

CONFORMED COPY

GRANT NUMBER H009 AF

Development Grant Agreement

(Emergency Community Empowerment and Public Works Project)

between

AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 8, 2002

GRANT NUMBER H009 AF

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 8, 2002, between AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association was authorized under Resolution No. IDA 194, adopted by its Board of Governors on April 8, 1999, to provide financing, under the Twelfth Replenishment, in the form of grants in the context of assistance to post-conflict countries, under a framework to be approved by the Executive Directors of the Association;

(C) the Executive Directors of the Association approved such a framework with respect to post-conflict grants on July 1, 2001, and further determined that the development grant referred to in Section 2.01 of this Agreement (the Grant) is consistent with such framework; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing to make the Grant available to the Recipient upon the conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The following provisions of the “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) (i) Article I;
 - (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (12), as modified below), (13) and (14), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 (as modified below) and 4.05;
 - (v) Sections 5.01, 5.03 (as such sections are modified below), 5.05, 5.06 and 5.07;
 - (vi) Sections 6.02 (as modified below), 6.03 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01, 9.02, 9.03, 9.05, 9.06 (as modified below), 9.07 and 9.08;
 - (ix) Article X;
 - (x) Article XI; and
 - (xi) Article XII.
- (b) The General Conditions shall be modified as follows:

(i) the terms “Borrower”, “Credit”, “Credit Account” and “Development Credit Agreement”, wherever they appear in the General Conditions, are replaced by “the Recipient”, “the Grant”, “the Grant Account” and “the Development Grant Agreement”, respectively; and

(ii) the terms “Development Credit Agreement” and “development credit”, where used in Article I of the General Conditions, mean “Development Grant Agreement” and “development grant”, respectively; and

(c) The second sentence of Section 5.01 is modified to read:

“Except as the Recipient and the Association shall otherwise agree, no withdrawals shall be made for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

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

(a) “ACA” means the Afghanistan Assistance Coordination Authority, an authority established pursuant to a Decree of the Recipient, dated March 30, 2002, as the same may be amended from time to time;

(b) “AIA” means the Afghanistan Interim Administration established under the Agreement on Provisional Arrangements in Afghanistan Pending the Re-Establishment of Permanent Government Institutions, dated December 5, 2001, and any successor thereto;

(c) “Beneficiary” means a village or neighborhood community or group which meets the criteria specified in the Project Implementation Manual for the making of Sub-Grants and to which or for whose benefit a Sub-Grant is made or proposed to be made;

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

(e) “Framework” means the Recipient’s Environmental and Social Safeguards Framework which sets out, *inter alia*: (i) key policy principles for social and environmental management; (ii) measures to guide the screening of Sub-Projects (as this term is hereinafter defined) for significant social and environmental impacts, and to assist in the mitigation of such impacts; (iii) procedures to ensure that these principles and measures are appropriately applied; and (iv) guidelines for capacity building and monitoring;

(f) “MOF” means the Ministry of Finance of AIA;

(g) “MOPW” means the Ministry of Public Works of AIA;

(h) “MORRD” means the Ministry of Rural Rehabilitation and Development of AIA;

(i) “NGO” means a non-profit and privately owned and controlled legal entity, determined by the Recipient and the Association as capable of assisting in the fulfillment of the objectives of the Project;

(j) “Part A Implementation Manual” means the manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(k) “Part B Implementation Manual” means the manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(l) “Project Implementation Manuals” means, collectively, the Part A Implementation Manual and the Part B Implementation Manual;

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

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

(o) “Sub-Grant Agreement” means the agreement referred to under paragraph B.2 of Schedule 4 to this Agreement; and

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

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty three million seven hundred thousand Special Drawing Rights (SDR 33,700,000).

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: (i) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by MOPW and MORRD on account of Sub-Grants in respect of which withdrawal from the Grant Account is requested.

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

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the

Association shall establish. The Association shall promptly notify the Recipient of such later date.

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 Part A of the Project through MORRD and MOPW and Part B of the Project through MORRD with due diligence and efficiency and in conformity with the Project Implementation Manuals and appropriate administrative, agricultural, engineering, environmental, financial 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, and with the environmental, social and other principles, measures, procedures and guidelines set out in the Framework.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 (c) of the General Conditions and without limitation thereto, the Recipient shall:

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

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

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall, not later than June 30, 2002, establish, and thereafter maintain, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, 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 Association, consistently applied by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal 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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association 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 Association'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 paragraph C of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation ; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 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

Termination

Section 5.01. 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 VI

Representative of the Recipient; Addresses

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

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

For the Recipient:

Ministry of Finance
Afghanistan Interim Administration
Kabul
Afghanistan

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C	248423 (MCI) or 64145 (MCI)	(202) 477-6391 (202) 4776391

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, Afghanistan as of the day and year first above written.

AFGHANISTAN

By /s/ Hedayat Amin-Arsala

Authorized Representative

INTERNATIONAL

DEVELOPMENT ASSOCIATION

By /s/ William Byrd

(Acting) Regional Vice President
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-Grants:		
(a) Part A of the Project	14,800,000	100%
(b) Part B of the Project	12,800,000	100%
(2) Goods:		
(a) Part A of the Project	0	100%
(b) Part B of the Project	1,200,000	100%
(3) Consultants' services		

and training:

(a) Part A of the Project	800,000	100%
(b) Part B of the Project	3,200,000	100%
(4) Operating Costs		
(a) Part A of the Project	400,000	100%
(b) Part B of the Project	400,000	100%
(5) Unallocated	100,000	
TOTAL	33,700,000	

2. For the purposes of this Schedule, the term “Operating Costs” means the incremental expenses incurred on account of Project implementation and management, including the rental of office space, the operation and maintenance of vehicles, communications, office administration costs, utility charges, domestic travel and per diem, but excluding salaries of officials of the Recipient’s civil service.

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 600,000, may be made in respect of Categories (3) (a), (3) (b), (4) (a) and (4) (b) on account of payments made for expenditures before that date but after April 1, 2002; (b) under Category (1) (a) unless that the Recipient has prepared and furnished to the Association the Part A Implementation Manual in form and substance satisfactory to the Association; (c) under Category (1) (b) unless that the Recipient has prepared and furnished to the Association the Part B Implementation Manual in form and substance satisfactory to the Association; (d) under Categories (1) (a) and (1) (b) unless the chief financial officer referred to under paragraph A.3 of Schedule 4 to this Agreement has been employed by MOF in accordance with the terms and conditions referred to under said paragraph A.3; and (e) under Categories (1) (a) and (1) (b) unless: (i) the Sub-Grant to be financed has been made in accordance with the eligibility criteria, and on terms and conditions set forth or referred to in the respective Implementation Manual and the provisions of Schedule 4 to this Agreement; and (ii) a Sub-Grant Agreement has been signed in respect of such Sub-Grant.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) provide employment in rural areas at a minimum wage, as a safety net, to as many people and in as short a time as may be feasible; and (b) commence the process of helping villages rebuild their capital base through the provision of Sub-Grants, and empower villagers to plan for, and decide on, the investments to be made with the proceeds of the Sub-Grants.

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

Part A: Labor Intensive Public Works

1. The making of Sub-Grants to about 130 selected rural districts for the carrying out of priority Subprojects.
2. The utilization of the services of: (i) a team of management experts to assist in the commencement of start-up activities under the Subprojects and their overall management, and in the installation and operation of the requisite information systems; and (ii) a core team of locally recruited road and irrigation engineers in each of the Recipient's provinces to assist with: (a) the design and costing of Subproject proposals; (b) the provision of technical support to villagers and small contractors carrying out Subprojects; (c) the supervision of works; (d) the making of payments under the Subprojects; and (e) the management and control of expenditures under the Subprojects.
3. The establishment of a monitoring team to exercise monitoring functions in respect of the Subprojects, including a review of the results of the Subprojects; and the employment of a consultant to make recommendations as to what labor-intensive programs could be designed and carried out after the Subprojects have been implemented.

Part B: Community Empowerment

1. (a) The carrying out of a program in about 60 districts involving the establishment of collectively owned village accounts and the payment into the said accounts directly to village groups of pre-determined amounts to finance public infrastructure, community revolving funds, social services, training and other eligible proposals developed or designed by the village groups.

(b) The carrying out of a medium-term program of community capacity development, including: (i) the provision of consultant services to oversee the implementation of the Project; (ii) the recruitment and training of technical and social facilitators from NGOs and the private sector; (iii) establishment of representative local bodies; (iv) strengthening procedures for the technical review of Subproject proposals; (v) support for village management of financial records, procurement and Project implementation, including provision of training in basic procurement, financial management, and planning for provincial, district and village organizations; (vi) facilitating transparency through the use of oral and written media and the extensive involvement of civil society; and (vii) continual evaluation and review of the Project objectives to ensure conformity with the prevailing environment.

(c) The strengthening of local governance through: (i) the expansion of local councils; (ii) the development of financial management skills, including the provision of advice in micro-finance and small business management to villages and neighborhoods; (iii) the strengthening of inter-village and village-district coordination; (iv) the improvement of the

responsiveness of line agencies to village requests; and (v) the development and strengthening of linkages between NGOs, the United Nations agencies and other service providers, and the involvement of public service providers, NGOs and the private sector in village planning and response.

(d) The equipping and rebuilding of sections of the Recipient's central bank and MORRD's Project offices, including the acquisition of goods and a vehicle for each such office and the training of the staff of the offices.

2. Improving the quality of information about local institutions and populations participating in the Project, including: (i) collection of data to gather baseline information on living standards and household expenditures, basic needs, population variables, and development activities; (ii) the carrying out, using the contracted services of Kabul and provincial universities of studies to evaluate socioeconomic changes taking place in communities and neighborhoods; and (iii) the gathering of baseline data to support impact evaluation studies for any proposed follow-up programs, including cost-benefit reviews of infrastructure, maintenance evaluations and assessment of poverty returns from economic investments.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

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 the following Parts of this Section I.

Part B: Procurement Procedures

1. Limited International Bidding

Goods estimated to cost \$200,000 equivalent or more per contract, and goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. Bidding documents may provide that bidders may send their bids by facsimile, in which case, bid security shall not be required. Furthermore, the entity responsible for the procurement of the above-mentioned goods shall be required to put in place arrangements satisfactory to the Association to ensure confidentiality of the bids received by facsimile.

2. International or National Shopping

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

3. Procurement from UN Agencies

Goods estimated to cost less than \$100,000 equivalent per contract may be procured in accordance with the provisions of 3.9 of the Guidelines.

4. Direct Contracting

Goods estimated to cost less than \$50,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Community Participation under Subprojects

Works under Subprojects under Part A of the Project estimated to cost the equivalent of \$200,000 per contract, up to an aggregate amount not exceeding \$18,400,000 equivalent, and works under Subprojects under Part B of the Project estimated to cost the equivalent of \$20,000 per contract, up to an aggregate amount not exceeding \$16,000,000 equivalent, may be carried out directly by the community or be procured through either of the following methods and in accordance with paragraph 3.15 of the Guidelines: (a) direct contracting of all or part of the works to NGOs, community organizations, and qualified domestic contractors and/or suppliers; or (b) obtaining quotations from qualified domestic contractors with respect to all or part of the works.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, each contract for goods and/or works under a Subproject estimated to cost the equivalent of \$100,000 or more, the first three (3) contracts for works under a Subproject under Part A of the Project and the first three (3) contracts for goods under a Subproject under Part B of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract for goods estimated to cost the equivalent of \$100,000 or more; and (ii) each contract to be procured in accordance with the provisions of Parts B.2, B.3 and B.4 of this Schedule, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Recipient shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, direct contracting or from a UN Agency, the Recipient shall provide to the Association a copy of the specifications and the draft contract; and

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with: (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 and January 1999 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services costing less than \$1,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services costing less than \$500,000 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.

3. Individual Consultants

Expert financial services under Part B of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single Source Selection

Services under Parts A.2 (i) and B.1 (b) (i) of the Project, and other services costing less than \$100,000 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.

5. Service Delivery Contractors

Services under Parts A.2 (ii) and B.1 (b) (ii) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.4 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. General

1. (a) The Recipient shall maintain the Part A Implementation Manual and the Part B Implementation Manual in form and substance satisfactory to the Association, such manuals to 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. Without limitation to the generality of the foregoing, each Implementation Manual shall contain a requirement that a Sub-Grant shall be made only when the province, in whose territorial jurisdiction the Subproject for which the Sub-Grant is proposed to be made shall take place, has employed a qualified individual, under terms of reference acceptable to the Association, to assist in the disbursement and financial management aspects of the Project.

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

(c) The Recipient shall cause AACA to assist MORRD in the carrying out of the procurement process under Part B of the Project and shall vest AACA with the responsibility for the preparation of the reports referred to under paragraphs C (ii) (a) and C (ii) (b) of this Schedule.

2. The Recipient shall, no later than July 31, 2002, establish, through the secondment of MOPW and MORRD staff, and thereafter maintain, a Project cell within each of MOPW and MOCRD with functions, staffing and resources satisfactory to the Association.

3. The Recipient shall no later than July 31, 2002, employ, on terms and conditions satisfactory to the Association, an individual, whose qualifications and terms and conditions of employment shall be satisfactory to the Association, to assume the responsibilities of chief financial officer and ensure that all Project records are kept up to date in conformity with internationally acceptable record-keeping standards.

B. Subprojects

1. (a) To be eligible for a Sub-Grant, a Beneficiary must furnish a Subproject proposal to the Recipient that fully satisfies the criteria specified in the respective Project Implementation Manual for Sub-Grant financing.

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

2. The Recipient, through MOPW and MORRD, shall make appropriate amounts of the proceeds of the Grant available, as a Sub-Grant, to a Beneficiary under a Sub-Grant Agreement to be entered into by the Beneficiary and: (a) for purposes of Part A of the Project, MOPW, for road rehabilitation Subprojects, or MORRD, for irrigation rehabilitation Subprojects; and (b) for purposes of Part B of the Project, MORRD, all under terms and conditions which shall have been approved by the Association. The Sub-Grant Agreement shall provide for rights adequate to protect the interests of the Association and the Recipient, including to the extent that it shall be appropriate the right to:

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

(ii) require that all goods and services required for the Subproject 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 Subproject;

(iv) inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, plants and construction included in the Subproject, 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 upon the failure by the Beneficiary to perform any of its obligations under the Sub-Grant Agreement.

C. Reports and Reviews

The Recipient shall:

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

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (a) on a quarterly basis, commencing October 1, 2002, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (b) on or about June 30, 2003, a report, to constitute the basis upon which the mid-term review

shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (i) of this Section and consolidating the results of the reports referred to under sub-paragraph (ii) (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(iii) review with the Association, by July 31, 2003, or such later date as the Association shall request, the report referred to in subparagraph (ii) (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 \$4,500,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into 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 Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

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

SCHEDULE 6

Performance Indicators

Unless otherwise agreed between the Recipient and the Association, the following indicators shall be used to judge progress in the implementation of the Project:

A. Part A of the Project

1. The number of unskilled work applicants.
2. The number of skilled and unskilled workers employed to carry out labor-intensive works, together with the number of person-days spent performing these tasks and the wages paid to said workers.
3. The cost and number of compactors used for road upgrading, and the quantity and cost of materials and cement used in the upgrading process.
4. The number of structures, such as bridges and culverts, and road kilometers that have been upgraded.
5. The number of irrigation structures that have been rehabilitated and the extent to which sedimentation has been removed from irrigation canals.

B. Part B of the Project

1. Poverty Impact: (a) the number of villagers that have received proceeds of Sub-Grants; and (b) the number of person-days in terms of paid labor.

2. Community Organizing: (a) the number of community forums that have been established; (b) the number of people that have received training in financial management; (c) the number of villages that have made proposals; (d) the number of proposals that have been submitted by women's groups; (e) the percentage of women in community forums; and (f) the number of villages that have received funds.

3. Service Provision under Sub-Grants: (a) the number of Beneficiaries from among households; (b) the number and quality of construction of the infrastructure units that have been built; (c) the number of operations and maintenance committees that have been established; (d) the repayment rates on the revolving fund; and (e) the percentage of Sub-Grant disbursed.

4. Capacity Development: (a) the number of persons that have been trained; (b) the number of cross-visits between villages; (c) the percentage of micro-finance proposals that have received micro-finance training; and (d) the percentage of villages with infrastructure proposals that have received operation and maintenance training.

5. Monitoring and Management: (a) the number of villages that have been audited; and (b) the percentage of villages whose audits have been unqualified.
