

CONFORMED COPY

CREDIT NUMBER 3964 GH

Development Credit Agreement

(Community Based Rural Development Project)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 13, 2004

CREDIT NUMBER 3964 GH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 13, 2004, between REPUBLIC OF GHANA (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Affected Persons" means a person who on account of the acquisition of land, including plantation land, for purposes of establishing relocation sites under the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and "Affected Persons" means, collectively, all persons who qualify as an Affected Person;

(b) "AC" means an Area Council, established and operating pursuant to the Borrower's Local Government Act, No. 462 of 1993;

(c) "Advance" means an amount, out of the proceeds of the Credit, to be lent to community groups, associations and individuals for the purpose of carrying out private sector rural infrastructure Subprojects;

(d) “ARB Apex Bank” means the Association of Rural Banks which is the umbrella organization linking rural and community banks in the territory of the Borrower, established and operating pursuant to;

(e) “Beneficiary” means a CBO (as hereinafter defined), Local Government Unit, community, group or individual to whom or for whose benefit a Grant or Advance (as hereinafter defined), as the case may be, is made, or proposed to be made, for a Subproject under the Project;

(f) “CBO” means a Community-Based Organization;

(g) “Cedis” means the currency of the Borrower;

(h) “DA” means a District Assembly established pursuant to the Borrower’s Local Government Act, No. 462 of 1993;

(i) “Decentralization Secretariat” means the secretariat under the MLGRD (as hereinafter defined) for implementation and coordination of the Decentralization Action Plan of the Borrower;

(j) “DPCU” means a District Planning Coordinating Unit established pursuant to the Borrower’s Planning Systems Act, No 488 of 1993;

(k) “Environmental and Social Management Framework” means the set of mitigation, enhancement, monitoring, and institutional measures to be taken during design, implementation and operation of a Subproject (as hereinafter defined) to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

(l) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(m) “GHAMFIN” means the Ghana Micro Finance Institutions Network, the Apex body for Micro Finance Institutions involved in financial intermediation in the Borrower’s territory;

(n) "Grant" means an amount, out of the proceeds of the Credit, to be made available to DAs and through the DAs to ACs and other duly constituted local community groups for the purpose of carrying out public-good Subprojects;

(o) "Grant Agreement" means an MOU to be entered into between the Borrower and a DA or between a DA and an AC or duly constituted local community group for the purpose of carrying out a Subproject;

(p) “Local Government Service Act” means the Borrower’s Act No. 565 of 2003;

(q) “MLGRD” means the Borrower’s Ministry of Local Government and Rural Development;

(r) “MOFA” means the Borrower’s Ministry of Food and Agriculture;

(s) “MOFEP” means the Borrower’s Ministry of Finance and Economic Planning;

(t) “National Decentralization Action Plan” means the Borrower’s strategy for implementation of decentralization programs in the territory of the Borrower;

(u) “NGO” means a nongovernmental organization;

(v) “Project Implementation Manual” means the manual referred to in Section 6.01 (a) of this Agreement containing, inter alia, work programs, training programs, monitoring and performance indicators and procedures to be used for the purposes of implementation of the Project, as the same may be amended from time to time, in consultation with, and with the approval of, the Association, and such term includes any schedules to the Project Implementation Manual;

(w) “Resettlement Policy” means the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Affected Persons, satisfactory to the Association, approved by MLGRD dated March 2004;

(x) “RCC” means a Regional Coordinating Council, established and operating pursuant to the Borrower’s Local Government Act, No. 462 of 1993;

(y) “RICU” means the Rural Infrastructure Coordinating Unit, established under the Village Infrastructure Project (Credit No. N020 GH);

(z) “RPCU” means a Regional Planning Coordinating Unit established pursuant to the Borrower’s Planning Systems Act, No. 488 of 1993;

(aa) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(bb) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and ARB Apex Bank pursuant to paragraph 3(b)(ii) of the Table set forth in Schedule 1 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(cc) “Subproject” means a specific infrastructure development activity financed or proposed to be financed through Grants or Advances under the Project; and

(dd) "VIP Fund Account" means the funds on deposit in the Bank of Ghana for implementation of the micro-credit component of the Village Infrastructure Project (Credit No. N020 GH).

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 forty million nine hundred thousand Special Drawing Rights (SDR 40,900,000).

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

(b) The Borrower may, for the purposes of the Project, 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, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be February 15, 2009 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 March 1 and September 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 March 1 and September 1 commencing September 1, 2014 and ending March 1, 2044. Each installment to and including the installment payable on March 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

(b) The Borrower shall make part of the proceeds of the Credit, allocated from time to time to the DAs, ACs, and local communities as grants, under Grant Agreements to be entered into between the Borrower and each DA, or between a DA and ACs or local communities, respectively, under conditions which shall have been approved by the Association, which shall include those set forth in paragraphs 7 and 8 of Schedule 4 to this Agreement.

(c) The Borrower and DAs shall exercise their respective rights under each Grant Agreement in such manner as to protect the interests of the Borrower, the DAs and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower and DAs shall not assign, amend, abrogate or waive the Grant Agreements or any provision thereof.

(d) Without limitation upon its obligations under paragraphs (a) and (e) of this Section, the Borrower shall: (i) provide in its annual budget, in each year during the

carrying out of the Project, amounts sufficient to cover its counterpart contributions to the cost of the Project; (ii) open and maintain in Cedis in a commercial bank, a CBRDP Matching Fund Account, on terms and conditions satisfactory to the Association, in the name of MLGRD, to be used by MLGRD exclusively for the purposes of the Project; and (iii) deposit into said MLGRD Matching Fund Account: (A) an initial amount of \$20,000 equivalent, and (B) the remaining part of its contributions, quarterly in advance, in the amounts to be determined by the Borrower and the Association.

(e) 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. The Borrower shall, prior to commencing work on any community infrastructure and prior to any displacement of any Affected Persons from such works:

(a) undertake the acquisition of all necessary land and other property, compensation therefor and resettlement for such works in accordance with the principles and institutional procedures established in the Resettlement Policy;

(b) ensure that Affected Persons from such works shall be compensated, resettled and rehabilitated in accordance with the Resettlement Policy;

(c) for community infrastructure upgrading involving resettlement of more than 20 persons, prepare and furnish to the Association, a detailed resettlement action plan acceptable to the Association documenting the implementation arrangements for resettlement arising from such works, including compensation, relocation and rehabilitation of Affected Persons; and

(d) complete the implementation of such resettlement action plan in a manner satisfactory to the Association.

Section 3.04. 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 future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall 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) 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 events are specified:

(a) The Local Government Act (No. 462) of 1993 shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely the ability of DAs to perform any of their respective obligations under their respective Grant Agreements.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the DAs or for the suspension of their respective operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that any event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has adopted a Project Implementation Manual, in form and substance satisfactory to the Association, specifying, *inter alia*, performance indicators, procedures and other arrangements for the purpose of implementation of the Project;

(b) independent firms of local auditors have been appointed on terms of reference satisfactory to the Association in accordance with the procedures in Section II of Schedule 3 to this Agreement; and

(c) the Bank of Ghana has transferred the VIP Fund Account to the ARB Apex Bank.

Section 6.02. The date one hundred and twenty (120) 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 Minister for Finance and Economic Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

Ministry of Finance and Economic Planning
P.O. Box M40
Accra, Ghana

Cable address:	Telex:	Facsimile:
ECONOMICON Accra	2205 MIFAEP GH	233-21-667069 233-21-663854

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 Accra, Republic of Ghana as of the day and year first above written.

REPUBLIC OF GHANA

By /s/ Yaw Osafo-Mafo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mats Karlsson

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	1,450,000	90%
(2) Goods	1,700,000	100% of foreign expenditures and 100% of local expenditures (ex -factory cost) and 90% of local expenditures for other items procured locally
(3) Consultants' services, studies and training	3,150,000	90%
(4) Subprojects		
(a) Financed by Grants	22,300,000	90%
(b) Financed by Advances	7,750,000	100%
(5) Operating Costs	1,350,000	90%
(6) Unallocated	3,200,000	
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TOTAL	40,900,000	
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2. For the purposes of this Schedule:

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

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

(c) the term "Operating Costs" means costs on account of project implementation for office expenses, utilities, fuel, supplies and vehicle maintenance, excluding salaries of the Borrower's civil servants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 3,400,000, may be made on account of payments made for expenditures before that date but after August 1, 2003; and (b) under Category 1: (i) unless the RICU has been established; its key staff has been appointed pursuant to the provisions of paragraph 2 of Schedule 4 to this Agreement; and the Subprojects have been prepared in accordance with the procedures and terms and conditions set forth or referred to in Schedule 4 to this Agreement; and (ii) under Category 4(a) unless the Borrower and the ARB Apex Bank have signed a Subsidiary Loan Agreement satisfactory to the Association.

4. 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 \$150,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) for Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen the capacity of rural populations to enhance the quality of life of beneficiary rural communities through: (a) building and strengthening the capacities of national, regional, district, area councils and rural communities to deliver services and manage resources; (b) transferring technical and financial resources for the development, management and maintenance of infrastructure and income generating activities for the economic and social well-being of beneficiaries; and (c) promoting the convergence of decentralization efforts in accordance with the National Decentralization Action Plan.

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: Institutional Strengthening and Capacity Building

1. Strengthen the capacity and skills of MLGRD, RCCs, DAs, ACs, CBOs, NGOs, private and public service providers, and rural communities to: (a) deliver cost-effective services to rural communities; (b) manage, monitor, evaluate and maintain public and private goods; and (c) strengthen functional and governance capacities.
2. Strengthen the financial and procurement management capacities of MLGRD and regional and district tender boards, committees, councils, ACs and other procurement entities.
3. Strengthen the Decentralization Secretariat to pursue the decentralization agenda pursuant to the Local Government Service Act.

Part B: Infrastructure for Agricultural Development

Provision of Grants or Advances to Beneficiaries for:

1. Water for agriculture, including small-scale irrigation from streamflow diversions, pumping and run-off management, ponds, dugouts and tube wells; earthen banks, bunds and other flow controlling structures.
2. Improving skills for management of facilities, including development of basic skills of Beneficiaries for the appropriate application of recommended best catchment management practices and operation and maintenance of investments in water.

3. Rehabilitation of priority feeder roads, provision of culverts and appropriate drainage; and upgrading of farm-to-village tracks and trails to facilitate use of bicycle trailers, donkey carts and other light vehicles.

4. Post-harvest infrastructure, including provision of storage facilities, drying floors, cribs, crop processing and smoking units, and other processing equipment and facilities.

Part C: Rural Enterprise Development

Provision of Grants or Advances to Beneficiaries for:

1. Training in technical and business management for the acquisition of employable skills in rural areas, establishment of agro-based micro enterprises, and upgrading and rehabilitation of equipment.

2. Establishment of learning centers to serve as focal points for processing units, marketing outlets, and empowering the poor through the acquisition of knowledge and skills.

3. Establishment of rural enterprises, including co-operative business activities, market research, business linkages and joint ventures.

Part D: Infrastructure for Social and Human Development

1. Rehabilitating and improving existing rural community educational structures and constructing new community health compounds and nutrition centers.

2. Construction of approximately 100 health compounds for the Community Health Planning Services.

3. Rehabilitation of approximately 100 nutrition centers in association with the World Food Program.

4. Provision of potable water and sanitation facilities for rural communities.

Part E: Community-based Natural Resource Management

1. Preparation of natural resources management plans in DAs, ACs and local communities in collaboration with relevant public agencies including the Environmental Protection Agency, Savanna Resources Management Center, Resource Management Support Center, MOFA, Ministry of Lands and Forestry and the Wildlife Division.

2. Establishment of tree and tree-crop nurseries for the production of seedlings, adoption of soil and water conservation measures, control of bush fires, and establishment of wood lots.

3. Rehabilitation of critically degraded watershed areas to ensure regular flow of water and effective management and use of water resources.
4. Provision of incentive schemes to natural resource collectors, processors and traders, wood carvers, traditional medical practitioners, wildlife traders and breeders and rural eco-tourism operators, excluding loggers, to increase income earning capacities of Beneficiaries and provide skills to rural unemployed.

* * *

The Project is expected to be completed by July 15, 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) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each and contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, and works estimated to cost less than \$2,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and Section 44 of the Borrower’s Public Procurement Act, 2003.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract 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.

3. Direct Contracting

Software, spare parts and accessories which are of a proprietary nature may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

6. Community Participation

Goods and works that meet the requirements of paragraph 3.15 of the Procurement Guidelines shall be procured in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$200,000 or more, and with respect to each contract for goods estimated to cost the equivalent of \$150,000 or more, the procedures set forth in paragraphs 2 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 Section.

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 estimated to cost less than \$200,000 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. Selection Under a Fixed Budget

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 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

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 and 3.6 of the Consultant Guidelines and Section 72 of the Borrower's Public Procurement Act, 2003.

3. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 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. 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 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 to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. 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.

SCHEDULE 4

Implementation Program

1. (a) Coordination of all Project implementation activities shall be carried out by an interministerial Steering Committee, comprising the Chief Director or Executive of MOFEP, MOFA, MLGRD, Ministries of Works and Housing, Environment, Science and Technology, Trade, Industry and Presidential Initiatives, Forestry and Lands, Employment and Social Welfare, Roads and Transport, Environmental Protection Agency, GHANFEM, National Board for Small Scale Industries, National Association of Local Governments, CWSA, the ARB Apex Bank and Chairman of the Parliamentary Subcommittee on Local Government. The Steering Committee shall provide overall policy guidance and advise the various implementing agencies accordingly.

(b) The Steering Committee shall be chaired by the Minister for MLGRD, or his deputy, and shall meet quarterly in the first year of project implementation and bi-annually in subsequent years.

(c) Not later than November 30 of each year, the Steering Committee shall review the progress made in respect of Project implementation, institutional issues, procurement, disbursements, the involvement of the private sector, the achievements of the DAs according to the performance criteria referred to in the Project Implementation Manual during the preceding year, and progress towards the objectives for the preceding year.

(d) The Borrower shall transmit to the Steering Committee, with a copy to the Association, at least 30 days prior to such review, a report, in scope and detail satisfactory to the Steering Committee and to the Association, prepared by MLGRD and each Assembly, describing the status of progress regarding the items listed in paragraph (c) above and of Project implementation generally.

2. Upon completion of the Village Infrastructure Project, the Borrower shall transfer the RICU to MLGRD, and RICU shall become a single implementation unit for rural infrastructure with primary responsibility for coordinating implementation support to the District Assemblies and community groups and associations. RICU shall have broad autonomy in implementing the work program agreed upon with the Steering Committee. RICU shall be headed by a National Coordinator, selected by MOFA, supported by relevant technical staff, including financial management staff, a rural infrastructure engineer and an institutions specialist, all under terms of reference and with qualifications and experience satisfactory to the Association and appointed in accordance with procedures under Section II of Schedule 3 to this Agreement.

3. RICU shall:

(a) implement technical and institutional strengthening aspects of the Project, including ensuring that Project actions and interventions complement those of other similar projects in the sector;

(b) be responsible for timely reporting, monitoring and evaluation, and impact assessments;

(c) establish and maintain a management information system to provide up-to-date information on the status of implementation of Subprojects in the various zones; and

(d) provide policy and technical liaison with the Steering Committee.

4. The Borrower shall, by September 30, 2005 adopt financial accounting procedures incorporating the requirements of local government financial regulations and establish a Financial Management Unit in MLGRD headed by a qualified professional accountant, supported by relevant technical staff, all under terms of reference and with qualifications and experience satisfactory to the Association [and appointed in accordance with procedures under Section II of Schedule 3 to this Agreement]. The Financial Management Unit in MLGRD shall thereupon assume responsibility for financial management of the Project.

5. The Borrower shall implement the Project in accordance with the procedures set out in the Project Implementation Manual, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any provision thereof so as to materially and adversely affect the implementation of the Project.

6. The Borrower shall maintain zonal RICUs to strengthen RPCUs, DPCUs and village-level institutions. Each zonal RICU shall be headed by a Project Coordinator, with relevant technical and administrative staff.

7. Day-to-day responsibility for Project implementation at the district level shall be the responsibility of each DA with technical oversight of the RPCU. The District Executive Committee and its administrative offices shall be strengthened for purposes of Project implementation. Each DA shall prepare an annual work plan, comprising ACs arrived at in a participatory manner at the AC level, following guidelines on selection of Subprojects in accordance with eligibility criteria set forth in the Project Implementation Manual. Private-good Subprojects shall be financed through the micro-finance scheme managed by the ARB Apex Bank.

8. Beneficiary Eligibility Criteria

The selection of Beneficiaries of Grants for a Subproject shall be made in accordance with the following criteria:

(a) District Assemblies which qualify as Beneficiaries for public-good Subprojects shall have:

- (i) the following staff with the necessary operational training:
 - District Coordinating Director
 - District Finance Officer
 - District Budget Officer
 - District Planning Officer
 - District Works Engineer
 - District Director of Agriculture
 - Community Development Officer;
- (ii) an operating bank account and the budgetary requirements for the current year;
- (iii) adequate operational facilities;
- (iv) a District Development Plan prepared in close consultation with the community concerned, taking into account their priority needs and resources, implementation capacity and sustainability considerations; and
- (v) established Committees for purposes of approval of community Subprojects.

(b) Communities or groups within communities which qualify as Beneficiaries shall have formed a user group or association which has been formally registered in accordance with the relevant laws and regulations on group activities, for accounting and monitoring purposes. The user group or association shall have the following attributes:

- (i) the members of the user group or association shall have agreed to complete appropriate training in group dynamics and management and acquired a basic understanding of the investment operation;

- (ii) the executive officers (Chairman, Secretary and Treasurer) and at least four other members of the user group or association shall have agreed to complete training in managing the finances of the organization and the investment, and basic technical and management procedures for the facility;
- (iii) the user group or association shall have opened a savings account in a commercial bank at least three months immediately prior to making an application for a grant under the Project and shall have saved at least its minimum financial contribution to the investment;
- (iv) the group shall have agreed to take full responsibility for the proper operation of the facility, including adequate routine recurrent maintenance costs;
- (v) the group or association is organized for purposes of undertaking the Subproject; and
- (vi) the group or association has signed an agreement with the supporting organization and the District Assembly, undertaking to make adequate provision for related operations, maintenance and repairs.

(c) Groups which qualify as Beneficiaries to receive Advances under the Project for private-good infrastructure shall have:

- (i) formed an association, formally registered under local laws and regulations to operate as a group, association or cooperative;
- (ii) agreed to complete training in group dynamics and management of the investment, including technical considerations of the operation and essential routine maintenance;
- (iii) signed an agreement with a rural financial institution undertaking to make periodic payments sufficient for operations and maintenance;
- (iv) demonstrated that it can provide the required contribution, either in cash or in kind, as set forth in the Implementation Manual; and
- (v) entered into an agreement with the rural financial institution in which the Beneficiary agrees to carry out the Subproject and to repay the principal of the Advance in the amounts and terms as set forth in the agreement, the amount so repaid to be used for

development purposes as set forth in the Subsidiary Agreement between the Borrower and the ARB Apex Bank governing the operating procedures and policies.

9. The Ministry of Local Government and Rural Development and other relevant ministries shall take all necessary measures to ensure that all District Assemblies are provided with adequate staffing and operational facilities so that such Assemblies meet the criteria specified above, and RICU shall coordinate technical assistance and training targeted at districts and communities and associations to enable them to meet the eligibility criteria.

10. Eligibility Criteria for Subprojects

In order to be eligible for financing out of the proceeds of the Credit, RPCU or its zonal offices must determine, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Implementation Manual, that the Subproject satisfies the eligibility criteria specified in more detail in the Project Implementation Manual, which shall include the following:

- (a) For public Subprojects eligible for funding under Grants:
 - (i) the Subproject is consistent with national policies, procedures and priorities;
 - (ii) the Subproject is part of the District Development Plan;
 - (iii) the Subproject meets the required technical criteria; and
 - (iv) the Subproject includes adequate mechanisms to ensure timely operations and maintenance.

- (b) For private sector rural infrastructure Subprojects eligible for financing under Advances:
 - (i) the Subproject shall be for one of the activities described in the relevant Parts of the Project; and
 - (ii) the Subproject shall be economically, financially and technically viable in accordance with the standards specified by the rural financial institution.

Terms and Conditions of Grant Agreements Required Pursuant to Section 3.01 (c) of this Agreement

11. The terms and conditions of the Grant Agreements shall include the following obligations of the DAs to:

(a) carry out or cause the Project to be carried out with due diligence and efficiency, in conformity with appropriate administrative, financial and engineering practices, with due regard to environmental factors, and in accordance with the Resettlement Policy, Environmental and Social Management Framework, and Project Implementation Manual; and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for said Parts of the Project, including their counterpart contributions at levels satisfactory to the Association;

(b) comply with the procedures for hiring of consultants and the procurement of goods and works set forth in Schedule 3 to this Agreement;

(c) comply with the record keeping, auditing and report requirements set forth in Section 4.01 of this Agreement, including the annual auditing of its accounts and financial statements (balance sheets, statements of income and expenses and related statements) required by the Borrower to meet its obligations under Section 4.01 of this Agreement;

(d) take out and maintain with reputable insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(e) in accordance with Section 3.04 of this Agreement: (i) participate in the review of the progress made in carrying out the Project; and (ii) thereafter prepare and implement an action plan, satisfactory to the Association, for the further implementation of the Project;

(f) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of the Project and the performance of their obligations under their respective Grant Agreements;

(g) promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of the Project or the performance by the DAs, ACs, or local community groups of their obligations under the respective Grant Agreements; and

(h) except as the Borrower and the Association shall otherwise agree, neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving their respective Grant Agreements.

12. Prior to implementation of the Project, each Assembly shall execute a Grant Agreement with the Borrower. The Grant Agreements shall include provisions to the effect that each Assembly shall:

(a) prior to signing works or goods contracts for the Project or Grant Agreements: (i) establish and maintain a financial management system satisfactory to the Association; (ii) establish a project team, with staff in adequate numbers and with qualifications and experience satisfactory to the Association; and (iii) appoint key staff, with qualifications and experience satisfactory to the Association; and

(b) provide the required information to MLGRD for the preparation of the Financial Monitoring Report referred to in Section 4.02 within thirty days of the end of each quarter.

13. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 5, 2007, 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 March 5, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3) (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term “Authorized Allocation” means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 6,000,000.

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

3. (a) DAs which have met the criteria set forth in paragraph 8 of Schedule 4 may be eligible to establish Advance Accounts. The Borrower shall withdraw from the Special Account and deposit into each such Advance Account funds to assist the Beneficiary of such account to pay for works, goods and services under the Project. Such withdrawals and deposits shall be in amounts sufficient to assist each beneficiary, in the manner contemplated in Schedule 4 to this Agreement, to pay for such goods, works and services in due course, provided that at no time shall the Borrower cause the amount held in any Advance Account to exceed: the equivalent of \$20,000.

(b) Payments out of Advance Accounts shall only be made for eligible expenditures in respect of Categories (1) to (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) Any withdrawal from any Advance Account must be justified to the Borrower by the same documentation and other evidence regarding eligible expenditures provided for under paragraph 3 of this Schedule.

(d) If the Association or the Borrower shall have determined at any time that any amount outstanding in any Advance Accounts will not be required to cover further payments for eligible expenditures, the beneficiary of such Advance Account shall,

promptly upon notice from the Association or the Borrower, refund to the Special Account such outstanding amount.

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

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

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

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

