Parties shall promptly furnish to the Fund and the Cooperating Institution such other reports and information as the Fund or the Cooperating Institution shall reasonably request on any financial matter relating to the Loan or the Project or any Loan Party or Project Party.

(b) The Loan Parties shall promptly inform the Fund and the Cooperating Institution of any condition that interferes with, or threatens to interfere with, the maintenance of Loan Service Payments.

(c) The Project Member State shall promptly furnish to the Fund all such information as the Fund may reasonably request with respect to financial and economic conditions in its territory, including its balance of payments and its external debt.

ARTICLE X

COOPERATION

SECTION 10.01. *Cooperation, Generally.*

The Fund, the Cooperating Institution, each Loan Party and each Project Party shall cooperate fully to ensure that the objectives of the Project are achieved.

SECTION 10.02. *Exchange of Views.*

The Fund, the Cooperating Institution, the Loan Parties and the Lead Project Agency shall, from time to time at the request of any one of them, exchange views on the Project, the Loan, or any Loan Party or Project Party.

SECTION 10.03. *Visits, Inspections and Enquiries.*

The Loan Parties and the Project Parties shall enable agents and representatives of the Fund and the Cooperating Institution from time to time to:

(a) visit and inspect the Project, including any and all sites, works, equipment and other goods used for Project-related purposes;

(b) examine the originals and take copies of any data, accounts, records and documents relevant to the Loan, the Project, or any Loan Party or Project Party; and

(c) visit, communicate with and make enquiries of all Project personnel and any staff member of any Loan Party or Project Party.

SECTION 10.04. *Audits Initiated by the Fund.*

The Loan Parties and the Project Parties shall permit auditors designated by the Fund or the Cooperating Institution from time to time to audit the records and accounts relating to the Project. The Loan Parties and the Project Parties shall cooperate fully with such audit and accord the auditors the full rights and privileges of agents or representatives of the Fund under Section 10.03. The Fund shall bear the cost of such audits.

SECTION 10.05. *Evaluations of the Project.*

(a) The Borrower and each Project Party shall facilitate all evaluations and reviews of the Project that the Fund may carry out during the Project Implementation Period and for ten years thereafter.

(b) As used in this Section, the term "facilitate", in addition to full compliance with Articles VIII, IX and this Article X in respect of such evaluations and reviews, includes providing timely logistical support by making available Project personnel and equipment and promptly taking such other action as the Fund may request in connection with such evaluations and reviews, but does not include incurring out-of-pocket expenses.

SECTION 10.06. *Country Portfolio Reviews.*

The Project Member State shall permit the agents and representatives of the Fund, in consultation with the Project Member State, to enter its territory from time to time to exchange views with such persons, visit such sites, and examine such data, records and documents as the Fund may reasonably request in order to carry out a general review of all projects and programmes financed, in whole or in part, by the Fund in its territory and all financing extended by the Fund to the Project Member State. The Project Member State shall ensure that all concerned parties cooperate fully in such review.

ARTICLE XI

TAXATION

SECTION 11.01. *Taxation.*

(a) The Loan and all Loan Service Payments shall be exempt from all Taxes, and all Loan Service Payments shall be made free and clear of Taxes.

(b) The Loan Documents shall be exempt from any Taxes on signature, delivery or registration.

(c) It is the policy of the Fund that Loan proceeds are not to be used to pay Taxes, including (but not limited to) any Taxes levied on the importation, procurement or supply of any goods, civil works or services financed by the Loan.

SECTION 11.02. *Tax Refunds.*

In furtherance of the policy enunciated in Section 11.01, if the Fund determines at any time that any amount of Loan proceeds have been used to pay Taxes, it may require the Borrower, by written notice, to refund such amount promptly to the Fund. Upon receipt thereof, the Fund shall credit the Loan Account in the amount of such refund.

ARTICLE XII

REMEDIES OF THE FUND

SECTION 12.01. *Suspension by the Fund.*

Whenever any of the following events has occurred and is continuing, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account:

(a) the Borrower has failed to make any Loan Service Payment when due, whether or not the Guarantor or any other third party has made such Loan Service Payment;

(b) the Borrower has failed to make any payment due under any other loan agreement, guarantee agreement, or other financial obligation of any kind of the Borrower to the Fund, whether or not any third party has made such payment;

(c) the Guarantor has failed to make any Loan Service Payment when due;

(d) the Guarantor has failed to make any payment due under any other loan or guarantee agreement between the Guarantor and the Fund, or other financial obligation of any kind of the Guarantor to the Fund;

(e) the Fund has determined that the Project has failed, or is unlikely, to fulfill timely its purposes as stated in the Loan Documents;

(f) the Fund has determined that a situation has arisen which may make it improbable that the Project can be successfully carried out or that any Loan Party or Project Party will be able to perform any of its obligations under any Loan Document;

(g) the Project Member State has been suspended from membership in the Fund or ceased to be a Member State; or the Project Member State has delivered a notice of its intention to withdraw from the Fund;

(h) any representation made by any Loan Party or Project Party in any Loan Document, or any statement furnished in connection therewith and relied upon by the Fund in making the Loan, is incorrect or misleading in any material respect;

(i) if the Borrower is not a Member State, the Fund has determined that any material adverse change in the condition of the Borrower has occurred;

(j) the Borrower or the Guarantor has been unable to pay its debts generally as they come due;

(k) any competent authority has taken action for the dissolution of the Lead Project Agency or suspension of its operations;

(l) any competent authority has taken action for the dissolution of any Project Party (other than the Lead Project Agency) or suspension of its operations, and the Fund has determined that such dissolution or suspension is likely to have a material adverse effect on the Project;

(m) the Borrower has failed to make any funds, facilities, services and other resources available to the Project Parties in accordance with Sections 7.02 (Availability of Loan Proceeds) or 7.03 (Availability of Additional Funds);

(n) the Fund has not received any audit report or other document referred to in Article VIII (Implementation Reporting and Information) or Article IX (Financial Reporting and Information) within the time prescribed therefor in the Loan Documents, or any Loan Party or Project Party has otherwise failed to perform its obligations under Article VIII or IX;

(o) the Lead Project Agency or any other Project Party has failed to perform any of its obligations under the Project Agreement;

(p) the Borrower or the Lead Project Agency has failed to perform any of its obligations under any Subsidiary Agreement;

(q) any Project Party (other than the Lead Project Agency) has failed to perform any of its obligations under any Subsidiary Agreement, and the Fund has determined that such failure has had, or is likely to have, a material adverse effect on the Project;

(r) any Subsidiary Agreement or any provision thereof has been assigned, waived, suspended, terminated, amended or otherwise modified without the prior consent of the Fund, and the Fund has determined that such assignment, waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project;

(s) the Fund has suspended, in whole or in part, the right of any Loan Party to request or make withdrawals under any other loan agreement or other financing agreement with the Fund;

(t) any event has occurred prior to the Effective Date which would have entitled the Fund to suspend the Borrower's right to request withdrawals from the Loan Account, had the Loan Agreement been effective on the date such event occurred;

(u) any Loan Party or Project Party has failed to perform any other obligation under the Loan Agreement or any other Loan Document; or

(v) any other event so specified in the Loan Agreement has occurred.

Such suspension shall become effective upon dispatch of notice by the Fund to the Loan Parties. Such suspension shall continue until the Fund has notified the Loan Parties that the Borrower's right to request withdrawals has been restored in whole or in part. The Fund shall provide a copy of such notice to the Lead Project Agency, but failure to do so shall not affect its validity.

SECTION 12.02. *Cancellation by the Fund.*

If any of the following events has occurred, the Fund may terminate the right of the Borrower to request withdrawal of the following amounts from the Loan Account:

(a) the right of the Borrower to request withdrawals from the Loan Account has been suspended under Section 12.01 with respect to any amount of the Loan for a continuous period of at least 30 days;

(b) at any time, the Fund determines after consultation with the Borrower that any amount of the Loan will not be required to finance certain costs of the Project;

(c) at any time, after consultation with the Borrower, the Fund determines that corrupt or fraudulent practices were engaged in by representatives of any Loan Party, Project Party or beneficiary in respect of any amount of expenditures incurred during the procurement or the carrying out of any contract financed by the Loan, and that the Borrower has failed to take timely and appropriate action to remedy the situation;

(d) at any time, the Fund determines that any amount of the Loan proceeds has been used to finance an expenditure other than an Eligible Expenditure;

(e) after the Loan Closing Date, any amount of the Loan remains unwithdrawn from the Loan Account;

(f) the Fund has received any notice from the Guarantor terminating its obligations under the Guarantee Agreement with respect to any amount unwithdrawn from the Loan Account; or

(g) any other event so specified in the Loan Agreement.

Such termination shall be effective upon dispatch of notice to the Loan Parties, whereupon such amounts of the Loan shall be cancelled. The Fund shall provide a copy of such notice to the Lead Project Agency, but failure to do so shall not affect its validity.

SECTION 12.03. *Cancellation by the Borrower.*

After consultation with the Fund and with the concurrence of the Guarantor, the Borrower may by notice to the Fund cancel any unwithdrawn amount of the Loan, except for amounts subject to Special Commitment as provided in Section 4.03. Such cancellation shall become effective upon acknowledgement thereof by the Fund.

SECTION 12.04. *Applicability of Cancellation or Suspension.*

(a) Any partial cancellation of the Loan shall be applied *pro rata* to any remaining instalments of the principal amount of the Loan. The Fund shall notify the Borrower of such application, specifying the dates and amounts of the remaining instalments after giving effect thereto. Such notice shall be deemed, *ipso facto*, to modify the Loan Agreement accordingly.

(b) No cancellation or suspension shall apply to amounts subject to any special commitment made by the Fund pursuant to Section 4.03, unless such special commitment expressly provides otherwise.

(c) Except as expressly provided in this Article, all provisions of the Loan Documents shall continue in full force and effect notwithstanding any cancellation or suspension.

SECTION 12.05. *Acceleration of Maturity.*

If at any time any of the following events has occurred, at any subsequent time during the continuance thereof, the Fund may declare the principal amount of the Loan then outstanding, together with all accrued interest and other charges thereon, to be immediately due and payable:

(a) any event specified in paragraphs (e) through (l), inclusive, of Section 12.01 has occurred;

(b) the Fund has declared the principal of any other loan to any Loan Party then outstanding to be due and payable immediately;

(c) any event specified in paragraphs (a) through (d), inclusive, of Section 12.01 has occurred and continues for a period of 30 days;

(d) any event specified in paragraphs (m) though (u), inclusive, of Section 12.01 has occurred and continues for a period of 60 days after notice thereof has been given by the Fund to the Loan Parties; or

(e) any other event specified in the Loan Agreement for the purposes of this Section has occurred and continues for the period, if any, specified in the Loan Agreement.

Such declaration shall be effective upon dispatch of notice to the Loan Parties, whereupon such principal, interest and other charges shall become due and payable immediately.

ARTICLE XIII

EFFECTIVENESS AND TERMINATION

SECTION 13.01. *Conditions Precedent to Effectiveness.*

The Loan Documents shall not become effective until evidence satisfactory to the Fund has been furnished to the Fund that the conditions precedent specified therein have been fulfilled.

SECTION 13.02. *Effective Date.*

(a) The Loan Documents shall become effective on the date that the Fund dispatches notice thereof to the Loan Parties, or such other date as the Fund may designate in such notice.

(b) The Fund shall dispatch such notice promptly after its acceptance or waiver of the evidence required by Section 13.01. If any event of suspension specified in Section 12.01 has occurred, however, the Fund may postpone dispatch of such notice until such event has ceased to exist.

SECTION 13.03. *Termination before Effectiveness.*

The Fund may terminate the Loan Documents and all rights and obligations of the parties thereunder if:

(a) before the Effective Date, any event of suspension specified in Section 12.01 has occurred;

(b) before the Effective Date, any Loan Party or Project Party has taken any action inconsistent with the object and purpose of any Loan Document; or

(c) the Loan Agreement does not become effective on or before the last date specified therefor in the Loan Agreement, unless the Fund establishes a later date therefor. The Fund shall notify the Loan Parties of such later date.

SECTION 13.04. *Termination upon Full Payment.*

The Loan Documents and all obligations of the parties thereunder shall terminate when the entire principal amount of the Loan withdrawn from the Loan Account, and all interest and other charges which shall have accrued on the Loan, have been finally and undefeasibly paid.

ARTICLE XIV

ENFORCEABILITY AND RELATED MATTERS

SECTION 14.01. *Enforceability.*

(a) The Loan Documents, and the rights and obligations of the parties thereunder, shall be valid and enforceable in accordance with their terms, regardless of any law to the contrary in the territory of the Project Member State.

(b) Neither the Fund nor any Loan Party or Project Party shall be entitled in any legal proceedings to assert any claim for any reason that any provision of these General Conditions or the Loan Documents is invalid or unenforceable.

SECTION 14.02. *Failure to Exercise Rights.*

No delay in exercising, or omission to exercise, any right, power or remedy of any party under the Loan Documents shall impair any such right, power or remedy, or be construed as a waiver thereof. No action or omission of any party in respect of any default under the Loan Documents shall impair any right, power or remedy of such party in respect of any subsequent default.

SECTION 14.03. *Rights and Remedies Cumulative*

The rights and remedies of any party under the Loan Documents are cumulative and (except as otherwise expressly provided) not exclusive of any right or remedies that such party would otherwise have.

SECTION 14.04. *Arbitration.*

(a) The parties to the Loan Documents shall endeavour to settle through amicable means any controversy between them in respect of such Loan Documents.

(b) Failing the settlement of a controversy through amicable means, the controversy shall be submitted to arbitration for settlement. The parties to the arbitration shall be the parties to the Loan Document in controversy, except that the Guarantor may intervene or be interpleaded in any controversy that may affect its rights or obligations under the Guarantee Agreement.

(c) The Arbitral Tribunal shall consist of a single arbitrator appointed by agreement of the parties or, if they do not agree within three months after proceeding are instituted under paragraph (d) below, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If the arbitrator shall resign, die or become unable to act, a successor arbitrator shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceedings may be instituted under this Section upon notice by the party instituting such proceeding to the other party or parties. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration.

(e) The arbitration proceedings shall take place at such time and place as shall be fixed by the arbitrator.

(f) Subject to the provisions of this Section and except if the parties shall otherwise agree, the arbitrator shall decide all questions relating to his competence and shall determine the procedure for the arbitration proceedings.

(g) The arbitrator shall afford to all parties a fair hearing and shall render his award in writing. Such award may be rendered by default. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties. Each party shall abide by and comply with any such award rendered by the arbitrator in accordance with the provisions of this Section.

(h) The parties shall fix the amount of the remuneration of the arbitrator and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the arbitration proceedings begin, the arbitrator shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the arbitrator shall be divided between and borne equally by the Fund on the one side and the other parties, on the other side. Any question concerning the division of the arbitrator's costs among the parties or the procedure for payment of such costs shall be determined by the arbitrator.

(i) The provisions for arbitration set forth in this Section shall be instead of any other procedure for the settlement of controversies between the parties, and any claim by either party against the other party arising thereunder.

(j) If the award has not been complied with within 30 days after the counterparts of the award have been delivered to the parties, any party may enter judgement upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party. Such party may enforce such judgement by execution or may pursue any other appropriate remedy against such other party for the enforcement of the award.

(k) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 15.01. The parties may waive any and all other requirements for the services of any such notice or process.

ARTICLE XV

MISCELLANEOUS PROVISIONS

SECTION 15.01. *Communications.*

All notices, requests and other communications given or made under the Loan Documents shall be in writing. Except as otherwise expressly provided, any such notice, request or other communication shall be deemed duly given or made when delivered by hand, mail, telegram, cable, telex or facsimile to the party to which it is given or made at such party's address specified in the particular Loan Document, or at such other address as such party may designate by notice to the other parties thereto. Delivery of any such notice, request or other communication by facsimile transmission shall be followed promptly by mail delivery of the original thereof.

SECTION 15.02. *Language of Reporting.*

The Loan Parties and the Project Parties shall deliver all reports and information to the Fund and the Cooperating Institution in the language specified in the Loan Documents, or in any other language agreed by the Fund.

SECTION 15.03. *Authority to Take Action.*

The representative or agent so designated in any Loan Document, or another person duly authorized in writing by such representative or agent, may take any action and sign any document in connection with such Loan Document on behalf of any Loan Party or Project Party. Such representative, agent or other person may agree to any modification of the terms and conditions of such Loan Document on behalf of such Loan Party or Project Party by written instrument signed by him; *provided* that, in the opinion of such representative, agent or other person, such modification is reasonable in the circumstances and will not substantially increase the obligations of such Loan Party or Project Party thereunder. The Fund shall be entitled to accept the signature by such representative, agent or other person as conclusive evidence that he is of such opinion.

SECTION 15.04. *Evidence of Authority.*

Within 30 days after request by the Fund, any Loan Party or Project Party shall furnish to the Fund sufficient evidence of the authority of the person or persons referred to in Section 15.03, and the authenticated specimen signature of each such person.

SECTION 15.05. *Modifications of the Loan Documents.*

The Fund and the relevant Loan Party or Project Party may agree from time to time to modify the terms and conditions of the Loan Documents (including, but not limited to, the terms and conditions of these General Conditions as applied thereto) or the application of the Loan Documents. The Fund shall determine the form, and any conditions precedent for the effectiveness, of any such agreement in accordance with its internal regulations.

SECTION 15.06. *Change of Entity or Representative.*

If the Borrower wishes to appoint any successor to, reassigns the responsibilities of, or changes the designation or address of, any of the entities specified in the Loan Documents, the Borrower shall promptly give notice thereof to the Fund. By notice to the Borrower, the Fund may accept such new entity as constituting the entity fully responsible for carrying out the functions assigned to its predecessor under the Loan Documents. Upon such acceptance, the Loan Documents shall be deemed *ipso facto* modified accordingly.

SECTION 15.07. *Signature of the Loan Documents.*

(a) The signature of any Loan Document by a Loan Party or Project Party shall constitute the expression of such party's consent to be bound thereby, subject only to any ratification or authorisation required by a rule of internal law of fundamental importance and disclosed to the Fund in writing before such Loan Document becomes effective.

(b) The Loan Documents may be signed in several counterparts, each of which shall be an original.