

CONFORMED COPY

**CREDIT NUMBER 3990 BEN
GRANT NUMBER H128 BEN**

Development Financing Agreement

(National Community-Driven Development Support Project)

between

REPUBLIC OF BENIN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 4, 2004

CREDIT NUMBER 3990 BEN
GRANT NUMBER H128 BEN

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated November 4, 2004, between REPUBLIC OF BENIN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated August 13, 2004, describing a program of actions and objectives designed to support community-driven development activities (the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) 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;

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of Part B of the Project before disbursements of the proceeds of the Credit are made; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Advisory Service Grant” means a grant made, or proposed to be made, by PES (as hereinafter defined) to finance a Subproject (as hereinafter defined) under Part C.2 of the Project;

(b) “*Arrondissement*” means an administrative area of the Borrower, established pursuant to the Borrower’s Law No. 97-029 dated January 15, 1999, representing a designated area and population within the territory of the Borrower;

(c) “Borrower’s Financing” means the yearly amount referred to in Section 3.05 of this Agreement;

(d) “CDP” means the Communal Development Plan to be prepared and adopted by each Commune (as hereinafter defined) pursuant to Article 84 of the Borrower’s Law No. 97-029 dated January 15, 1999;

(e) “CFA Francs” or “CFAF” means the currency of the Borrower;

(f) “CNDCC” means *Comité National de Développement Conduit par les Communautés*, National Committee for Community-Driven Development, established and operating pursuant to the Borrower’s Decree No. 2004 - 476 (the CNDCC Decree), dated August 27, 2004, and referred to in paragraphs A.3 and 5 of Schedule 4 to this Agreement;

(g) “CNDCC Bureau” means the Bureau of the CNDCC, established and operating pursuant to the CNDCC Decree, and referred to in paragraphs A.3 and 5 of Schedule 4 to this Agreement;

(h) “Commune” means the lowest level of decentralized local government established and operating pursuant to the Borrower’s Laws No. 97-028 and No. 97-029, both dated January 15, 1999 (the Commune Laws);

(i) “Communal Beneficiary” means a Commune which has met the eligibility criteria set out in the Project Implementation Manual (as hereinafter defined) and the requirements of paragraph B of Schedule 4 to this Agreement and, as a result, has received or is entitled to receive a Communal Grant (as hereinafter defined) for the carrying out of a Subproject under Part B.1 of the Project;

(j) “Communal Grant” means a grant made, or proposed to be made, by PES to finance a Subproject under Part B.1 of the Project;

(k) “CTC” means the Communal Technical Committee to be established by a Commune to appraise a Subproject prepared by a Local Community Beneficiary (as hereinafter defined) located in the territory of such Commune, and consisting of representatives from such Commune, relevant ministries and civil society;

(l) “Department” means an administrative area of the Borrower, established pursuant to the Borrower’s Law No. 97-028 dated January 15, 1999, representing a designated area and population within the territory of the Borrower;

(m) “Environmental and Social Management Framework” means the document, dated January 26, 2004, which: (i) sets out the modalities to be followed by the Borrower in assessing the potential adverse environmental and social impacts of a Subproject, and the measures to be taken to offset, reduce or mitigate such adverse impacts; and (ii) consists of the following sections: environmental and social screening process for Subprojects, guidance for the operation of water management structures, guidance for effective pest management, environmental and social management plan, and medical waste management plan;

(n) “FA” means the Fiduciary Agency employed by PES pursuant to Section 6.01 (e) of this Agreement, and which shall provide assistance to PES, at central and decentralized levels, for all financial and fiduciary aspects of Project implementation;

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

(p) “Financing Agreement” means the agreement to be entered into between the Borrower and a Communal Beneficiary, a Local Community Beneficiary, or a Microfinance Beneficiary (as hereinafter defined), as the case may be, for the purposes of carrying out and financing a Subproject;

(q) “Fiscal Year” means the Borrower’s fiscal year commencing on January 1 and ending on December 31 of the same year;

(r) “Local Community Beneficiary” means a community-based organization established and operating under the laws of the Borrower, which has met the eligibility criteria set out in the Project Implementation Manual and the requirements of paragraph C or paragraph E, as the case may be, of Schedule 4 to this Agreement and, as a result, has received or is entitled to receive a Local Community Grant (as hereinafter defined) for the carrying out of a Subproject under Part B.2 of the Project, or an Advisory Service Grant for the carrying out of a Subproject under Part C.2 of the Project, respectively;

(s) “Local Community Grant” means a grant made, or proposed to be made, by PES to finance a Subproject under Part B.2 of the Project;

(t) “MCPPD” means *Ministère Chargé du Plan, de la Prospective et du Développement*, the Borrower’s Ministry of Planning and Development;

(u) “MFE” means *Ministère des Finances et de l’Economie*, the Borrower’s Ministry of Finance and Economy;

(v) “Microfinance Beneficiary” means a microfinance institution established and operating under the laws of the Borrower, which has met the eligibility criteria set out in the Project Implementation Manual and the requirements of paragraph D of Schedule 4 to this Agreement and, as a result, has received or is entitled to receive a Microfinance Grant (as hereinafter defined) for the carrying out of a Subproject under Part C.1 of the Project;

(w) “Microfinance Grant” means a grant made, or proposed to be made, by PES to finance a Subproject under Part C.1 of the Project;

(x) “Midterm Review” means the review of the progress made in carrying out the Project, referred to in paragraph F.2 of Schedule 4 to this Agreement;

(y) “NGO” means a non-governmental organization, established and operating under the laws and in the territory of the Borrower;

(z) “PES” means the Project Executive Secretariat at MCPPD, to be established pursuant to Section 6.01 (f) of this Agreement under an order from the Borrower (the PES Order), and referred to in paragraph A.5 (a) of Schedule 4 to this Agreement;

(aa) “Procurement Plan” means the Borrower’s procurement plan, dated July 9, 2004, covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

(bb) “Project Account” means the account referred to in Section 3.04 (a) of this Agreement;

(cc) “Project Administrative, Financial and Accounting Manual” means the manual outlining the administrative, financial and accounting arrangements for the

implementation of the Project, referred to in paragraph A.2 of Schedule 4 to this Agreement and adopted pursuant to Section 6.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Project Administrative, Financial and Accounting Manual;

(dd) “Project Implementation Manual” means the manual outlining, *inter alia*, the institutional, disbursement, procurement, and environmental and social management arrangements for the implementation of the Project, referred to in paragraph A.2 of Schedule 4 to this Agreement and adopted pursuant to Section 6.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;

(ee) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on February 19, 2004 and on behalf of the Borrower on February 24, 2004;

(ff) “Project Semester” means the six-month period beginning from the Effective Date and ending six months thereafter (the First Project Semester) and any six-month period beginning at the end of the First Project Semester, or at the end of any subsequent Project Semester;

(gg) “Resettlement Policy Framework” means the document, dated January 26, 2004, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under a Subproject;

(hh) “Small Dam” means a dam not higher than three meters;

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

(jj) “Subproject” means specific activities financed, or proposed to be financed through a Communal Grant or the Borrower’s Financing, as the case may be, under Part B.1 of the Project, a Local Community Grant or the Borrower’s Financing, as the case may be, under Part B.2 of the Project, a Microfinance Grant under Part C.1 of the Project, or an Advisory Service Grant under Part C.2 of the Project; and

(kk) “Technical Support Agency” means an NGO or any other private or public sector entity providing assistance to local communities for, *inter alia*, the identification, appraisal and preparation of Subprojects, and for the supervision and the implementation of such Subprojects.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to twenty-five million seven hundred thousand Special Drawing Rights (SDR 25,700,000) (the Credit); and

(b) an amount in various currencies equivalent to eight million four hundred thousand Special Drawing Rights (SDR 8,400,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in each case in accordance with the provisions of Schedule 1 to this Agreement, for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made under a Communal Grant or a Local Community Grant to meet the reasonable cost of goods, works and services required for a Subproject to be financed under Part B of the Project, in respect of which the withdrawal from the Financing Accounts is requested.

(b) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A and D of the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made under a Microfinance Grant or an Advisory Service Grant to meet the reasonable cost of goods, works and services required for a Subproject to be financed under Part C of the Project, in respect of which the withdrawal from the Credit Account is requested.

(c) The Borrower may, for the purposes of the Project, open and maintain in CFA Francs a separate special 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.

(d) 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 May 30, 2010, 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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 April 1 and October 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 April 1 and October 1 commencing April 1, 2015 and ending October 1, 2044. Each installment to and including the installment payable on October 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 of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the French Republic 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 objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through PES with due diligence and efficiency and in conformity with appropriate administrative, financial, institutional, engineering, environmental, and social 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

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

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

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months 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.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

(a) open and thereafter maintain, for the duration of the Project, an account in CFA Francs (the Project Account) in the Treasury on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial contribution of CFA Francs 100,000,000;

(c) thereafter deposit in the Project Account, at the end of each Project Semester, until the completion of the Project, such amounts as shall be required to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b) above, or whenever the balance of the Project Account shall be less than CFA Francs 50,000,000; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition of those financed from the proceeds of the Financing.

Section 3.05. Without limitation to its obligations under Sections 3.01 and 3.04 of this Agreement, the Borrower shall ensure that for each Fiscal Year, commencing with Fiscal Year 2005, during the implementation of the Project, an amount of CFA Francs 1,200,000,000 (the Borrower's Financing) be made available by the Borrower for the financing of Subprojects under Part B of the Project.

Section 3.06. The Borrower shall ensure that all action which shall be necessary under the Environmental and Social Management Framework and under the Resettlement Policy Framework be taken in a timely and satisfactory manner.

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 and the records and accounts for the Special Account for each Fiscal Year (or other period agreed to by the Association),

commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, 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 Fiscal 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 Fiscal Year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements, records and accounts 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 records and accounts, concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Financing Accounts 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 Financing Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraphs F.1 (b) and F.2 (b) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, 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 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 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) a situation shall have arisen which shall make it impossible that the Program or a significant part thereof, will be carried out; and

(b) the Commune Laws governing the operations of Communes, the CNDCC Decree governing the operations of CNDCC, including the CNDCC Bureau, the PES Order governing the operations of PES, or the Borrower's Law No. 2001-07 dated May 9, 2001 or the Borrower's Decree No. 2003-096 dated March 20, 2003, governing public contract management, both as amended under Section 6.01 (g) of this Agreement, shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

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 Section 5.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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) the Borrower has opened the Project Account and deposited therein the initial contribution referred to in Section 3.04 (b) of this Agreement;

(b) the Borrower has adopted the Project Implementation Manual, and the Project Administrative, Financial and Accounting Manual, both in form and substance satisfactory to the Association;

(c) the Borrower has established an accounting and financial management system for the Project, satisfactory to the Association;

(d) the Borrower has employed the independent auditors referred to in Section 4.01 (b) of this Agreement, in accordance with the provisions of Schedule 3 to this Agreement;

(e) PES has employed: (i) FA; (ii) each of the three coordinators responsible for Part A, Part B and Part C of the Project, respectively, (iii) a grass-roots management training specialist; and (iv) a specialist in monitoring, evaluation and communication, all in accordance with the provisions of Schedule 3 to this Agreement;

(f) the Borrower has issued the PES Order, in form and substance satisfactory to the Association; and

(g) the Borrower has adopted and promulgated legislation, in form and substance satisfactory to the Association, modifying the Borrower's Law No. 2001-07 dated May 9, 2001, and has issued a decree, in form and substance satisfactory to the Association, modifying the Borrower's Decree No. 2003-096 dated March 20, 2003, in order to allow community-based *associations* to operate as public contract managers (*maîtres d'ouvrage public délégués*).

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministère des Finances et de l'Economie
B. P. 302
Cotonou
Republic of Benin

Cable address:	Telex:	Facsimile:
MINFINANCES Cotonou	5009 MINFIN or 5289 MINFIN	(229) 30 18 51 31 53 56

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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF BENIN

By

/s/ Cyrille S. Oguin
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Pedro Alba
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and 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 Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	30,000		90%
(2) Goods	700,000		100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services and audits	5,150,000		90% of foreign expenditures and 80% of local expenditures
(4) Training	1,850,000		100%
(5) Grants for Subprojects:			100% of amounts disbursed
(a) Communal Grants	2,900,000	900,000	
(b) Local Community Grants	8,500,000	6,700,000	
(c) Microfinance Grants	1,650,000		
(d) Advisory Service Grants	1,500,000		

	Amount of the Credit Allocated (Expressed in <u>SDR</u> <u>Equivalent</u>)	Amount of the Grant Allocated (Expressed in <u>SDR</u> <u>Equivalent</u>)	% of Expenditures to be Financed
(6) Operating Costs	550,000		85%
(7) Refunding of Project Preparation Advance	500,000		Amount due pursuant to Section 2.02 (d) of this Agreement
(8) Unallocated	2,370,000	800,000	
TOTAL	<u>25,700,000</u>	<u>8,400,000</u>	

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; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, vehicle operation and maintenance, office equipment maintenance, communication costs, rental expenses, utilities expenses, consumables, transport, travel and accommodation, per diem, supervision costs and salaries of locally contracted staff, but excluding salaries of officials of the Borrower’s civil service; and

(d) the term “Training” means the expenses incurred for per diem, travel, purchase of training materials and rental of facilities, and includes workshops and seminars.

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 270,000, may be made on account of payments made for Eligible Expenditures before that date but after July 15, 2004; and

(b) a Communal Grant, a Local Community Grant, a Microfinance Grant or an Advisory Service Grant under Category (5) unless the Communal Grant, the Local Community Grant, the Microfinance Grant or the Advisory Service Grant, as the case may be, has been made in accordance with the criteria and on terms and conditions set forth or referred to in the Project Implementation Manual and the provisions of Section B, C, D or E, as the case may be, of Schedule 4 to this Agreement, as evidenced by the first three Financing Agreements concluded each Fiscal Year for each such type of Grant furnished to the Association for its prior approval.

4. The Association may require withdrawals from the Credit Account and the Grant 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) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to promote the use of the community-driven development approach by line ministries, decentralized local governments and local communities to improve the access of the poorest communities to basic social and financial services, so that the line ministries and decentralized local governments will be ready for further implementation of community-driven development activities through programmatic support.

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 objective:

Part A: Capacity Building for Ministries, Decentralized Local Governments, and Local Communities to Implement Community-Driven Development Activities

1. Strengthening of the institutional capacities of the public sector, at the central and local levels, to develop and implement community-driven development strategy, policies and program through:

(a) supporting the elaboration of the community-driven development strategy and policies, and the preparation of the related legal framework, through: (i) the provision of technical advisory services to CNDCC and selected ministries; (ii) the provision of training to the staff of CNDCC and selected ministries for, inter alia, monitoring and evaluation of community-driven development programs; and (iii) carrying out national and regional workshops to discuss community-driven development issues and Project implementation; and

(b) strengthening of the institutional and technical capacities of selected ministries to implement community-driven development activities, through: (i) the provision of technical advisory services to such ministries to realign their activities with decentralization; (ii) the preparation of a tool-kit for each such ministry for the information of Communes and local communities regarding norms and standards in the sectors covered by such ministries, and standard documentation for community-driven development activities in such sectors; and (iii) the provision of training to the staff of such ministries at the national and decentralized levels in, inter alia, the following subject matters: elaboration of operational plans for decentralization of the selected ministries in line with community-driven development approach, participation in the participatory process of community-driven development approach by Communes and local

communities, and technical advisory services to be provided by the sector ministries to Communes and local communities regarding community-driven development.

2. strengthening the technical capacities of selected Communes to implement community-driven development activities at the local (Communes and villages) level through the provision of technical advisory services, and the provision of training to the elected officials and the communal staff, including the carrying out of workshops and study tours.

3. strengthening the technical capacities of local communities to plan and implement subprojects within the CDPs through:

(a) supporting the implementation of a grass-roots management training program, through: (i) the provision of technical advisory services to targeted communities by professional trainers and/or field workers to prepare a training package to develop the skills of local communities to implement community-driven activities; (ii) the preparation, production and acquisition of training materials; (iii) the carrying out, by the trainers, of training of targeted local communities; and (iv) the carrying out of study tours;

(b) supporting the preparation and implementation of subprojects by local communities through the provision of technical advisory services by Technical Support Agencies as needed;

(c) supporting the implementation of an advocacy training program to reach the most vulnerable groups, through: (i) the provision of technical advisory services to prepare the program and elaborate specific proposals; (ii) the carrying out of workshops to build consensus and share information among vulnerable groups; (iii) the carrying out of study tours; and (iv) the provision of technical advisory services to implement the proposals; and

(d) supporting the ex-post evaluation of the activities to be carried out under the sub-paragraphs (a), (b) and (c) above, through the provision of technical advisory services and the carrying out of workshops.

4. Strengthening the technical capacities at all levels to provide analysis on, monitoring and evaluation of, and communication on, the activities to be carried out under the Project, through:

(a) supporting the monitoring and evaluation of the activities to be carried out under the Project, through: (i) the provision of training to selected ministries, relevant Communes and local communities regarding the importance of having and using a

monitoring and evaluation system, including data-gathering, analysis and self-evaluation; (ii) the acquisition of a comprehensive information system for data processing for PES, and the acquisition of information system equipment for selected ministries and Communes; (iii) the provision of technical advisory services to PES for the creation of a database regarding the monitoring and evaluation activities under the Project, the carrying out of beneficiary assessment surveys before the Midterm Review and Project end, and the dissemination of data to all stakeholders; and (iv) the carrying out of workshops; and

(b) supporting the preparation and implementation of a communication strategy regarding the activities implemented under the Project, through the provision of technical advisory services to PES, the carrying out of workshops, the provision of training to the staff of selected ministries, and relevant Communes and local communities, and the acquisition and dissemination of information materials.

Part B: Improving Access of the Poor to Basic Services and Infrastructure

1. Supporting PES to provide Communal Grants to Communal Beneficiaries for the financing of Subprojects to support development at the Commune level but addressing multi-village issues, including, inter alia, the financing of nursery and primary education activities other than construction, *arrondissement* health posts, small-scale water management schemes including Small Dams, water networks and inter-village rural roads to be used by several villages within the territory of the Communal Beneficiaries.

2. Supporting PES to provide Local Community Grants to Local Community Beneficiaries for the financing of Subprojects to support development addressing local community issues, including, inter alia, the financing of nursery and primary school facilities, village health posts, small-scale water management schemes, including Small Dams, connections to water networks, wells, and village-connecting rural local roads.

Part C: Improving Access of the Poor to Financial Services for Income-Generating Activities

1. Supporting PES to provide Microfinance Grants to Microfinance Beneficiaries for the financing of Subprojects to improve their capacities to provide financial products and services to poor communities, including, inter alia, the financing of the costs incurred by the Microfinance Beneficiaries in connection with the decentralization of their activities, the training provided by the Microfinance Beneficiaries to local communities, and the provision of technical advisory services to the Microfinance Beneficiaries.

2. Supporting PES to provide Advisory Service Grants to Local Community Beneficiaries for the financing of Subprojects, consisting in the provision of technical

advisory services to strengthen the technical capacities of the Local Community Beneficiaries to improve existing income-generating activities or to engage in new income-generating activities with the possible financial support provided by microfinance institutions.

Part D: Support to Project Management

1. Supporting PES through the provision of technical advisory services, inter alia, by FA, the rehabilitation of offices, and the acquisition of equipment and vehicles.

2. Supporting the implementation of the Environmental and Social Management Framework and the Resettlement Policy Framework, through: (a) the provision of training to the relevant ministries, Communes and local communities; and (b) the provision of technical advisory services for the preparation of the environmental assessments for the Subprojects to be carried out under Part B of the Project.

3. Carrying out financial and technical audits of the Project, CNDCC, and PES, through the provision of technical advisory services.

* * *

The Project is expected to be completed by November 30, 2009.

SCHEDULE 3

Procurement

Section I. General

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

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

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

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

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

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$150,000 equivalent per contract, and works estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$25,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Community Participation. Goods, works and services required for Parts B and C of the Project may be procured on the basis of community participation in accordance with the Simplified guidelines for procurement and disbursement for investments with community participation (dated February 1998), and any other procedures acceptable to the Association, as set forth in the Project Implementation Manual.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

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

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

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association for each contract estimated to cost the equivalent of \$10,000 or more.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) the first two contracts for works and the first two contracts for goods procured on the basis of each applicable method of procurement, irrespective of their estimated cost; (b) each contract for goods estimated to cost the equivalent of \$150,000 or more procured on the basis of International Competitive Bidding; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

Section V. Training, Workshops and Study Tours

Annual programs for training, workshops and study tours to be financed with Financing funds under the Project shall be subject to prior approval of the Association.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. Within one month of the Effective Date, the Borrower shall take all measures necessary on its part to organize, in conjunction with the Association, a workshop for the launching of the Project which shall cover, *inter alia*, disbursement and procurement procedures and detailed timetables for the implementation of the Project.

2. Except as the Association shall otherwise agree, the Borrower shall: (a) apply the criteria, policies, procedures and arrangements set out in the Project Implementation Manual, the Project Administrative, Financial and Accounting Manual, the Procurement Plan, the Environmental and Social Management Framework, and the Resettlement Policy Framework; and (b) not amend or waive, or permit to be amended or waived, the Project Implementation Manual, the Project Administrative, Financial and Accounting Manual, the Procurement Plan, the Environmental and Social Management Framework, and the Resettlement Policy Framework, or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

3. CNDCC and PES

During the execution of the Project, the Borrower shall cause: (a) CNDCC to meet at least once a year, and the CNDCC Bureau at least twice a year; and (b) PES to prepare, not later than one month before all such meetings, a report regarding the implementation of the Project during the preceding year or semester, as the case may be.

4. Annual Consultations

The Borrower shall cause PES to organize annual Departmental workshops to establish annual priorities for local development activities in conformity with the provisions of the Project Implementation Manual.

5. The Borrower shall ensure that, at all times during the execution of the Project:

(a) CNDCC shall be responsible for the overall supervision and monitoring and evaluation of the Project; the CNDCC Bureau shall act for and on behalf of CNDCC between CNDCC meetings; and PES shall be responsible for the day-to-day coordination and implementation of the Project;

(b) the qualifications, experience and performance of the staff within PES shall be satisfactory to the Association;

(c) CNDCC, the CNDCC Bureau, PES and CTCs shall be maintained with functions and composition satisfactory to the Association; and

(d) the relevant ministries, agencies, authorities, and beneficiaries involved in Project implementation shall collaborate with CNDCC, the CNDCC Bureau, PES and CTCs in compliance with the provisions of the CNDCC Decree, the PES Order, the Project Implementation Manual, the Project Administrative, Financial and Accounting Manual, the Procurement Plan, the Environmental and Social Management Framework, and the Resettlement Policy Framework, to assist PES in ensuring effective Project implementation.

B. Subprojects under Part B.1 of the Project and Communal Grants

1. Without limitations upon the provisions of paragraph A.2 above, no Subproject under Part B.1 of the Project shall be eligible for financing out of the proceeds of the Financing unless PES has determined, on the basis of an appraisal conducted, in accordance with the guidelines set forth in the Project Implementation Manual, the Environmental and Social Management Framework, and the Resettlement Policy Framework, that the Subproject satisfies the eligibility criteria specified below and in more detail in the Project Implementation Manual, which shall include, inter alia, the following:

(a) no Borrower's Financing shall be available to finance the Subproject;

(b) the Subproject shall be initiated by a Communal Beneficiary, with or without the assistance of a Technical Support Agency;

(c) the Subproject shall be for any of the types of activities referred to in Part B.1 of the Project;

(d) the Subproject shall be included in the CDP of the Communal Beneficiary;

(e) the Subproject shall be economically, financially, environmentally, socially and technically sound in accordance with the standards specified in the Project Implementation Manual, the Environmental and Social Management Framework and the Resettlement Policy Framework;

(f) an analysis of the environmental and social impacts of the Subproject shall have been undertaken in compliance with the provisions of the Environmental and Social Management Framework, and the Resettlement Policy Framework, and, if applicable, an environmental impact assessment shall have been carried out, and any other environmental and social requirements, including mitigation, compensation, rehabilitation and resettlement measures, provided under the Environmental and Social Management Framework and the Resettlement Policy Framework, shall have been complied with, all in a manner satisfactory to the Association;

(g) adequate arrangements shall be in place for the financing of maintenance and other incremental recurrent costs related to the Subproject;

(h) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to the relevant sector and more generally to health, safety and environmental protection;

(i) the Communal Beneficiary shall provide at least 10% of the estimated costs of the Subproject in the form of cash, land, materials, labor or other services, depending on the nature of the Subproject, and as specified in the Project Implementation Manual; and

(j) no Communal Grant shall be in excess of sixty-five million CFA Francs (CFAF 65,000,000), provided that the global amount of Communal Grants that a Communal Beneficiary can receive shall not be in excess of eighty million CFA Francs (CFAF 80,000,000).

2. Applications for Communal Grants to finance Subprojects under Part B.1 of the Project shall be prepared by the Communal Beneficiaries, with or without the assistance of a Technical Support Agency, and submitted to PES.

3. Where PES approves an application for a Communal Grant, PES finances such application.

4. Subprojects under Part B.1 of the Project shall be carried out pursuant to Financing Agreements, to be concluded between the Borrower and the Communal Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing to be on a grant basis;

(b) the obligation to carry out the Subproject in accordance with the Project Implementation Manual and the Environmental and Social Management Framework, and the Resettlement Policy Framework, with due diligence and efficiency and in accordance with sound environmental, social, technical, financial and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) where applicable, the obligation to carry out, in a manner satisfactory to the Borrower and the Association, an environmental analysis and an environmental assessment, and to adopt adequate environmental and social mitigation measures, including resettlement and rehabilitation of displaced persons in accordance with the provisions of the Environmental and Social Management Framework, and the Resettlement Policy Framework;

(d) for any Subproject involving the construction of a Small Dam, the obligation to commence any works only after a study, satisfactory to the Borrower and the Association, shall have been carried out regarding such Small Dam, such study including: (i) a detailed time-bound plan for the installation of an instrument to monitor and record the performance of the Small Dam; (ii) an operation and maintenance plan; and (iii) an emergency preparedness plan;

(e) the requirement that: (i) the goods, works, and services to be financed from the proceeds of the Communal Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(f) the right of the Borrower to inspect, by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites and construction included in the Subproject, the operations thereof and any relevant records and documents;

(g) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operations and financial conditions of the Subproject; and

(h) the right of the Borrower to suspend or terminate the right of the Communal Beneficiary to use the proceeds of the Communal Grant for the Subproject upon failure by the Communal Beneficiary to perform any of its obligations under its Financing Agreement.

C. Subprojects under Part B.2 of the Project and Local Community Grants

1. Without limitations upon the provisions of paragraph A.2 above, no Subproject under Part B.2 of the Project shall be eligible for financing out of the proceeds of the Financing unless the relevant CTC has determined, on the basis of an appraisal conducted, in accordance with the guidelines set forth in the Project Implementation Manual, the Environmental and Social Management Framework and the Resettlement Policy Framework, that the Subproject satisfies the eligibility criteria specified below and in more detail in the Project Implementation Manual, which shall include, inter alia, the following:

- (a) no Borrower's Financing shall be available to finance the Subproject;
- (b) the Subproject shall be initiated by a Local Community Beneficiary, with or without the assistance of a Technical Support Agency;
- (c) the Subproject shall be for any of the types of activities referred to in Part B.2 of the Project;
- (d) the Subproject shall be included, or planned to be included, in the CDP of the Commune where the Local Community Beneficiary is located;
- (e) the Subproject shall be economically, financially, environmentally, socially and technically sound in accordance with the standards specified in the Project Implementation Manual, the Environmental and Social Management Framework, and the Resettlement Policy Framework;
- (f) an analysis of the environmental and social impacts of the Subproject shall have been undertaken in compliance with the provisions of the Environmental and Social Management Framework and the Resettlement Policy Framework, and, if applicable, an environmental impact assessment shall have been carried out and any other environmental and social requirements, including mitigation, compensation, rehabilitation and resettlement measures, provided under the Environmental and Social Management Framework and the Resettlement Policy Framework, shall have been complied with, all in a manner satisfactory to the Association;
- (g) adequate arrangements shall be in place for the financing of maintenance and other incremental recurrent costs related to the Subproject;

(h) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to the relevant sector and more generally to health, safety and environmental protection;

(i) the Local Community Beneficiary shall contribute to the estimated costs of the Subproject in the form of cash, land, materials, labor or other services, depending on the nature of the Subproject, and as specified in the Project Implementation Manual; and

(j) no Local Community Grant shall be in excess of fifteen million CFA Francs (CFAF 15,000,000), provided that the global amount of Local Community Grants that a Local Community Beneficiary can receive shall not be in excess of fifteen million CFA Francs (CFAF 15,000,000).

2. Applications for Local Community Grants to finance Subprojects under Part B.2 of the Project shall be prepared by the Local Community Beneficiaries, with or without the assistance of a Technical Support Agency, and submitted to PES.

3. Where the relevant CTC approves an application for a Local Community Grant, such CTC shall refer such application to the relevant Commune for final approval. Where the relevant Commune approves the application for the Local Community Grant, such Commune refers such application to PES for financing.

4. Subprojects under Part B.2 of the Project shall be carried out pursuant to Financing Agreements, to be concluded between the Borrower and the Local Community Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing to be on a grant basis;

(b) the obligation to carry out the Subproject in accordance with the Project Implementation Manual, the Environmental and Social Management Framework, and the Resettlement Policy Framework, with due diligence and efficiency and in accordance with sound environmental, social, technical, financial and managerial standards, and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) where applicable, the obligation to carry out, in a manner satisfactory to the Borrower and the Association, an environmental analysis and an environmental assessment, and to adopt adequate environmental and social mitigation measures, including resettlement and rehabilitation of displaced persons in accordance with the

provisions of the Environmental and Social Management Framework, and the Resettlement Policy Framework;

(d) for any Subproject involving the construction of a Small Dam, the obligation to commence any works only after a study, satisfactory to the Borrower and the Association, shall have been carried out regarding such Small Dam, such study including: (i) a detailed time-bound plan for the installation of an instrument to monitor and record the performance of the Small Dam; (ii) an operation and maintenance plan; and (iii) an emergency preparedness plan;

(e) the requirement that: (i) the goods, works, and services to be financed from the proceeds of the Local Community Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(f) the right of the Borrower to inspect, by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites and construction included in the Subproject, the operations thereof and any relevant records and documents;

(g) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operations and financial conditions of the Subproject; and

(h) the right of the Borrower to suspend or terminate the right of the Local Community Beneficiary to use the proceeds of the Local Community Grant for the Subproject upon failure by the Local Community Beneficiary to perform any of its obligations under its Financing Agreement.

D. Subprojects under Part C.1 of the Project and Microfinance Grants

1. Without limitations upon the provisions of paragraph A.2 above, no Subproject under Part C.1 of the Project shall be eligible for financing out of the proceeds of the Credit unless PES has determined, 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 below, and in more detail in the Project Implementation Manual, which shall include, *inter alia*, the following:

(a) the Subproject shall be prepared by a Microfinance Beneficiary, which shall have been invited by PES to make a proposal for a Subproject under Part C.1 of the Project, on the basis of qualifications and experience;

(b) the Subproject shall be for any of the types of activities referred to in Part C.1 of the Project;

(c) the Subproject shall be economically, financially, environmentally, socially and technically sound in accordance with the standards specified in the Project Implementation Manual;

(d) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection; and

(e) no Microfinance Grant shall be in excess of one hundred million CFA Francs (CFAF 100,000,000).

2. Applications for Microfinance Grants to finance Subprojects under part C.1 of the Project shall be prepared by the Microfinance Beneficiaries with or without the assistance of a Technical Support Agency, and submitted to PES.

3. Where PES approves an application for a Microfinance Grant, PES finances such application.

4. Subprojects under Part C.1 of the Project shall be carried out pursuant to Financing Agreements, to be concluded between the Borrower and the Microfinance Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing to be on a grant basis;

(b) the obligation to carry out the Subproject in accordance with the Project Implementation Manual, with due diligence and efficiency and in accordance with sound environmental, social, technical, financial and managerial standards, and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) the requirement that: (i) the goods, works, and services to be financed from the proceeds of the Microfinance Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(d) the right of the Borrower to inspect, by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites and construction

included in the Subproject, the operations thereof and any relevant records and documents;

(e) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request, regarding the administration, operations and financial conditions of the Subproject; and

(f) the right of the Borrower to suspend or terminate the right of the Microfinance Beneficiary to use the proceeds of the Microfinance Grant for the Subproject upon failure by the Microfinance Beneficiary to perform any of its obligations under its Financing Agreement.

E. Subprojects under Part C.2 of the Project and Advisory Service Grants

1. Without limitations upon the provisions of paragraph A.2 above, no Subproject under Part C.2 of the Project shall be eligible for financing out of the proceeds of the Credit unless PES has determined, 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 below and in more detail in the Project Implementation Manual, which shall include, *inter alia*, the following:

(a) the Subproject shall be initiated by a Local Community Beneficiary, with or without the assistance of a Technical Support Agency;

(b) the Subproject shall be for any of the types of activities referred to in Part C.2 of the Project;

(c) the Subproject shall be economically, financially, environmentally, socially and technically sound in accordance with the standards specified in the Project Implementation Manual;

(d) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection; and

(e) no Advisory Service Grant shall be in excess of one million five hundred thousand CFA Francs (CFAF 1,500,000).

2. Applications for Advisory Service Grants to finance Subprojects under Part C.2 of the Project shall be prepared by the Local Community Beneficiaries with or without the assistance of a Technical Support Agency, and submitted to PES.

3. Where PES approves an application for an Advisory Service Grant, PES finances such application.

4. Subprojects under Part C.2 of the Project shall be carried out pursuant to Financing Agreements, to be concluded between the Borrower and the Local Community Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing to be on a grant basis;

(b) the obligation to carry out the Subproject in accordance with the Project Implementation Manual, with due diligence and efficiency and in accordance with sound environmental, social, technical, financial and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) the requirement that : (i) the services to be financed from the proceeds of the Advisory Service Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such services shall be used exclusively in the carrying out of the Subproject;

(d) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operations and financial conditions of the Subproject; and

(e) the right of the Borrower to suspend or terminate the right of the Local Community Beneficiary to use the proceeds of the Advisory Service Grant for the Subproject upon failure by the Local Community Beneficiary to perform any of its obligations under its Financing Agreement.

F. Reports and Mid-Term Review

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Project Implementation Manual and the performance indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than October 31 of each year, a report integrating the

results of the monitoring and evaluation activities performed pursuant to paragraph F.1 (a) above and including beneficiary assessment and beneficiary feedback reports and Subproject completion reports, on the progress achieved in the carrying out of the Project during the twelve months 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 objective thereof during the twelve months following such date; and

(c) review with the Association, not later than four (4) weeks after the submission of the report referred to in paragraph F.1 (b) above, or such later date as the Association shall request, the report referred to in paragraph F.1 (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. Midterm Review

(a) On or about thirty months after the Effective Date, the Borrower shall carry out jointly with the Association the Midterm Review in accordance with the provisions of the Project Implementation Manual and this Agreement.

The Midterm Review shall cover, amongst other things:

- (i) progress made in meeting the Project's objective; and
- (ii) overall Project performance against Project performance indicators.

(b) The Borrower shall cause PES to prepare and, at least four weeks prior to the Midterm Review, furnish to the Association a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than four (4) weeks after the Midterm Review, prepare and submit to the Association an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) to (6) 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 Financing 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 of CFAF 2,200,000,000 to be withdrawn from the Credit Account or the Grant 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 of CFAF 1,100,000,000 until the aggregate amount of withdrawals from the Credit Account and the Grant 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 3,500,000.
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 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 or the Grant 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 or the Grant 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 or 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 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.

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 Borrower directly from the Credit Account or 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 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 and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit and 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 with

respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant 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.

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 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 or the Grant Account, as the case may be, 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. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.”

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“17. “Financing” means, collectively, the Credit and the Grant.”

“18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02 (a) (ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02 (c) (i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01 (b) (i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”.

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

SCHEDULE 7

Performance Indicators

1. By the end of each Fiscal Year during the implementation of the Project, at least 90% of the Credit funds expected to be managed by Local Community Beneficiaries shall have been managed by Local Community Beneficiaries.
2. By the end of each Fiscal Year during the implementation of the Project, 100% of the Borrower's Financing shall have been disbursed to finance Subprojects under Part B of the Project.
3. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, the ratio of : (a) the average number of days between the date of submission of a proposal for a Subproject under Part B.2 of the Project, and the date of completion of the Subproject where such Subproject shall be financed with the Borrower's Financing; and (b) the average number of days between the date of submission of a proposal for a Subproject under Part B.2 of the Project and the date of completion of the Subproject where such Subproject shall be financed under a Local Community Grant, shall not be higher than 2.00, 1.75 , 1.50, 1.25, and 1.00, respectively.
4. By Midterm Review, legislation, in form and substance satisfactory to the Association, regarding community-driven development and policies shall have been adopted into law by the Borrower.
5. By Midterm Review, the relevant selected ministries shall have developed their tool-kit, and thereafter all along Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, such ministries shall have used such tool-kits during their activities with Communes and local communities.
6. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, at least 10%, 30%, 50%, 75% and 100%, respectively, of the targeted poorest local communities shall have received grassroots management training and support from Technical Support Agencies, and shall have found them satisfactory.
7. By Midterm Review, the monitoring and evaluation system for the Project shall be in place, functioning and transparently providing reliable information to all stakeholders.
8. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, at least 10%, 30%, 50%, 75% and 100%, respectively, of the targeted Communes shall have implemented at least one Subproject addressing multi-village issues under part B.1 of the Project, and 70% of the local communities benefiting from such Subprojects are satisfied with such Subprojects

9. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009: (a) at least 100, 300, 600, 1,000 and 1,400, respectively, Subprojects addressing local community issues under Part B.2 of the Project, shall have been implemented by targeted Local Community Beneficiaries; (b) 80% of such Subprojects comply with applicable criteria; and (c) 80% of vulnerable groups in such targeted local communities are satisfied with such Subprojects.

10. By the end of the Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, at least 2, 3, 5 and 5, respectively, Microfinance Beneficiaries shall have signed Financing Agreements with PES, and each of them shall have expanded its clientele to at least 100 targeted local communities, at the end of the Project.

11. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009: (a) at least 100, 300, 600, 1,000 and 1,400, respectively, local communities shall have received technical advisory services; (b) at least 100, 300, 600, 1,000 and 1,400, respectively, groups within such local communities shall have entered into a loan agreement with a Microfinance Beneficiary to develop an income-generating activity; and (c) 95% of these income-generating activities have improved the revenues of such groups.

12. For each Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, 100% of annual work plans and budgets for the Project shall have been prepared on a timely basis by PES, reviewed by PES with the Association and found satisfactory by the Association.

13. By the end of Fiscal Year 2005, Fiscal Year 2006, Fiscal Year 2007, Fiscal Year 2008 and Fiscal Year 2009, at least 80% of the requests for financing received by PES from the relevant ministries, Microfinance Institutions, Communes and local communities have been timely answered by PES according to the time-schedule provided in the Project Implementation Manual.