

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H072-AF

Development Grant Agreement

(Emergency National Solidarity Project)

between

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 20, 2004

Public Disclosure Authorized



GRANT NUMBER H072-AF

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated January 20, 2004, between TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement; and

(C) the Recipient has obtained, or intends to apply for, cofinancing for this Project from other international organizations and donors, including the Afghanistan Reconstruction Trust Fund (ARTF), administered by the Association;

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) with the modifications set forth in Schedule 6 to this Agreement 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) “Block Grants” means the grants made available by the Recipient to finance the costs of goods, works, and services for Sub-Projects under Part A of the Project;

(b) “Community Empowerment Project” means the Emergency Community Empowerment & Public Works Project (Grant No. H009), a project being carried out by the Recipient with financial assistance from the Association;

(c) “Environmental and Social Framework” means the Recipient’s Environmental and Social Safeguards Framework which sets out, among other things: (i) key principles for social and environmental management of Sub-projects; (ii) procedures to screen and process Sub-Projects for significant social and environmental impacts, and to assist in mitigating impacts; (iii) procedures to ensure that these principles and procedures are properly applied; and (iv) guidelines for capacity building and monitoring;

(d) “Facilitating Partners” means international and national non-governmental organizations and agencies that assist the Recipient in carrying out the Project through, among other things, assistance with conducting elections for Community Development Councils; facilitating consultative community planning exercises, including Village Development Plans; providing technical assistance in designing and preparing Sub-Project proposals; support to communities in implementing Sub-Projects; training communities in book-keeping, procurement, contracting; and conducting monitoring, evaluation and reporting;

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

(f) “Fiscal Year” means the Recipient’s fiscal year, commencing on March 21 of each calendar year and ending on March 20 of the following calendar year;

(g) “Mine Risk-Management Procedures” means the Procedures for Mine Risk Management in World Bank Funded Projects in Afghanistan, a framework document that prescribes various measures and procedures to be followed for carrying out activities that could involve, or could potentially involve, exposure or contact with mines;

(h) “MRRD” means the Recipient’s Ministry of Rural Rehabilitation and Development or any successor entity thereto;

(i) “Operational Manual” means the project implementation and operation manual to be adopted by the Recipient and other entities responsible for carrying out the Project, setting forth the procedures governing the operation of the Project, as the same may be amended from time to time, and such term includes any schedules to the Operational Manual, provided however, that in the event of a conflict between this Agreement and the Operational Manual, the provisions of this Agreement shall prevail;

(j) “Oversight Consultant” means a consulting firm engaged by the Recipient to support MRRD in overall project management and supervision, including appraising community project proposals, coordinating financial management

arrangements of Sub-Projects (including effecting fund transfers, tranche payments, record keeping, and accounts), supervising the performance of Facilitating Partners, planning and conducting staff training and capacity development, undertaking technical and financial monitoring, managing a management information system, and producing consolidated progress reports;

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

(l) “Steering Committee” means an advisory committee comprising key stake holders, constituted to aid and assist the MRRD with policy formulation and direction, and overseeing program implementation; and

(m) “Sub-Project” means a reconstruction and development project or scheme to be carried out by a community with the aid and assistance of its Facilitation Partners under Part A of the Project, which meets the eligibility criteria to receive financing in the form of Block Grants under this Project.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to sixty six million one hundred thousand Special Drawing Rights (SDR 66,100,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in its central bank, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.05 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 Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.06. The Minister of Finance, Transitional Islamic State of Afghanistan, or any person whom he or she shall designate in writing, is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 technical, administrative, financial, and engineering practices, 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 Recipient and the Association shall otherwise agree, the Recipient 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 Grant 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 Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient 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 Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient 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 Recipient shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Grant Account is made, 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 such 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 Grant Account were made on the basis of statements of expenditure, the Recipient 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 Grant 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 expenditures 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 Recipient's progress reporting obligations set out in paragraph C.7 (iii) of Schedule 4 to this Agreement, the Recipient 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 Grant, 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 Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty-five days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

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

(a) evidence that the Recipient has finalized the Operational Manual approved by the Association for carrying the Project:

(b) adequate financial management arrangements, satisfactory and acceptable to the Association, have been made for carrying out the Project, including appointment of a chief financial officer and notification of the officer's terms of references; and

(c) submission of satisfactory and acceptable audited financial statements for the Community Empowerment Project for the Fiscal Year that ended on March 21, 2003.

Section 5.02. 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 VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

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

For the Recipient:

Ministry of Finance
Kabul
Transitional Islamic State of Afghanistan

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 the Transitional Islamic State of Afghanistan, Kabul, as of the day and year first above written.

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

By /s/ Abdul Salam Rahimy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ William Byrd

Authorized Representative
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Block Grants	50,330,000	100%
(2) Goods	765,000	100%
(3) Consultants' services, including audits for Parts A, B, and C of the Project; and training	12,770,000	100%
(4) Consultants' services, including audit for Part D of the Project	1,400,000	100%
(5) Incremental Operating Costs	835,000	100%
TOTAL	<u>66,100,000</u> =====	

2. For the purposes of this Schedule, the term "Incremental Operating Costs" means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, insurance costs, office administration costs, banking charges, utility charges, domestic travel and per diem allowances, but excluding salaries of the officials of the Recipient's civil service.

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.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts

costing less than \$200,000 equivalent each; (ii) services under contracts costing less than \$100,000 equivalent for consulting firms and \$50,000 equivalent for individual consultants; (iii) training; (iv) Block Grants; and (v) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen community level governance in Afghanistan and to assist in reconstruction and development of rural communities by supporting certain components of the Recipient's National Solidarity Program.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objective:

Part A: Grants for Community Sub-Projects

Block Grants for local communities to carry out Sub-Projects involving reconstruction and development activities through a facilitated participatory planning process. These activities shall focus on, among other things, community infrastructure, development of human capital, savings and credit schemes for women and disabled, and asset transfers of tools and equipment for women and disabled.

Part B: Community Facilitation and Sub-Project Preparation

Supporting local communities through: (i) facilitation exercises to establish, through elections, inclusive Community Development Councils and identify local development needs and priorities; (ii) assistance for preparing Community Development Plans and Sub-Project proposals; (iii) assistance in carrying out sub-projects; and (iv) capacity building for members of local communities and their Community Development Councils.

Part C: Capacity Building and Implementation Support

Provision of consultants' services for capacity building in, and implementation support to, the MRRD. These services will strengthen local communities capacity in financial management, procurement, and technical skills. The Project will also augment the MRRD's physical capacity to supervise and implement the Project by providing vehicles, radio equipment, computers, and furniture for field offices.

Part D: External Monitoring and Evaluation

Provision of consultant's services for external monitoring, evaluation, and studies to verify implementation status, assess achievement of Project objectives and outcomes, and undertake research on specific policy and implementation issues.

* * *

The Project is expected to be completed by September 30, 2006.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with: (i) 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 (ii) the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods 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 goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraph 2.54 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient.

Part C: Other Procurement Procedures

1. International and National Shopping

(a) Goods estimated to cost \$200,000 equivalent or less per contract may be procured under contracts awarded on the basis of international shopping procedures, respectively, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Goods estimated to cost \$100,000 equivalent or less per contract may be procured under contracts awarded on the basis of national shopping procedures, respectively, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Direct Contracting

Goods estimated to cost less than \$10,000 equivalent per contract may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Community Participation under Sub-Projects

Goods and works for Sub-Projects under Part A of the Project estimated to cost the equivalent of \$200 for each family up to an aggregate amount not exceeding \$60,000 equivalent for each community, may be carried out directly by the community or be procured through either of the following methods and in accordance with paragraph 3.15 of the Guidelines:

- (a) direct contracting of all or part of the works to NGOs, community organizations, and qualified domestic contractors and/or suppliers;
- (b) obtaining quotations from qualified domestic contractors with respect to all or part of the works; and
- (c) award sub-projects (works) estimated to cost \$5,000 equivalent or more, through competitive bidding.

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 shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost more than \$200,000 equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) For the first three (3) contracts for goods to be awarded under international or national shopping procedures, the following procedures shall apply:

- (i) prior to requesting quotations the Recipient shall furnish to the Association, for its review, the draft documents requesting such quotations;
- (ii) prior to the execution of any contract under shopping procedures, the Recipient shall provide to the Association a report on the comparison of price quotations received; 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: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Association in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 for the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services costing less than \$200,000 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.

2. Single Source Selection

Notwithstanding the provisions of Part B above, the services of existing Facilitating Partners and the Oversight Consultant engaged by the Recipient under the Community Empowerment Project may be used for this Project in accordance with single-source selection procedures. However, the services of any additional Facilitation Partners for this Project shall be procured in accordance with the provisions of Part B, above, of this Section.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants 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

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$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 qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Overall Project Implementation and Coordination

1. The Recipient shall vest responsibility for overall implementation of the Project in MRRD. The Recipient shall ensure that the MRRD carries out the Project in accordance with the Operational Manual.

2. (a) The Recipient shall cause the MRRD to: (i) carry out the procurement procedures under the Project; (ii) prepare reports on the progress achieved in implementing the Project; and (iii) submit these reports to the Association in a timely and satisfactory manner.

(b) The Recipient shall ensure that a finance officer is appointed in a province before it makes any transfers of Grant funds to that province.

3. The Recipient shall cause the MRRD to carry out the Project by undertaking periodic consultations with the Steering Committee. The composition and terms of reference of the Steering Committee shall not be changed without the Association's prior approval.

B. Sub-Projects

4. (a) To be eligible for a Block Grant, a beneficiary community must prepare and furnish a Sub-Project proposal to the Recipient that fully satisfies the eligibility criteria specified in the Operational Manual and the Environmental and Social Framework.

(b) In evaluating each Sub-Project proposal, consideration shall be given to the community's capacity to carry out, manage and maintain the Sub-Project in conformity with appropriate administrative, financial, technical, environmental and managerial standards.

5. The Recipient, through the MRRD, shall make appropriate amounts of the proceeds of the Grant available, as a Block Grant, to the beneficiary community under a block-grant agreement or other appropriate legal agreement(s) to be entered into by representatives of the community beneficiary and the Recipient, all under terms and conditions which shall have been approved by the Association. The legal agreement(s) shall provide for rights adequate to protect the interests of the Association and the Recipient, including to the extent that it shall be appropriate to:

(i) require the community to carry out the Sub-Project with due diligence and efficiency and in accordance with sound administrative, financial, technical and managerial standards; and maintain adequate records for the Sub-Project concerned;

(ii) require that all goods, works, and services required for the Sub-Project shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(iii) require that all goods, works, and services shall be used exclusively in the carrying out of the Sub-Project;

(iv) inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, plants and construction included in the Sub-Project, the operation thereof, and any relevant records and documents;

(v) require that the Sub-Project complies with the environmental, resettlement, and social standards set forth in the Environmental and Social Framework; and

(vi) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Block Grant upon the failure by the Beneficiary to perform any of its obligations under the legal agreement(s).

6. The Recipient shall ensure that Sub-Projects will not be implemented without appropriate mine risk-management measures and procedures in accordance with the Mine Risk-Management Procedures.

C. Progress Reports and Mid-Term Review

7. The Recipient shall:

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

(ii) ensure that all monitoring and evaluation teams include staff with expertise in financial management satisfactory to the Association;

(iii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association:

(a) on a quarterly basis, commencing not later than forty-five days after the end of the first calendar quarter after the Effective Date, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof;

- (b) on a monthly basis commencing not later than fourteen days after the end of the first full month after the Effective Date, a summary report on project implementation; and
- (c) on or about April 30, 2005, a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (i) of this section and consolidating the results of the reports referred to under subparagraph (iii) (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
- (iv) review with the Association, by June 30, 2005, or such later date as the Association shall request, the report referred to in subparagraph (ii) (c) of this paragraph, 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 (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, works, and services required for the Project and to be financed out of the proceeds of the Grant 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 \$1,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant 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, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05 and Article VII, are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “credit” is modified to read “grant”; except that where used in Sections 2.03 (b), 6.02(a)(ii) and 6.02(c)(i), as modified below, the term “credit” shall continue to read “credit”.
 - (d) The term “Credit Account” is modified to read “Grant Account”.
 - (e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Article IV is modified as follows:
 - (a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable.

 - (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”
 - (b) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

- (b) Section 4.03 and its heading are modified to read as follows:

“Section 4.03 Amount of the Grant.

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02(a)(ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02(c)(i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

6. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”