

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER TF 052452 - AF

ARTF Grant Agreement

(Microfinance Support for Poverty Reduction Project)

between

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Afghanistan Reconstruction Trust Fund)**

Dated July 10, 2003

GRANT NUMBER TF 052452 - AF

ARTF GRANT AGREEMENT

AGREEMENT, dated July 10, 2003, between TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the Administrator) of grant funds (the Grant Funds) contributed by various donors (collectively the Donors) to the Afghanistan Reconstruction Trust Fund (ARTF).

WHEREAS (A) the Donors have agreed to provide the Grant Funds to the Recipient in support of its reconstruction program;

(B) the Donors have requested the Administrator, and the Administrator has agreed, to administer the Grant Funds;

(C) the Administrator has established ARTF for purposes of receiving and administering the Grant Funds; and

(D) the Grant Funds shall finance, inter alia, such investment and/or sector programs and activities as shall from time to time be recommended by the Minister of Finance of the Recipient and approved by the Management Committee of ARTF;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Administrator, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Article II;
- (iii) Section 3.01;
- (iv) Sections 4.01, 4.02, 4.05 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
- (vii) Article VIII;
- (viii) Article IX;
- (ix) Article X; and
- (x) Article XI.

- (b) The General Conditions shall be modified as follows:
 - (i) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (ii) the term “Development Credit Agreement”, wherever used in the General Conditions, means this ARTF Grant Agreement;
 - (iii) the term “Credit” or “credit”, wherever used in the General Conditions, means the Grant; and
 - (iv) the term “Credit Account”, wherever used in the General conditions, means the Grant Account.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the preamble to this Agreement shall have the respective meanings therein set forth; and the following additional terms have the following meanings:

(a) “Beneficiary” means a village or neighborhood community or group (including poor and low income people, particularly women) which meets the criteria specified in the Project Implementation Plan for the making of Sub-Grants or Sub-Loans and to which or for whose benefit a Sub-Grant or, as the case may require, a Sub-Loan is made or proposed to be made, including: (i) people with very low asset levels and few income earning opportunities; (ii) economically active persons relying on informal sector activities for a living; (iii) micro and small enterprises; and (iv) an MFI;

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

(c) Microfinance Project ”means the Project described in Schedule 2 to the ARTF Grant Agreement (TF052081) dated June 4, 2003 between the Recipient and the Administrator, as the same may be amended from time to time by agreement between the Recipient and the Administrator;

(d) “MFI” means a microfinance provider or institution, determined by the Recipient and the Administrator as capable of assisting in the fulfillment of the objectives of the Project, and includes an NGO selected for participation in the Project;

(e) “MISFA” means the Microfinance Investment and Support Facility for Afghanistan, referred to in Part A.2 (b) of Schedule 4 to this Agreement, which will manage Project funds and provide the required coordination and support;

(f) “MRRD” means the Recipient’s Ministry of Rural Reconstruction and Development;

(g) “NGO” means a non-profit legal entity, determined by the Recipient and the Administrator as capable of assisting in the fulfillment of the objectives of the Project;

(h) “Project Implementation Plan” means the Project Implementation Plan” referred to in Part A. 1 (a) of Schedule 4 to this Agreement;

(i) “REDPAL” means the Rural Enterprise Development and Promotion of Alternative Livelihoods Department established in MRRD to promote, among other things, rural non-farm income generating activities and referred to in Part A. 2 (a) of Schedule 4 to this Agreement;

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

(k) “Sub-Grant” means a Sub-Grant made under the Project for the carrying out of one or more Sub- Projects;

(l) “Sub-Grant Agreement” means the agreement referred to in Part B.2 of Schedule 4 to this Agreement;

(m) ”Sub-Loan” means a Sub-Loan made under the Project for the carrying out of one or more Sub-Projects;

(n) Sub-Loan Agreement means the agreement referred to in Part B.2 of Schedule 4 to this Agreement; and

(o) “Sub-Project” means a project or activity to be carried out under the Project which, having met the eligibility criteria set out in the Project Implementation Plan and the provisions of Schedule 4 to this Agreement, shall be eligible for financing, on a grant or loan basis, in accordance with the provisions of the Project Implementation Plan.

ARTICLE II

The Grant

Section 2.01. The Administrator 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 four million Dollars (\$4,000,000).

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 Administrator 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 Grant and amounts paid (or, if the Association shall so agree, to be paid) under Sub-Grants 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 Administrator. 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 September 30, 2005 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

Section 2.04. Disbursement from the proceeds of the Grant (including deposits into the Special Account) shall be made only to the extent that resources adequate to meet such disbursement shall have been transferred from the Donors to ARTF.

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 through MRRD with due diligence and efficiency and in conformity with the Project Implementation Plan and appropriate administrative, financial and microfinancing 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 Administrator 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 Administrator shall otherwise agree, procurement of the goods 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 (c) of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator 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 Administrator, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain or cause to be maintained, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Administrator, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Administrator, consistently applied, by independent auditors acceptable to the Administrator; (ii) furnish to the Administrator as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and (iii) furnish to the Administrator such other information concerning said records and accounts, and the audit thereof as the Administrator shall 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) maintain in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures; (ii) retain, until at least one year after the Administrator has received the audit report for 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; (iii) enable the Administrator's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Part C.3 (b) of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Administrator a financial monitoring report, in form and substance satisfactory to the Administrator, 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 Project implementation;
- (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 Administrator 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 each such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Administrator not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness

Section 5.01. This Agreement shall become effective upon signature thereof by the parties hereto.

Section 5.02. This Agreement shall continue in effect until the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VI

Representatives of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient shall be the 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:

Minister of Finance
Kabul, Transitional Islamic State of Afghanistan

For the Administrator:

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

Cable address:

Telex:

INDEVAS

MCI 24823
MCI 64145

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

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

By /s/ Ashraf Ghani

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ William Byrd

Authorized Representative

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 U.S. Dollars Equivalent)</u> | <u>% of Expenditures to be Financed</u> |
|--------------------------------------|---|---|
| (1) Goods | 460,000 | 100% |
| (2) Consultants' services and audits | 840,000 | 100% |
| (3) Training | 100,000 | 100% |
| (4) Incremental Operating Costs | 600,000 | 100% |
| (5) Sub-Grants and Sub-Loans | 2,000,000 | 100% of amounts disbursed |
| TOTAL | <u>4,000,000</u> ===== | |

2. For the purposes of this Schedule, the term "Incremental Operating Costs" means: (i) the incremental expenses incurred on account of Project implementation and management, including the installation, operation and maintenance of vehicles, computers and office equipment, communication and insurance costs, office administration costs, Special Account banking charges, utility charges, domestic travel and per diem allowances, but excluding salaries of the officials of the Recipient's civil service; and (ii) with respect to MFIs, the incremental expenses incurred on account of Sub-Projects, including the installation, operation and maintenance of vehicles, computers and office equipment, communication and insurance costs, office administration costs, utility charges, domestic travel, as well as salaries, allowances and other emoluments of staff of MFIs appointed to posts created after the signing of the relevant MFI Sub-Loan Agreement or, as the case may be, MFI Sub-Grant Agreement.

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 Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) all goods; (ii) services under contracts costing less than (A) \$100,000 equivalent for consulting firms, and (B) \$50,000 equivalent for individual consultants; and (iii) training, audits, Sub-Grants, Sub-Loans and Incremental Operating Costs, all under such terms and conditions as the Administrator shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objectives of the Project which continues the program of reconstruction activities set forth in the Microfinance Fund Project are to: (i) help the population of the Recipient's territory to (A) improve their livelihoods, (B) make the transition from dependence on humanitarian assistance to economic independence, and (C) empower them to build on their entrepreneurial spirit and skills; (ii) provide to low-income people, through existing microfinance facilities, a range of financial services such as (A) income-generating and enterprise loans, (B) saving services, and (C) consumer loans; and (iii) establish the foundations of a strong and sustainable microfinance sector.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Administrator may agree upon from time to time to achieve such objectives.

Part A: Microfinance Fund

Establishment and operation of a microfinance fund to provide Sub-Loans and Sub-Grants: (i) to MFIs for the funding of Sub-Projects to be carried out by eligible Beneficiaries; and (ii) for capital support and capacity building.

Part B: Capacity Building of Microfinance fund Providers

Capacity building of MFIs, including: (i) the strengthening of their governance structure; (ii) the development of their management information and accounting systems; (iii) the standardization of their monitoring and/or reporting requirements; (iv) strengthening portfolio management; and (v) training of staff of the MFIs in the execution of poverty reduction programs.

Part C: Implementation Support

Provision of implementation support to MRRD through a twinning arrangement with a firm to build local capacity and strengthen MISFA as an independent and autonomous institution.

Part D: Strengthening Microfinance Institutions

1. Development of a sustainable microfinance sector, including: (i) the strengthening of the capacity of selected MFIs to deliver credit and other financial services; (ii) assisting such MFIs to move towards operational and financial self sufficiency; (iii) supporting such MFIs in the planning and carrying out of microfinance programs; and (iv) improving the effectiveness of MFIs to carry out poverty reduction

programs, including the making of Grants to Beneficiaries for the carrying out of business and other income-generating projects or activities.

2. Strengthening the capacity of MRRD to manage and monitor grant funds.
3. The conduct of study tours and training of staff of MRRD, MISFA and MFIs.

Part E: Microfinance Investment and Support Facility for Afghanistan (MISFA)

The establishment of MISFA as an independent and autonomous apex microfinance institution to provide continuity of support to MFIs and ensure long term development and sustainability of the microfinance sector.

* * *

The Project is expected to be completed by March 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with: (a) 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 (b) the provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$50,000 or more 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 the procedures set out in the Annex to this Schedule.

National Shopping

2. Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Administrator 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 Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first contract for goods, irrespective of value, awarded under shopping procedures, the following procedures shall apply:

- (i) prior to requesting quotations under shopping procedures, the Recipient shall furnish to the Administrator, 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 Administrator a report on the comparison and evaluation of 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 following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, 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 \$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 Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$200,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Administrator 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 Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) the first contract for the employment of consulting firms, irrespective of value; and (ii) each subsequent contract 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: (i) the first contract for the employment of individual consultants, irrespective of value; and (ii) each subsequent contract 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 Administrator 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.

**ANNEX
to
SCHEDULE 3**

Procedures for National Competitive Bidding

A. Advertising

1. The invitation for bids shall be advertised in a newspaper of local circulation in the areas where the goods are to be supplied. In those areas where this is not possible, the invitation for bids shall be posted at such place or places as shall be appropriate.
2. The invitation for bids shall be in local language and in such other language as may be deemed appropriate by the Recipient's department or agency concerned, and shall include the information referred to in the model invitation for bids set forth in the Administrator's sample bidding documents for procurement of goods published by the Administrator on January 1995 and January 2001, respectively.
3. With due regard to the nature of the goods to be supplied, the time period for bid submission from the date of invitation shall be sufficient to allow potential bidders a reasonable time to prepare and submit their bids. It shall be no less than thirty (30) calendar days, unless otherwise agreed with the Administrator.

B. Eligibility

1. The eligibility of bidders and the origin of goods supplied shall be as defined under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines).
2. Foreign bidders shall be allowed to bid, if they wish to do so.
3. Joint ventures between foreign and local firms shall not be a condition for eligibility. Foreign bidders shall be allowed to bid alone. Nevertheless, foreign bidders may be required to have a local agent/intermediary in the Recipient's territory.

C. Bidding

1. In addition to the invitation for bids, the bidding documents shall include the following:
 - (a) instructions to bidders, including the criteria to be used for bid evaluations;

- (b) conditions of contract;
- (c) technical specifications;
- (d) bid form and price schedules; and
- (e) performance security (optional for bids below a dollar equivalent sum to be agreed with the Administrator).

2. Bids may be expressed in local currency or in such other foreign currency as may be set forth in the invitation for bids. If the currency of payment set forth in the invitation for bids is the local currency, the invitations may indicate that there is no obligation on the part of the Recipient's department or agency requesting the bids to convert into foreign currency the amounts to be paid.

3. Bidding documents shall be prepared in the local language or in such other language as may be deemed appropriate by the Recipient's department or agency concerned.

4. Bids may be delivered by mail or by hand at the place set forth for such purposes in the invitation for bids.

5. Bids shall be opened publicly to allow representatives of the bidders to attend if they so desire. Bids shall not be modified after the opening of bids except to correct arithmetical errors. All bids shall be opened at the same time.

6. Bids may not be rejected for the sole purpose of obtaining lower bids. The Recipient shall consult with the Administrator prior to rejecting all bids or soliciting new bids. All bids may not be rejected and new bids invited on the same specifications solely for the purposes of obtaining lower prices, except in cases where the lowest evaluated bid exceeds the cost estimates by a substantial amount. In such cases, the Recipient may, as an alternative to rebidding and with the prior concurrence of the Administrator, negotiate with the lowest evaluated bidder to try to obtain a satisfactory contract, and, failing a satisfactory response, with the next lowest evaluated bidder. Rejection of all bids may be permissible when bids are not substantially responsive or in case of a lack of effective competition.

7. In the comparison of bids between local and foreign bidders, no domestic or regional preference to local bidders shall apply. Bids shall be compared on the basis of delivered price, inclusive of any prevailing duties.

8. Contracts shall be awarded to the lowest evaluated responsive bidder. Price negotiation with bidders shall not be undertaken before the contract is awarded except as provided in paragraph 6 above.

9. The award of contract shall be made within the period specified in the bidding documents. This period shall be determined in each case depending on the complexity of the contract and the approval.

10. A bid evaluation report shall be prepared by the Recipient's department or agency requesting the bids setting out a record of all bids submitted, the reasons for disqualification of any bids, the criteria, weighing and evaluation of all responsive bids, the recommended award, and, if recommended award is to other than the lowest price bidder, the reasons therefore. The concerned Recipient's department or agency shall furnish to the Administrator a translation in the English language of such bid evaluation report in accordance with paragraphs 2 and 3 or Appendix 1 to the Guidelines.

SCHEDULE 4

Implementation Program

A. General

1. (a) The Recipient shall maintain a Project Implementation Plan in form and substance satisfactory to the Administrator. The Project Implementation Plan shall set out details of all procedures, guidelines, timetables and criteria required for the Project, including the financial, administrative and operational arrangements relating to the carrying out of the Project.

(b) The Recipient shall carry out the Project in accordance with the Project Implementation Plan and, except as the Administrator shall otherwise agree, the Recipient shall not amend or waive any provision of the Project Implementation Plan if, in the opinion of the Administrator, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Recipient shall maintain MRRD, REDPAL and MISFA in a form and with functions, membership, staffing and resources satisfactory to the Administrator.

(b) MRRD and MISFA shall be jointly responsible for the day-to-day administration and carrying out of the Project.

(c) MISFA's functions shall include: (i) the provision of on-lending funds to MFIs that serve the poor; (ii) accounting, disbursement and administrative services related to Project implementation; (iii) the maintenance of accounts and the creation of management information systems for regular and timely reporting; (iv) the monitoring of activities of all MFIs participating in the Project; (v) the preparation of quarterly progress reports; and (vi) the coordination of implementation activities and liaising between MFIs, the Administrator and departments and line ministries of the Recipient and Project donors.

(d) The Recipient shall continue to employ a Project Director with qualifications and experience, and upon terms and conditions, satisfactory to the Administrator. The Project Director shall oversee the operations of MISFA and assist MRRD in the carrying out of its functions under the Project.

B. Subprojects

1. (a) To be eligible for a Sub-Grant or a Sub-Loan, a Beneficiary must furnish a Sub-Project proposal to the Recipient that fully satisfies the criteria specified in the

Project Implementation Plan for Sub-Grant financing or, as the case may be, Sub-Loan financing.

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

2. The Recipient shall, through MRRD and MISFA, make appropriate amounts of the proceeds of the Grant available, as a Sub-Grant or, as appropriate, a Sub-Loan to a Beneficiary under a Sub-Grant Agreement or, as the case may be, a Sub-Loan Agreement to be entered into by the Beneficiary, MMRD and MISFA, as the case may require. The Sub-Grant Agreement or the Sub-Loan Agreement shall provide for rights adequate to protect the interests of the Administrator and the Recipient including to the extent that it shall be appropriate the right to:

- (i) require the Beneficiary 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 and services required for the Sub-Project shall be procured in accordance with the provisions of Schedule 3 to this Agreement;
- (iii) require that such goods and services shall be used exclusively in the carrying out of the Sub-Project;
- (iv) inspect, by itself or jointly with representatives of the Administrator if the Administrator shall so request, any goods, works, plants and construction included in the Sub-Project, the operation thereof, and any relevant records and documents; and
- (v) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-Grant or, as the case may be, the Sub-Loan upon the failure by the Beneficiary to perform any of its obligations under the Sub-Grant Agreement or the Sub-Loan Agreement.

C. Reports and Reviews

3. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set out in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof; and

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator on a quarterly basis, commencing October 1, 2003, a report on the progress achieved in the carrying out of the Project and the achievement of the objectives thereof.

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 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 \$400,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$ 800,000.
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 Administrator 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 Administrator 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 Administrator 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 Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Administrator 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 Administrator 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 Administrator 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 Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall

be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Administrator, refund to the Administrator such outstanding amount.

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

(d) Refunds to the Administrator 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

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modification by agreement between the Recipient and the Administrator:

1. Increase in outreach with appropriate geographical coverage and particular emphasis on poverty stricken areas and women.
2. Qualitative impact on the more intangible aspects of helping clients rebuild their lives after twenty years of war.
3. Improvements in the types and quality of financial products and services offered to low-income clients.
4. Established systems for microfinance delivery by the microfinance institutions and NGOs (best practices, trained staff, improved services delivery, etc.).
5. Appointment of a Board of Directors and management of MISFA.