CREDIT NUMBER 3843-VN

Development Credit Agreement

(Road Network Improvement Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 27th, 2004

CREDIT NUMBER 3843-VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 27th, 2004, between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Advisory Group on Road Maintenance and Management" means an advisory group comprising both public and private sector representatives advising the Minister of MOT on road management and maintenance issues, established pursuant to paragraph D.4 of Schedule 4 to this Agreement.

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

(c) "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.

(d) "Environmental Management Plan" and its acronym "EMP" mean the environmental management plan prepared in accordance with the guidelines and procedures set forth in the Programmatic EIA, dated September 17, 2003, approved by the MONRE Decision No. 1778/QD-BTNMT, on November 17, 2003, which sets out environmental protection measures in respect of Parts A (1) and B (1) of the Project for the first year of the Project implementation, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as the same may be amended from time to time with the prior agreement of the Association.

(e) "Ethnic Minorities" means social groups disadvantaged in the development process and with social and cultural identity distinct from those who constitute the predominant ethnic group in Vietnam.

(f) "Ethnic Minorities Development Plan" means the plan, dated September 17, 2003, satisfactory to the Association, approved by the MOT Decision No. 3208/QD.BGTVT, dated October 30, 2003, pursuant to the Prime Minister Decision No. 204/CP-CN, dated February 25, 2003, for the carrying out of the Project in areas where Ethnic Minorities are present, as said plan may be amended from time to time with the prior agreement of the Association.

(g) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement.

(h) "Fiscal Year" means the Borrower's fiscal year starting January 1 and ending December 31.

(i) "MONRE" means the Borrower's Ministry of Natural Resources and Environment, and any successor thereto.

(j) "MOT" means the Borrower's Ministry of Transport, and any successor thereto.

(k) "Operational Manual" means the operational manual to assist in the carrying out Part A (1) of the Project, including implementation procedures and guidelines for carrying out civil works related to periodic maintenance on national roads, satisfactory to the Association, and approved by VRA, as the same may be amended from time to time with the prior agreement of the Association, and such term shall include any schedules, tables and annexes to the Operational Manual.

(l) "Programmatic Environmental Impact Assessment" and the acronym "Programmatic EIA" mean the guidelines, dated September 17, 2003, approved by the

MONRE Decision No. 1778/QD-BTNMT, dated November 17, 2003, which set forth guidelines and procedures for the carrying out the environmental assessments and preparing environmental management plans for the road sections to be selected under Parts A (1) and B (1) of the Project during the period of the Project implementation, as the same may be amended from time to time with the prior agreement of the Association.

(m) "Project Implementing Agencies" means, collectively, PMU18 Project Implementation Division 1 (PMU18 PID 1), the Project Implementation Unit of VRA (VRA PIU), the Project Implementation Unit of the Regional Project Management Unit 2 (RPMU2 PIU), the Project Implementation Unit of the Regional Project Management Unit 4 (RPMU4 PIU), the Project Implementation Unit of the Regional Project Management Unit 5 (RPMU5 PIU), the Project Implementation Unit of the Regional Project Management Unit 7 (RPMU7 PIU), and Project Implementation Units of Provincial Departments of Transport (PIUs of PDOTs), as referred to in paragraph A.1 of Schedule 4 to this Agreement.

(n) "Project Implementation Plan" and the acronym "PIP" mean the plan as described in paragraph A.2 (a) of Schedule 4 to this Agreement, as the same may be amended from time to time with the prior agreement of the Association, and such term shall include any schedules, tables and annexes to the PIP.

(o) "PMU18" means the project management unit established within MOT by Decisions Nos. 1675 QD/TCCB-LD and 387 QD/TCCB-LD dated August 23, 1993 and March 25, 1994, respectively, responsible, inter alia, to administer road works under the PMU18's Respective Parts of the Project.

(p) "Policy Framework for Compensation, Resettlement and Rehabilitation of Displaced Persons" means the policy framework, dated September 17, 2003, adopted by the Borrower pursuant to Prime Minister's Decision No. 204/CP-CN, dated February 25, 2003, and the MOT's Decision No. 3208/QD.BGTVT, dated October 30, 2003, setting forth the policies, principles, eligibility criteria of Displaced Persons, grievance redress mechanism, entitlements, legal framework, institutional arrangements and the obligations of the Borrower to prepare resettlement action plans, designed to improve the living standards, income earning capacity, and production levels of the Displaced Persons, as said Framework may be amended from time to time with the prior agreement of the Association.

(q) "Policy Framework and Guidelines for Ethnic Minorities Development Plan" means the guidelines, principles and procedures for full consultation with and informed participation of ethnic minorities and for mitigation of any adverse impacts on ethnic minorities as a result of the Project and ensuring that they benefit from the Project, approved by the MOT Decision No. 3208/QD.BGTVT, dated October 30, 2003, pursuant to the Prime Minister Decision No. 204/CP-CN, dated February 25, 2003, as said policy framework may be amended from time to time with the prior agreement of the Association.

(r) "RAPs" means, collectively, (i) the Resettlement Action Plan for Highway 48 in Nghe An Province; (ii) the Resettlement Action Plan for Highway 37 in Bac Giang and Thai Nguyen Provinces; and (iii) the Resettlement Action Plan for Highway 47 in Thanh Hoa Province; all dated September 17, 2003, for carrying out the compensation, resettlement and rehabilitation of Displaced Persons, approved by the Borrower through the Prime Minister's Decision No. 204/CP-CN, dated February 25, 2003, which authorizes the Ministry of Transport to approve the RAPs by Decision No. 3208/QD.BGTVT dated October 30, 2003, as said Plans may be amended from time to time with the prior agreement of the Association; and "RAP" means either of the RAPs.

(s) "Respective Parts of the Project" means (i) in respect of VRA, Parts A, C (1), and C (2) of the Project; and (ii) in respective of PMU 18, Parts B and C (3) of the Project.

(t) "Special Accounts" means, collectively, the RPMU2 Special Account referred to in Section 2.02(b)(i) of this Agreement and the PMU18 Special Account referred to in Section 2.02(b)(ii) of this Agreement.

(u) "VRA" means the Vietnam Road Administration, the authority established within MOT by Decree 07-CP dated January 30, 1993, whose responsibilities include developing road policy and strategy, establishing regulatory frameworks for road safety, and managing road maintenance, as provided in the MOT Decision No. 2567/2003/QD-BGTVT dated August 29, 2003, pursuant to the Decree 34/2003/ND-CP dated April 4, 2003, and any successor thereto.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred fifty six million and seven hundred thousand Special Drawing Rights (SDR156,700,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two separate special deposit accounts: (i) the RPMU2 Special Account in respect of Parts A, C(1) and C(2) of the Project, and (ii) the PMU18 Special Account in respect of Parts B and C(3) of the Project, each 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 December 31, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing June 1, 2014 and ending December 1, 2043. Each installment to and including the installment payable on December 1, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for

Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A, C(1) and C(2) of the Project through VRA; shall carry out Parts B and C(3) of the Project through PMU18, all with due diligence and efficiency and in conformity with appropriate transport, engineering, financial and administrative 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. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 E.1 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 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not

later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified namely, that the legal and administrative status or the organizational structure of either PMU 18 or VRA shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Association, affect materially and adversely the ability of said entities to implement the Project, or any part thereof.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely the event specified in Section 5.01 of this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted the PIP, including a financial management manual, and the Operational Manual, in accordance with the provisions of paragraph A.2 of Schedule 4 to this Agreement;

(b) the Borrower has: (i) established at the PMU18 PID 1 and the RPMU2 PIU a computerized financial management system for the Project, including design of the chart of accounts and installation of a specialized financial management software to, inter alia, produce financial monitoring reports, all in a form and substance satisfactory to the Association, and (ii) provided training to the staff of the PMU18 PID 1 and the RPMU2 PID in the above-mentioned financial management system and in the Association's financial management, disbursement and procurement procedures, all in a manner and substance satisfactory to the Association;

(c) the Borrower has appointed a financial management officer and two full-time accountants to the PMU18 PID 1 and the RPMU2 PIU, in accordance with paragraph A.3 of Schedule 4 to this Agreement;

(d) the Borrower has established an Advisory Group on Road Management and Maintenance and made it operational pursuant to the terms of reference and operating

modalities, acceptable to the Association, in accordance with paragraph D.4 of Schedule 4 to this Agreement; and

(e) the Borrower has, through VRA and PMU18 respectively, under terms of reference satisfactory to the Association, retained an independent agency to undertake the external monitoring and supervision of the implementation of the social and environmental safeguards measures under their Respective Parts of the Project, in accordance with paragraph B.3 of Schedule 4 to this Agreement.

Section 6.02. The following are additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Resettlement Action Plans, the Ethnic Minorities Development Plan, the Programmatic Environmental Impact Assessment, the Environmental Management Plan, the Policy Framework for Compensation, Resettlement and Rehabilitation, and the Policy Framework and Guidelines for Ethnic Minorities Development Plan have been fully authorized by the Borrower and are legally binding and enforceable in accordance with Vietnamese law.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Governor or any Deputy Governor of the State Bank of Vietnam is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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)	(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		
(a) for VRA's Respective Parts of the Project		
(i) works under performance-based contracts	3,970,000	95%
(ii) other works	43,830,000	70%
(b) for PMU18's Respective Parts of the Project	68,050,000	95%
(2) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) for VRA's Respective Parts of the Project	1,190,000	

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
	(b) for PMU18's Respective Parts of the Project	190,000	
(3)	Consultants' Services		100% for Foreign individuals and 93% for foreign firms, local firms, and local individuals
	(a) for VRA's Respective Parts of the Project	9,570,000	
	(b) for PMU18's Respective Parts of the Project	11,030,000	
(4)	Training		100%
	(a) for VRA's Respective Parts of the Project	100,000	
	(b) For PMU18's Respective Parts of the Project	100,000	
(5)	Unallocated	18,670,000	
	TOTAL	156,700,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "training" means reasonable expenditures incurred by the Borrower for the training activities under Parts A(3) and B(3) of the Project, which expenditures would not have been incurred absent the Project, including travel costs, lodging and travel per diem for training participants, preparation, translation and duplication of training materials, and consumables, but excluding fees paid to consultants and excluding salaries and salaries supplements of the participants; and

(d) the term "performance-based contracts" means civil works contracts intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed meet contract standards.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR350,000, may be made in respect of Categories (3)(a) and (3)(b) on account of payments made for expenditures before that date but after July 23, 2003.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than $100,000 equivalent each; (b) works under contracts costing less than $200,000 equivalent each; (c) consultants' services under contracts awarded to: (i) consulting firms, costing less than $100,000 equivalent each; and (ii) individuals, costing less than $50,000 equivalent each; and (d) training, 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 improve the national road network in Vietnam through increased preventative maintenance and selective upgrading, and an increase in the level of resources available for road maintenance and capacity for planning, budgeting, and monitoring of road assets.

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

Part A: Road Network Preservation Program

1. Carrying out periodic maintenance of about 1,100 kilometers (km) of selected sections of national roads as a part of the Borrower's Ten–Year Strategic Plan for National Roads, including testing the use of performance-based maintenance contracts.

2. Carrying out resettlement and rehabilitation of Displaced Persons under Part A (1) above.

3. Strengthening the capacity of VRA in management, monitoring and supervision of Parts A(1) and A(2) of the Project through provision of technical assistance and operational support, including: (i) preparation of detailed engineering design; (ii) supervision of civil works and quality control; (iii) contract preparation and contract management; (iv) procurement and financial management related matters; (v) social and environmental assessment and monitoring; (vi) road maintenance finance and management, and road sector fiscal policy analysis; and (vii) provision of office equipment and vehicles.

Part B: Road Network Improvement Program

1. Carrying out rehabilitation and widening of about 600 km of selected sections of national roads in the Northern part of Vietnam, including about 84 short bridges of up to 25 meters in length each.

2. Carrying out resettlement and rehabilitation of Displaced Persons under Part B(1) above.

3. Strengthening the capacity of PMU18 in management, monitoring and supervision of Parts B(1) and B(2) of the Project through provision of technical assistance and operational support, including: (i) preparation of detailed engineering design; (ii) supervision of civil works and quality control; (iii) procurement and financial

management related matters, (iv) provision of technical or policy advice to the Project Steering Committee in fulfillment of its functions; (v) social and environmental assessment and monitoring; (vi) contracts preparation and contract management; and (vii) provision of office equipment, and vehicles.

Part C: Road Sector Reform, Project Management and Institutional Strengthening

1. Strengthening the capacity of VRA in its management, evaluation and monitoring of road maintenance activities and road assets, and implementation of the Project, through:

(a) establishment of a national road management database, development of roads maintenance data collection and data processing procedures, and roads maintenance monitoring schedules and protocols; and

(b) development of annual business plans for national roads maintenance and monitoring the implementation of said annual business plans; and public dissemination of such plans and monitoring reports.

2. Strengthening the institutional and technical capacity of public and private sector through provision of training to maintenance enterprises in areas such as, competitive bidding procedures, project management and business administration, accounting and financial management, information technology and road maintenance technology.

3. Institutional strengthening of MOT for road sector reform and capacity building, through:

(a) undertaking studies related to improving road maintenance finance and management and implementation of a mechanism for improving cost recovery, planning and budgeting, and monitoring of national road assets, as well as increased stakeholder and road user participation in road administration and policy-making;

(b) supporting the Advisory Group on Road Management and Maintenance in its surveys, studies, and public outreach activities related to road management and maintenance;

(c) developing private-public partnership in the transport sector and managing the private-public partnership activities through: (i) improving legal and regulatory framework and developing suitable institutional arrangements for private sector participation in the transport sector; (ii) developing an action plan for the implementation of the proposed policy on private and public partnership and the establishment of the proposed institutional arrangements, and preparing guidelines for management of private-public partnership operations; and (iii) training the staff of MOT in managing the private-public partnerships activities; and

(d) carrying out financial audits of the Project accounts and technical audits of the Project activities; and preparing a follow-up project.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

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

(a) Prequalification

Bidders for contracts estimated to cost US$10,000,000 equivalent or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

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

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost $10,000,000 equivalent or more or for specialized contracts, such as, the performance-based contracts shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than $2,000,000 equivalent per contract, up to an aggregate amount not to exceed $106,260,000 equivalent, and goods estimated to cost less than $100,000 equivalent per contract, up to an aggregate amount not to exceed $200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the additional provisions set forth in the Annex to this Schedule 3.

2. International or National Shopping

Goods estimated to cost less than $50,000 equivalent per contract, up to an aggregate amount not to exceed $260,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Procurement of all goods and works shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for works estimated to cost the equivalent of $200,000 or more; and (ii) each contract for goods estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract procured by RPMU2 and PMU18 in accordance with the shopping procedures set forth in paragraph 2 of Part C above, the following procedures shall apply:

(i) prior to the selection of the supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of the contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under Parts A(3) and B(3) of the Project, estimated to cost less than $150,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for developing annual business plans under Part C (1)(b) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for financial audits under Part C (3)(d) of the Project 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 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services for social and environmental monitoring and technical audits under Parts A(3), B(3) and C (3)(d) of the Project 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 and 3.7 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

Annex to Schedule 3

National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section I of the Guidelines, the procedures normally used for public procurement of the Borrower shall be modified in accordance with the following provisions:

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 88/1999/ND-CP dated September 1, 1999 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.

(v) Foreign bidders shall not be required, in order to participate in bidding, to enter into a joint venture with a local bidder, or to subcontract part of their contract to a local bidder.

(vi) If there is prequalification, *all* prequalified bidders shall be invited to bid.

(vii) 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.

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

Advertising; time for bid preparation

(ix) Invitations to bid shall be advertised in at least one widely circulated national newspaper and in the Government Public Procurement Bulletin/website when established.

Standard Bidding Documents

(x) The Borrower's standard bidding documents shall be acceptable to the Bank. 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 of bids. A minimum of 30 days for the preparation and submission of bids shall be provided. Bidders shall be allowed to submit bids by hand or by mail.

Qualification criteria and evaluation criteria

(xi) 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.

(xii) 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 evaluation and award of contract

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

(xiv) 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.

(xv) 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.

(xvi) 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.

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

Suppliers and Contractors

(xviii) The Association reserves the right to require that all contracts under national competitive bidding procedures financed by the Association, include a provision requiring suppliers and contractors to permit the Association to inspect their accounts and records relating the performance of the contracts and to have them audited by auditors appointed by the Association.

SCHEDULE 4

Implementation Program

A. Project Management and Implementation

1. The Borrower shall maintain, until completion of the Project:

(a) the Project Steering Committee, chaired by the MOT Vice Minister, consisting of representatives of, inter alia, the Ministry of Planning and Investment, the Ministry of Finance, the State Bank of Vietnam, the Ministry of Transport (including representatives of VRA and PMU18), assigned with such functions and responsibilities, satisfactory to the Association, as shall be required for the overall coordination and oversight of implementation of the Project, including inter alia: (i) coordination and liaison between the Project Implementing Agencies and other ministries; (ii) monitoring the Project's progress; (iii) review of the technical and financial audit reports, social and environmental monitoring reports, the Project evaluation and monitoring reports, and the Project related studies, and (iv) ensure that the Project related policy and institutional reform are achieved;

(b) the PMU18 PID1, assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, headed by a qualified and experienced officer for the day-to-day implementation and management of the PMU 18's Respective Parts of the Project, including, inter alia, the procurement activities, financial management, implementation of the social and environmental safeguards measures under the PMU18's Respective Parts of the Project, and monitoring and reporting on the implementation of the PMU 18's Respective Parts of the Project;

(c) the Project Implementation Unit of VRA, assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, headed by a qualified and experience officer for the overall management and oversight of the VRA's Respective Parts of the Project, including, inter alia: (i) day-to-day management of Parts C(1) and C(2) of the Project; (ii) monitoring of the progress of the VRA's Respective Parts of the Project; (iii) preparing annual business plans; and (iv) updating the national road management database;

(d) the Project Implementation Units of RPMU4, RPMU5 and RPMU7, each assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, each headed by a qualified and experienced officer for the implementation and management of the VRA's Respective Parts of the Project at the regional level, including, inter alia, procurement, financial management, supervision of civil works, monitoring social and environmental impacts of the VRA's Respective Parts of the Project; and

(e) the Project Implementation Unit of RPMU2, assigned with such functions, responsibilities and funds, satisfactory to the Association, and with competent staff in adequate numbers, headed by a qualified and experienced officer for the implementation and management of the VRA's Respective Parts of the Project in its project areas and for overall coordination and supervision of the functions and responsibilities of RPMU4, RPMU5 and RPMU7 and relevant PDOTs, including, inter alia, their responsibilities and functions in procurement, financial management, supervision of civil works, monitoring social and environmental impacts of the VRA's Respective Parts of the Project.

2. The Borrower shall:

(a) adopt the Project Implementation Plan including a financial management manual, in a manner and substance satisfactory to the Association, which shall include, inter alia: (i) a financial management manual incorporating accounting and financial management procedures, including the management and auditing of the Special Accounts, reporting requirements, financial management and audit procedures as set forth in Article IV of this Agreement; (ii) implementation arrangements; (iii) procurement procedures, as set forth in Schedule 3 to this Agreement; (iv) the project performance indicators set forth in Schedule 6 to this Agreement; and (v) monitoring and evaluation requirements and processes;

(b) adopt the Operational Manual specifically for guiding the implementation of Part A (1) of the Project, in a manner and substance satisfactory to the Association, which shall include the description of, inter alia: (i) financial management procedures; (ii) engineering and design of civil works, (iii) planning, budgeting and preparation of civil works, (iv) procedures for monitoring and reporting of Project's progress, and (v) mitigation of social and environmental impacts of the Project, all in accordance with the provisions of this Agreement;

(c) carry out the Project in accordance with the Project Implementation Plan and the Operational Manual; and

(d) not amend, abrogate, suspend, or waive any provision of said Project Implementation Plan and the Operational Manual without the prior concurrence of the Association.

3. The Borrower shall appoint and maintain a financial management officer and two full-time accountants at the PMU18 PID 1 and the RPMU2 PIU, each with experience, qualifications and terms of reference, acceptable to the Association.

4. The Borrower shall appoint, an independent external auditor to carry out the financial audits as required under Article IV of this Agreement, with terms of reference and qualifications satisfactory to the Association, no later than December 31, 2004.

5. The Borrower shall, not later than June 30 and December 31 in each year, commencing December 31, 2004, and until completion of the Project, carry out a technical audit of Project implementation, in accordance with terms of reference acceptable to the Association. Should the technical audits identify any major problems or any significant delay in execution of the civil works contracts under the Project, the Borrower shall, through the Project Steering Committee, prepare and submit to the Association for review a time-bound action plan for remedy of the identified problems.

B. Environmental Protection, Resettlement and Ethnic Minorities

1. For road section to be maintained or rehabilitated in the first year work program under Parts A(1) and B(1) of the Project, the Borrower shall, through VRA and PMU 18, carry out the Resettlement Action Plans, the Ethnic Minorities Development Plan, and the Environmental Management Plan, in a manner and substance satisfactory to the Association.

2. Without limitation to the provisions of paragraph 1 of Section B of this Schedule, and in respect of any road section to be maintained or rehabilitated in the subsequent Fiscal Years under Parts A(1) and B(1) of the Project, the Borrower shall, prior to commencing civil works on such road section:

(a) for any road section which requires the resettlement of Displaced Persons, based on findings of a social assessment, prepare a resettlement action plan satisfactory to the Association, in accordance with the principles and procedures set forth in the Policy Framework for Compensation, Resettlement and Rehabilitation of Displaced Persons; and thereafter carry out such resettlement action plan in a manner and substance satisfactory to the Association;

(b) for any road section which involves communities with ethnic minorities, based on findings of a social assessment, prepare an ethnic minorities development plan satisfactory to the Association, in accordance with Policy Framework and Guidelines for Ethnic Minorities Development Plan; and thereafter carry out such ethnic minorities development plan in a manner and substance satisfactory to the Association; and

(c) undertake an environmental impact assessment, if necessary, prepare an environmental management plan, satisfactory to the Association, in accordance with the environmental standards and procedures set forth in the Programmatic Environmental Impact Assessment; and thereafter carry out such environmental management plan in a manner and substance satisfactory to the Association.

3. The Borrower shall, through VRA and PMU18 respectively, under terms of reference satisfactory to the Association, retain an independent agency to undertake the external monitoring and supervision of the implementation of the social and environmental safeguards measures under their Respective Parts of the Project; and

prepare and furnish to the Borrower and the Association monitoring reports of every six months, the first of such reports to be furnished by December 31, 2004.

C. Work Programs under Parts A(1) and B(1) of the Project

1. The Borrower shall, through VRA and PMU18, select each road section under Parts A(1) and B(1) of the Project on the basis of technical, environmental, social and economic criteria acceptable to the Association.

2. Prior to commencing civil works on any selected road section under Parts A(1) and B(1) of the Project, the Borrower shall cause relevant PDOTs to establish and maintain during the implementation of the Project, PIUs each headed by a qualified and experienced Director, and assigned with such functions, responsibilities, funds and competent staff in adequate numbers, including an accountant and a procurement officer with qualifications and experience satisfactory to the Association, as shall be required for carrying out VRA's Respective Parts of the Project within their respective Provinces.

3. At least six (6) months prior to commencing civil works on any selected road section under Parts A(1) and B(1) of the Project, VRA and PMU18 shall prepare for each such road section:

(a) an economic and social benefits analysis and technical analysis, including alternative engineering designs; all in a manner and substance satisfactory to the Association; and

(b) a proposed annual work program and budget for Project activities in the following fiscal year, including, a proposed list of roads and segments of roads to be maintained and rehabilitated under Parts A(1) and B(1) of the Project, all in a manner and substance satisfactory to the Association.

4. The Borrower undertakes to implement the annual work programs referred to in paragraph 3(b) above, in a manner and substance satisfactory to the Association.

D. Roads Management and Finance

1. The Borrower shall submit to the Association the draft Ten–Year Strategic Maintenance Plan for review and comments and approve such plan after having taken into account of the Association's comments thereon by October 1, 2004. The Borrower further undertakes to consult with and take into account of the Association's comments on any proposed revisions to said plan and from time to time exchange views with the Association on the implementation of said plan.

2. During the period of Project implementation, the Borrower shall ensure that the annual budgetary allocations and expenditures for the maintenance of roads consisting of routine and periodic expenditures for national roads, shall be systematically increased for

each Fiscal Year to meet all the financing requirements set forth in the Ten-Year Strategic Maintenance Plan.

3. No later than November 1 of each Fiscal Year, beginning with November 1, 2004, the Borrower shall submit to the Association for review and comments, draft annual business plans for national roads maintenance based on the updated road management and maintenance database and consistent with the Ten –Year Strategic Maintenance Plan, and thereafter implement said annual business plans with due consideration of the Associations' comments and recommendations thereon.

4. The Borrower shall establish the Advisory Group on Road Maintenance and Management with both public and private representatives of, inter alia, major road users and other stakeholders to advise the Minister of MOT on road management and maintenance issues, and make the Advisory Group on Road Maintenance and Management operational, all in accordance with terms of reference and operating modalities, acceptable to the Association. The Borrower shall publicly disclose the reports and study papers related to the work of the Advisory Group on Road Maintenance and Management in a manner, satisfactory to the Association.

E. Monitoring and Evaluation

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by August 31, 2006, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of RPMU2 Special Account, Categories (1)(a), (2)(a), (3)(a) and (4)(a); in the case of PMU18 Special Account, Categories (1)(b), (2)(b), (3)(b) and (4)(b), set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, 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 an amount equivalent to $10,000,000 in respect of the RPMU2 Special Account for the VRA's Respective Parts of the Project and an amount equivalent to $10,000,000 in respect of the PMU18 Special Account for the PMU18's Respective Parts of the Project, to be withdrawn from the Credit Account and deposited into the Special Accounts 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 $5,000,000 in respect of the RPMU2 Special Account and an amount equivalent to $5,000,000 in respect of the PMU18 Special Account, until: (i) in respect of the RPMU2 Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(a), (2)(a), (3)(a) and (4)(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 the VRA Respective Parts of the Project shall be equal to or exceed the equivalent of SDR10,500,000; and (ii) in respect of the PMU18 Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(b), (2)(b), (3)(b) and (4)(b) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for the PMU18 Respective Parts of the Project shall be equal to or exceed the equivalent of SDR10,500,000.

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

3. After the Association has received evidence satisfactory to it that the 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 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 the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the 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.

Schedule 6

Performance Indicators

1. Key Performance and Development Indicators

Attainment of Project Objectives	Monitoring Indicators	FY 2003 Baseline	FY 2004 Bench-mark	FY 2005 Bench-mark	FY 2006 Bench-mark (Mid term)	FY 2007 Bench-mark	FY 2008 Bench-mark End project
Improve national road quality and connectivity	Average travel time on improved (NIP) project roads reduced (% reduction)				7		15
	Passenger and freight tariffs/rate on project roads reduced (% reduction)				5		10
	Average roughness on project roads reduced (International Roughness Index) (IRI)	5.5	5.6	5.3	4.9	4.2	3.6
	Traffic levels increased (Average Daily Traffic)						
NPP (first year sections)	NH1 (286km-295km)	19400			24500		28600
	NH26 (2km-122km)	7000			8800		10200
	NH1 (1785km-1800km)	22700			28600		33400
	NH1 (383km-460km)	4300			5400		6300
	NH1 (269km-286km)	12100			15200		17800
	NH183 (0km-22km)	6800			8600		10100
	NH1 (1525km-1541km)	11000			13800		16100

NIP (first year program)	NH47	2400			3000		3500
	NH48-1	2300			2900		3400
	NH48-2	2800			3600		4200
	NH48-3	1500			2000		2300
	NH37-1	1300			1700		2000
	NH37-2	4900			6200		7200
NIP (indicative future programs)							
	NH18C	600			700		800
	NH21	3000			3800		4400
	NH279-2	800			1100		1300
	NH279-3	800			1100		1300
	NH38B-1	10400			13100		15300
	NH38B-2	3700			4700		5500
	NH39-1	2800			3500		4100
	NH39-2	5200			6500		7600
	NH10	1400			1800		2100
	NH12A-1	1200			1500		1800
	NH12A-2	1100			1400		1600
	NH6	2000			2500		3000
	NH8B	900			1200		1400
	NH3	7600			9600		11200

2. Implementation Indicators

	FY 2004	FY 2005	FY 2006 mid-term	FY 2007	FY 2008
% of civil works completed under NPP		20	45	80	100
% of highways improved/rehabilitated under NIP		20	45	80	100
Average Condition of National Road Network	6 IRI	6 IRI	6 IRI	6 IRI	6 IRI

Number of annual condition and traffic surveys completed on National Roads	1	2	3	4	5
% of person-months of completed training		25	50	75	100
Completion of national road database (% complete)	25	75	100		
Number of annual business plans prepared by VRA	1	2	3	4	5
Safety Audits on NIP roads	20	45	80	100	