CREDIT NUMBER 4115-VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 2, 2006 between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated June 28, 2005, describing a program designed to expand sustainable water and sanitation services in Vietnam, thereby improving the quality of life and contributing to poverty alleviation in rural communities (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program, through a series of credits over a period of approximately ten (10) years to be utilized by the Borrower in the implementation of the Program; and

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which constitutes the first phase of the Program, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

(c) Paragraph (c) of Section 9.06 of the General Conditions is amended to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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

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

(b) "CPO" means the Rural Water Supply and Sanitation Central Project Office established within the Borrower's Ministry of Agriculture and Rural Development, and any successor thereto.

(c) "CPO Special Account" means the special account referred to in Section 2.02 (b) (ii) of this Agreement.

(d) "CWDG" means a Commune Water Development Group established in a Participating Commune and representing the water users of said Commune.

(e) "DAF" means the Development Assistance Fund, a state-owned financial institution established and operating pursuant to the Borrower's Decree 50/1999/ND-CP of July 8, 1999 and Decree 106/2004/ND-CP of April 1, 2004, to receive and manage state resources allocated to development investments.

(f) "DAF Special Account" means the special account referred to in Section 2.02 (b) (i) of this Agreement.

(g) "Displaced Person" means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and "Displaced Persons" means, collectively, all such Displaced Persons.

(h) "Dong" means the currency of the Borrower.

(i) "Environmental Guidelines" means the Environmental Guidelines dated December 2004, adopted by MARD through a communication dated July 1, 2005, satisfactory to the Association, and referred to in paragraph 9 of Schedule 4 to this Agreement, which sets forth policies and procedures for the preliminary screening of proposed Project activities under Part A of the Project, and for the preparation of environmental assessment and environment management plans therefor.

(j) "Ethnic Minorities Development Strategy" means the Strategy and Guidelines for Ethnic Minorities Development Plan dated November 2004, adopted by MARD through a communication dated July 1, 2005, satisfactory to the Association, referred to in paragraph 8 of Schedule 4 to this Agreement, which sets out the policies and procedures to ensure meaningful consultation with, and the informed participation of, ethnic minorities within the Project Provinces and who are affected by the Project, and principles for the preparation of ethnic minorities development plans as may be required during implementation of the Project, as said Strategy may be revised from time to time with the prior concurrence of the Association.

(k) "Financial Management Manual" means the manual to assist the CPO and the PPMUs in the financial management of Credit proceeds, and referred to in Section 5.01 (f) of this Agreement; as such Manual may be amended from time to time with the agreement of the Association.

(l) "Financial Monitoring Report" and "FMR" mean each report prepared in accordance with Section 4.02 of this Agreement.

(m) "Household Water, Sanitation and Drainage Revolving Fund" means the fund established in each of the Project Provinces for purposes of Parts A.2 and A.3 of the Project, pursuant to paragraph 12 of Schedule 4 to this Agreement.

(n) "Implementation Partners" means, collectively, the Hai Duong Women's Union, the Nam Dinh Women's Union, the Ninh Binh Women's Union and the Thai Binh Women's Union and any other eligible entity as may be selected from time to time by mutual agreement between the Borrower, the relevant Project Province and the Association, and any respective successors thereto; and an "Implementation Partner" means any of the said Implementation Partners.

(o) "MARD" means the Borrower's Ministry of Agriculture and Rural Development and any successor thereto.

(p) "MOF" means the Borrower's Ministry of Finance and any successor thereto.

(q) "Participating Commune" means a commune in a Project Province selected to participate in the Project in accordance with the selection criteria set forth in the Project Management Manual.

(r) "PPC" means the Provincial People's Committee of a Project Province.

(s) "PPMU" means the Provincial Project Management Unit established in the Provincial Department of Agriculture and Rural Development in each Project Province pursuant to the provisions of paragraph 2 of Schedule 4 to this Agreement.

(t) "Procurement Plan" means the Borrower's procurement plan, dated May 31, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(u) "Project Management Manual" means the manual to assist the CPO and the PPMUs in the management, coordination and monitoring of the Project, and referred to in paragraph 3 of Schedule 4 to this Agreement; as such Manual may be amended from time to time with the agreement of the Association.

(v) "Project Operations Manual" means the manual to assist the PPMUs, RWSSEs and Participating Communes in the implementation of the Project, and referred to in paragraph 4 of Schedule 4 to this Agreement; as such Manual may be amended from time to time with the agreement of the Association.

(w) "Project Provinces" means the Borrower's Provinces of Hai Duong, Nam Dinh, Ninh Binh and Thai Binh, and such other Provinces as may be mutually agreed between the Borrower and the Association, and any successor thereto; and a "Project Province" means any one of such provinces.

(x) "Resettlement Policy Framework" means the Policy Framework for compensation, resettlement and rehabilitation of Displaced Persons dated December 2004, approved by the Borrower's Prime Minister through Decision 804 TTg/QHQT of June 17, 2005, and adopted by MARD through a communication dated July 1, 2005, referred to in paragraph 7 of Schedule 4 to this Agreement, as said framework may be amended from time to time with the prior concurrence of the Association.

(y) "Revolving Fund Manual" means the manual to assist Implementation Partners in providing Sub-loans through the relevant Household Water, Sanitation and Drainage Revolving Fund and referred to in paragraph 5 of Schedule 4 to this Agreement; as such Manual may be amended from time to time with the agreement of the Association.

(z) "RWSSE" means a rural water supply and sanitation enterprise established within a Participating Province to be responsible for, inter alia: (i) the construction, operation and management of piped water supply systems constructed under Part A. 1 of the Project, and (ii) the management of existing piped water schemes within its geographic coverage area previously managed by the Provincial Center for Rural Water Supply and Sanitation.

(aa) "Special Accounts" means, collectively, the DAF Special Account and the CPO Special Account, referred to in Section 2.02 (b) of this Agreement; and a "Special Account" means either of said Special Accounts.

(bb) "Sub-loan" means a loan in Dong made, or proposed to be made, from the proceeds of the Credit through the relevant Household Water, Sanitation and Drainage Revolving Fund, by a PPC, through an Implementation Partner, to an eligible

household residing in a Participating Commune, for an activity under Part A.2 or Part A.3 of the Project.

(cc) "Sub-project" means a specific investment project for the construction of piped water systems and/or upgrading of existing piped water schemes in Participating Communes under Part A.1 of the Project, utilizing the proceeds of the Credit.

(dd) "Subsidiary Loan" means a loan made, or to be made, by a PPC to an eligible RWSSE to assist in the financing of activities under Part A.1 of the Project and in accordance with the provisions of paragraph 10 (b) of Schedule 4 to this Agreement.

(ee) "Subsidiary Loan Agreement" means the agreement to be entered into between a PPC and a RWSSE pursuant to paragraph 10 (b) of Schedule 4 to this Agreement, to enable such RWSSE to carry out activities under Part A.1 of the Project, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.

(ff) "Women's Union" means the Vietnam Women's Union, a social organization established on October 20, 1950.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-one million four hundred thousand Special Drawing Rights (SDR 31,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project (except for Parts A.2 and A.3) and to be financed out of the proceeds of the Credit, and (ii) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of Sub-loans made under Parts A.2 and A.3 of the Project to meet the reasonable cost of goods, works and services required for an activity and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of (i) Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project (the DAF Special Account) and (ii) Parts A.6, B.2, C.4 and D.2 of the Project (the CPO Special Account), open and maintain in Dollars

a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing December 15, 2015 and ending June 15, 2045. Each installment to and including the installment payable on June 15, 2025 shall be one

percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MARD and the Project Provinces with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, management, public health and water supply practices, and sound environmental and social standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association's representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 15 of Schedule 4 to this Agreement the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

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

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Project Provinces have approved the feasibility studies for their respective activities under the Project to be carried out during the first twelve (12) months of Project implementation;

(b) the Project Management Manual, acceptable to the Association, has been adopted by the Borrower through MARD and the Project Provinces;

(c) the Project Operations Manual, acceptable to the Association, has be adopted by the Borrower through the Project Provinces;

(d) the Revolving Fund Manual for the Household Water, Sanitation a Drainage Revolving Funds, acceptable to the Association, has been adopted by t Borrower through the Project Provinces;

(e) model pre-qualification and bidding documents, acceptable to t Association, for designing, building and operating piped water supply systems, have be adopted by the Borrower through MARD and the Project Provinces;

(f) the Financial Management Manual, acceptable to the Association, h been adopted by the Borrower through MARD and the Project Provinces; and

(g) the CPO and each PPMU have: (i) established a computeriz accounting system for recording and reporting tasks, acceptable to the Association; a (ii) appointed financial officers with qualifications and experience acceptable to t Association.

Section 5.02. The following are specified as additional matters, within t meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion opinions to be furnished to the Association, that:

(a) the Resettlement Policy Framework has been duly approved by Borrower's Prime Minister; and the Resettlement Policy Framework and the Eth Minorities Development Strategy have been duly adopted by MARD and by the Proj Provinces; and

(b) both the Resettlement Policy Framework and the Ethnic Minorit Policy Framework are legally binding upon the Borrower and the Project Pr ces accordance with their respective terms.

Section 5.03. The date ninety (90) days after the date of this Agreement is here specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Governor, or any Deputy Governor of the State Bank of Vietnam of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

State Bank of Vietnam
49 Ly Thai To
Hanoi
Socialist Republic of Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK Hanoi	412248 NHTWVT	(84-4) 825 0612

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1)	Works under Part A (other than A.1(iv), A.2 and A.3) of the Project	21,000,000	100%
(2)	Goods:		100%
	(a) under Parts C (other than C.4) and D.1 of the Project	140,000	
	(b) under Parts C.4 and D.2 of the Project	40,000	
(3)	Sub-loans under Parts A.2 and A.3 of the Project	3,730,000	100% of Sub-loan amount disbursed
(4)	Consultants' services:		100%
	(a) under Parts A (other than A.6), B.1 and D.1 of the Project	2,880,000	
	(b) under Parts A.6, B.2, C.4 and D.2 of the Project	2,620,000	

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5)	Workshops and training:		100%
	(a) under Parts B.1 and C (other than C.4) of the Project	670,000	
	(b) under Part C.4 of the Project	10,000	
(6)	Incremental operating costs:		100%
	(a) under Parts A.2 and A.3 of the Project	190,000	
	(b) under Part D.2 of the Project	120,000	
	TOTAL	31,400,000	

2. For the purposes of this Schedule, the term "Incremental operating costs" means the reasonable costs of incremental expenditures incurred by (i) the CPO, and (ii) the Implementation Partners under Parts A.2 and A.3 of the Project, (which expenditures would not have been incurred absent the Project), including communications costs; office supplies and office space rental; rental, operation and maintenance of vehicles, project-related travel expenses; and costs of information, education and communication activities; but in all cases excluding salaries and salary supplements of civil servants.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $100,000 equivalent per contract; (b) works costing less than $100,000 equivalent per contract; (c) services of consulting firms and of individual consultants under contracts costing less than $100,000 equivalent per contract; (d) workshops and training; (e) Sub-loans; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving water supply and household and community level sanitation services and their effective use in the Project Provinces in ways that are financially, technically and environmentally sustainable, thereby contributing to poverty alleviation in Participating Communes.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

PART A: Water and Sanitation Infrastructure Development

1. Construction of piped water systems and upgrading of existing piped water schemes in Participating Communes, consisting of (i) raw water intakes; (ii) treatment plants; (iii) main network; and (iv) subsidiary network.

2. Construction, in Participating Communes, of on-site household water supply infrastructure that is not connected to piped water, including provision of Sub-loans to eligible households.

3. Improvement of household sanitation and household drainage infrastructure in Participating Communes, including provision of Sub-loans to eligible households.

4. Improvement of sanitation facilities in public locations, including schools, health centers and markets.

5. Resettlement and rehabilitation of Displaced Persons in connection with the carrying out of Part A.1 of the Project.

6. Support to the Central Project Office for: the preparation of the second phase of the Program; coordination and oversight of construction activities; support to Project Provinces in infrastructure development and management; supervision of resettlement; and audit of Project activities.

PART B: Hygiene and Sanitation Behavior Change

1. Carrying out of hygiene and sanitation promotion interventions to optimize the effective use of improved water and sanitation infrastructure, promote the adoption of safe hygiene behaviors within Participating Communes through commune and school-based programs, and generate public awareness and increase demand for hygiene products and expanded sanitation services, through training, social marketing, mass media campaigns, and development and production of health education and promotion tools.

2. Support to the Central Project Office to assist, supervise and monitor the Project Provinces in their planning and implementation of hygiene and sanitation behavior change activities.

PART C: Strengthening the Capacity of Community, Local and Central Government Institutions and Management Entities

1. Establishing and developing the capacity of Rural Water Supply and Sanitation Enterprises to manage piped water supply systems, including the provision of training and technical assistance therefor.

2. Strengthening the capacity of the local communities, organizations, including Commune Water Development Groups, and government institutions, and of the Provincial agencies to support demand-responsive water supply and sanitation services.

3. Strengthening the capacity of the hygiene and sanitation promotion teams and of the Implementation Partners in hygiene and sanitation promotion, communication, monitoring and reporting.

4. Support to the Central Project Office to: update the national rural water supply and sanitation strategy and develop the related national investment plan; develop and implement capacity building plans for local and central sectoral institutions; and develop guidelines for the operation and management of piped water supply systems by RWSSEs.

PART D: Project Management, Monitoring and Evaluation

1. Strengthening of the institutional capacity of Provincial Project Management Units to manage the implementation of the Project activities.

2. Support to the Central Project Office in financial management, budgeting, contract management and procurement.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions set forth in the Annex to this Schedule.

2. Shopping. Goods estimated to cost less than $20,000 equivalent per contract and works estimated to cost less than $30,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of $100,000 or more, and contracts procured on the basis of Direct Contracting; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of $100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of $100,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to

prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

ANNEX TO SCHEDULE 3

National Competitive Bidding Procedures

The procedures to be followed for National Competitive Bidding under Paragraph 1, Part B, Section II, shall be those set forth in Decree No. 88/1999/ND-CP dated September 1, 1999, of the Government of the Socialist Republic of Vietnam, as amended and supplemented by Decree No. 14/2000/ND-CP dated May 5, 2000 and Decree No. 66/2003/ND-CP dated June 12, 2003 (Decree No. 88/1999/ND-CP, Decree No. 14/2000/ND-CP, and Decree No. 66/2003/ND-CP, together "the Regulations"), modified in accordance with the following provisions to ensure economy, efficiency, transparency and broad consistency with the provision of Section I of the Guidelines and to comply with the provisions of paragraphs 3.3 and 3.4 of the Guidelines:

Participation in bidding and preferences

(i) For clarification purposes, it is understood that the last sentence of the amended Paragraph (c), Section 2, Article 2 of Decree 88/ND-CP which states that "All the procedures for submission, appraisal and approval of bidding results and bidder selection results shall follow the Procurement Regulation" means "Approvals of draft bidding documents, bid evaluation reports and proposals for award shall be obtained in accordance with the relevant rules and procedures of the Procurement Regulation".

(ii) Government-owned enterprises in Vietnam shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Borrower or the procuring entity. Military or security units, or enterprises which belong to the Ministry of Defense or the Ministry of Public Security shall not be permitted to bid.

(iii) Foreign bidders shall be eligible to participate in bidding under the same conditions as local bidders, and local bidders shall be given no preference (either in the bidding process or in bid evaluation) over foreign bidders, nor shall bidders located in the same province or city as the procuring entity be given any such preference over bidders located outside that city or province.

(iv) Bidders shall be allowed to participate in bidding without being listed in the Government Database on Bidder Information or in any other registration system.

(v) Prospective bidders shall be permitted to request bidding documents either in person or through the mail, upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee of the bidding documents, and no other conditions shall be imposed on the sale of the bidding documents. The bidding documents shall be delivered, at the prospective bidders' preference, either by hand or by mail/courier provided that the bidder is willing to pay the mail/courier delivery charges which should be specified in the Invitation for Bids. Each

bidder shall be allowed to purchase only one set of the bidding documents and only the bidders who purchased bidding documents shall be allowed to bid.

(vi) Foreign bidders shall not be required, in order to participate in bidding or as a condition of award of the contract or during execution of the contract, to enter into a joint venture with a local bidder, or to subcontract part of their contract to a local bidder.

(vii) If there is prequalification, *all* pre-qualified bidders shall be invited to bid.

(viii) If there is limited bidding because there are only a limited number of bidders who can meet the requirements of the bidding documents, *all* of these bidders shall be invited to bid.

(ix) Bidders shall not be required, as a condition of participation in the bidding, to provide suppliers' credits.

Advertising; time for bid preparation

(x) Invitations to bid shall be advertised in at least one widely circulated national newspaper. In addition, the Borrower is encouraged to advertise in the Government Public Procurement Bulletin when established and on a free and open access website. A minimum of 30 days for the preparation and submission of bids shall be provided, and potential bidders shall be allowed to purchase bidding documents up to 24 hours prior to the deadline for the submission of bids.

Standard Bidding Documents

(xi) The Borrower's standard bidding documents, acceptable to the Association, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand or by mail.

Qualification criteria and evaluation criteria

(xii) Qualification criteria shall be clearly specified in the bidding documents, *and* all criteria so specified, and *only* criteria so specified, shall be used to determine whether a bidder is qualified. Qualifications of a bidder found to meet the specified qualification criteria shall not be taken into account in the evaluation of such bidder's bid.

(xiii) Evaluation criteria shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. All evaluation criteria so specified, and only evaluation criteria so specified, shall be taken into account in bid evaluation. Merit points shall not be used in bid evaluation.

Bid opening, evaluation and award of contract

(xiv) Bids shall be opened in public, immediately after the stipulated deadline for submission of bids. Bidders or their representatives, shall be allowed to be present. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded. Immediately after completion of the bid opening proceedings, a copy of the bid opening record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the bid opening record shall be promptly provided to all bidders who submitted bids.

(xv) Bids received after the deadline for bid submission shall be returned to the bidders unopened.

(xvi) All bids shall not be rejected or new bids solicited without the Association's prior concurrence.

(xvii) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association's prior concurrence.

(xviii) A bid containing material deviations from, or reservations to, the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or reservations once bids have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.

(xix) Evaluation of bids shall be made in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and responsive bid.

(xx) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents, or otherwise to modify the bid as originally submitted.

(xxi) There shall be no post-bidding negotiations with the lowest or any other bidder.

(xxii) The Borrower shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association and the Government, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for , or in executing, an Association-financed contract.

Suppliers and Contractors

(xxiii) Bidding documents and contracts under national competitive bidding procedures financed by the Association shall include a provision requiring suppliers and contractors to permit the Association to inspect their accounts and records relating to the bid submission and the performance of the supplier and/or contractor, and to have them audited by auditors appointed by the Association, if so required by the Association.

(xxiv) License for foreign contractors operation in Vietnam will be provided in a timely manner and will not be arbitrarily withheld.

Publication of the Award of Contract

(xxv) The Borrower shall publish the following information on contract award in Government Public Procurement Bulletin when established or on a free and open access website or on another means of publication acceptable to the Association: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reasons for their rejection; and (e) name of the winning bidder, price it offered as well as the duration and summary scope of the contract awarded. This publication shall be updated quarterly.

Protests by Bidders and Handling of Protests

(xxvi) The national competitive bidding procedures for contracts financed by the Association shall include provisions, acceptable to the Association, for bidders to protest.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall establish and, thereafter, maintain until completion of the Project, the CPO within MARD to be responsible for Project coordination and monitoring, and provided with sufficient resources, under the direction of qualified managers and staffed with competent personnel in adequate numbers, including a Director, a Project Coordinator and a financial officer, all with qualifications and experience and under terms of reference acceptable to the Association.

2. The Borrower shall cause each Project Province to establish and, thereafter, maintain until completion of the Project, a Rural Water Supply and Sanitation Section in the DARD which shall be designated as the PPMU, responsible for the implementation of Project activities in the respective Project Province, such PPMU to be provided with sufficient resources, under the direction of qualified managers and staffed with competent personnel in adequate numbers, including a financial officer with qualifications and experience and under terms of reference acceptable to the Association.

3. The Borrower shall adopt and, thereafter, apply in the implementation of the Project, the Project Management Manual, acceptable to the Association, which shall include the description of: (a) implementation arrangements; (b) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; (c) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; (d) the Project Performance Indicators; (e) the Environmental Guidelines; (f) the Ethnic Minorities Development Strategy, (g) the Resettlement Policy Framework; (h) the terms and conditions for Sub-Loans; and (i) the terms and conditions for Subsidiary Loans.

4. The Borrower shall, through the Project Provinces, adopt and, thereafter, apply in the implementation of the Project, the Project Operations Manual, acceptable to the Association, which shall include the description of Project implementation guidelines for Participating Communes and for Project staff and consultants working in such Participating Communes.

5. The Borrower shall, through the Project Provinces, adopt and, thereafter, apply in the implementation of Parts A.2 and A.3 of the Project, the Revolving Fund Manual, acceptable to the Association, which shall include the procedures and terms and conditions of Sub-loans.

Project Implementation

6. In carrying out Part A.1 of the Project, the Borrower, through the Project Provinces, shall cause the relevant PPMU, or the RWSSE, as the case may be, to enter into a Sub-project Agreement with the Participating Commune, or the CWDG, as the case may be, acceptable to the Association, such Sub-project Agreement to record the mutual rights and obligations of the PPMU on behalf of the Project Province, or the RWSSE, as the case may be, and the Participating Commune, or the CWDG on behalf of the water users, in respect of the execution of the Sub-project, including: the planning and level of service of the relevant piped water supply system, financing plan, including contribution by the beneficiaries, and the financial management procedures for the Sub-project; the requirements and procedures for monitoring the implementation of the Sub-project and reporting thereon; and the arrangements for the operation and maintenance of the piped water system after completion of the Sub-project and the arrangements for establishing tariffs.

Environment, Resettlement and Ethnic Minorities

7. For any Sub-project which would give rise to Displaced Persons, the Borrower, through the Project Provinces, shall cause the relevant PPMU in coordination with the relevant RWSSE and Participating Commune to, prior to approving the Sub-project, (a) prepare a resettlement action plan, acceptable to the Association, in accordance with the principles and procedures set forth in the Resettlement Policy Framework; and (b) thereafter, implement said plan in a manner acceptable to the Association. The Borrower shall not amend, waive or modify, nor allow to be amended, waived or modified, the provisions of the Resettlement Policy Framework or any of the resettlement action plans prepared in accordance with this paragraph without the prior concurrence of the Association.

8. The Borrower, through the Project Provinces: (a) shall cause the relevant PPMU in coordination with the relevant RWSSE and Participating Commune, to implement the Ethnic Minorities Development Strategy in a manner acceptable to the Association; and (b) shall not amend, waive or modify, nor allow to be amended, waived or modified, the provisions of said Strategy without the prior concurrence of the Association.

9. For each Sub-project, the Borrower, through the Project Provinces, shall cause the relevant PPMU or the RWSSE, as the case may be, to: (a) carry out an environmental screening; (b) on the basis of such screening carry out an environmental review, a limited environment assessment, or a full environmental impact assessment, as appropriate, in accordance with the Environmental Guidelines; and thereafter (c) incorporate adequate mitigating measures, satisfactory to the Association, and implement the Sub-project accordingly.

RWSSEs

10. In carrying out Part A.1 of the Project, the Borrower shall cause each Project Province:

(a) to establish, not later than December 31, 2007, one or more RWSSEs in accordance with a model charter, satisfactory to the Association, such RWSSEs to, inter alia: (i) be responsible for the construction of piped water supply systems, and the operation and management of piped water supply systems constructed under the Project, within its geographic area of coverage, and (ii) assume the responsibility for managing the piped water schemes being managed by the Provincial Center for Rural Water Supply and Sanitation within the geographic area of coverage of the relevant RWSSE; and

(b) thereafter, to enter into a Subsidiary Loan Agreement, acceptable to the Association, with each RWSSE, for the purpose of providing a Subsidiary Loan to the RWSSE for the carrying out of Sub-projects under Part A.1 of the Project; provided that the principal amount of each Subsidiary Loan shall be the amount withdrawn from Category (1) for expenditures for the construction of the piped water supply system (i) by the relevant RWSSE or (ii) transferred to the relevant RWSSE after completion of the construction.

11. In carrying out Part A.1 of the Project, the Borrower shall cause the Project Provinces and, where applicable, RWSSEs:

(a) to establish, at the start of operations of a new water supply scheme, piped water supply tariffs that cover all costs, using the principles and procedures set forth in the Project Operations Manual, updated for actual costs; and

(b) to establish, for existing water supply schemes, piped water supply tariffs that cover the operation, maintenance and depreciation costs, beginning on or before the date on which the assets are transferred from the relevant Provincial Center for Rural Water Supply and Sanitation to the relevant RWSSE established under the Project.

Sub-Loans

12. In carrying out Parts A.2 and A.3 of the Project, the Borrower shall cause each Project Province to enter into arrangements, satisfactory to the Association, with the relevant Implementation Partner in the respective Project Province, whereby the latter shall undertake the following actions and responsibilities for the purposes of carrying out Parts A. 2 and A. 3 of the Project:

(a) make Sub-loans in accordance with the procedures and terms and conditions set forth in paragraphs 13 and 14 of this Schedule and in the Revolving Fund Manual;

(b) establish in each Project Province a Household Water, Sanitation and Drainage Revolving Fund to be funded with the funds generated by the repayment of the principal of Sub-loans, and the interest charged therein, for purposes of providing additional loans to finance activities similar to those under Parts A.2 and A.3 of the Project under the same terms and conditions as set forth in paragraph 13 of this Schedule;

(c) establish for each Household Water, Sanitation and Drainage Revolving Fund a board responsible for the overall management of the Fund including the approval of each Sub-loan, such board to be chaired by a qualified member of the respective Implementation Partner and comprised of an officer and an accountant;

(d) for each Sub-loan and each loan made out of the amounts deposited in the relevant Household Water, Sanitation and Drainage Revolving Fund, establish and, thereafter, maintain an accounting and reporting system in accordance with the provisions of Section 4.01 of this Agreement; and

(e) establish and, thereafter, maintain a system, satisfactory to the Association, to monitor and evaluate the implementation of the activities under Parts A.2 and A.3 of the Project.

13. Without limitation to the provisions of this Agreement, Sub-loans shall be made under Parts A.2 and A.3 of the Project to a household by the relevant Implementation Partner in the Project Province in accordance with the Revolving Fund Manual, and on the following terms and conditions:

(a) the principal amount of a Sub-loan shall be lent and payable in Dong and shall not exceed 90% of the total estimated cost of the activity for which said Sub-loan is made;

(b) the repayment period of the principal amount of the Sub-loan, shall not exceed five (5) years, including a grace period not to exceed six (6) months, or such other repayment and grace periods established with the prior approval of the Association;

(c) interest at a fixed rate per annum not to exceed 12%, or at such other rate established with the prior approval of the Association; and

(d) the Sub-loan shall finance only the reasonable cost of goods and works of the activities under Part A.2 and A.3 of the Project.

14. Sub-loans under Parts A. 2 and A.3 of the Project shall be made on terms whereby the Implementation Partner shall obtain, by written contract with the relevant household or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Association, the Project Province and the Implementation Partner, including the rights to:

(a) require the borrowing household to use the proceeds of the Sub-loan for its intended purpose, with due diligence and efficiency and in accordance with sound technical and sanitation standards, and to maintain adequate records;

(b) require that goods and works be procured at a reasonable price following established commercial procedures;

(c) inspect by itself, or jointly with representatives of the Project Province or the Association, if the Association shall so request, the goods, works and installation implemented using the proceeds of the Sub-loan, and any relevant records and documents; and

(d) suspend or terminate the right of the borrowing household to the use of the proceeds of the Sub-loan upon failure of its obligations under its contract with the Implementation Partner.

Monitoring and Evaluation

15. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) semi-annual reports, not later than January 31 and July 31 in each calendar year, the first of such semi-annual reports to be furnished by January 31, 2006; and (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 15, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2008, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph 15, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2)(a), (3), (4)(a), (5)(a) and (6)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project and Categories (2)(b), (4)(b), 5(b) and (6)(b) set forth in said table in respect of Parts A.6, B.2. C.4 and D.2 of the Project;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means:

(i) in respect of the DAF Special Account and Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project, an amount equal to $1,000,000 to be withdrawn from the Credit Account and deposited into the DAF Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $500,000 until, in respect of the DAF Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2)(a), (3), (4)(a), (5)(a) and (6)(a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project, shall be equal to or exceed the equivalent of SDR3,000,000; and

(ii) in respect of the CPO Special Account and Parts A.6, B.2, C.4 and D.2 of the Project, an amount equal to $100,000 to be withdrawn from the Credit Account and deposited into the CPO Special account pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in

accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account for Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project, and for the respective Special Account for Parts A.6, B.2, C.4 and D.2 of the Project, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A (other than A.6), B.1, C (other than C.4) and D.1 of the Project or with respect to Parts A.6, B.2, C.4 and D.2 of the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for

eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.