

Public Disclosure Authorized

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GRANT NUMBER H091-NEP

# Project Agreement

(Poverty Alleviation Fund Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

POVERTY ALLEVIATION FUND

Dated September 14, 2004

Public Disclosure Authorized



## **GRANT NUMBER H091-NEP**

### **PROJECT AGREEMENT**

AGREEMENT, dated September 14, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and POVERTY ALLEVIATION FUND (PAF).

WHEREAS (A) by the Development Grant Agreement of even date herewith between the KINGDOM OF NEPAL (the Recipient) and the Association, the Association has agreed to make available to the Recipient an amount in various currencies equivalent to ten million one hundred thousand Special Drawing Rights (SDR 10,100,000), on the terms and conditions set forth in the Development Grant Agreement, but only on condition that PAF agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a Subsidiary Grant Agreement to be entered into between the Recipient and PAF, the proceeds of the Grant provided for under the Development Grant Agreement will be made available to PAF on the terms and conditions set forth in said Subsidiary Grant Agreement;

WHEREAS PAF, in consideration of the Association's entering into the Development Grant Agreement with the Recipient, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### **ARTICLE I**

##### **Definitions**

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Grant Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

#### **ARTICLE II**

##### **Execution of the Project**

Section 2.01. (a) PAF declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Grant Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and economic practices, and shall provide, or

cause to be provided, 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 Association and PAF shall otherwise agree, PAF shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement, the EMF and the Operational Manual.

Section 2.02. (a) PAF undertakes that, unless the Association shall otherwise agree, Block Grants will be provided by it to Beneficiaries under Parts A, B or C of the Project, all in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 to this Agreement.

(b) PAF shall exercise its rights in relation to financing provided by it to Beneficiaries in such manner as to: (i) protect the interests of the Recipient, the Association and PAF; (ii) comply with its obligations under this Agreement and the Subsidiary Grant Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Association shall otherwise agree, PAF shall ensure that:

(a) for purposes of financing IGSPs under Part A of the Project, no single Beneficiary shall receive out of the proceeds of the Grant an amount, which either by itself or together with any other outstanding amount so received by such Beneficiary will exceed an aggregate amount equal to twenty five percent (25%) of the amount allocated from time to time to Category 1 (a) set forth in the table in paragraph 1 of Schedule 1 to the Development Grant Agreement;

(b) for purposes of financing SSIPs under Part B of the Project, no single Beneficiary shall receive out of the proceeds of the Grant an amount, which either by itself or together with any other outstanding amount so received by such Beneficiary will not exceed the equivalent of twenty percent (20%) of the amount from time to time allocated to Category 1 (b) set forth in the table in paragraph 1 of Schedule 1 to the Development Grant Agreement; and

(c) for purposes of financing Innovative Grants under Part C of the Project: (i) Sub-Project can be implemented out side the Project Area; and (ii) no single Beneficiary shall receive out of the proceeds of the Grant an amount, which either by itself or together with any other outstanding amount so received by such Beneficiary will not exceed the equivalent of one hundred thousand Dollars (US\$100,000) of the amount from time to time allocated to Category 1 (c) set forth in the table in paragraph 1 of Schedule 1 to the Development Grant Agreement.

Section 2.04. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.05. (a) PAF shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, PAF shall:

- (i) 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 Association and PAF, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with PAF on said plan.

Section 2.06. PAF shall duly perform all its obligations under the Subsidiary Grant Agreement and, except as the Association shall otherwise agree, PAF shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Grant Agreement or any provision thereof.

Section 2.07. (a) PAF shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Grant Agreement, and other matters relating to the purposes of the Grant.

(b) PAF shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Grant, or the performance by PAF of its obligations under this Agreement and under the Subsidiary Grant Agreement.

### **ARTICLE III**

#### **Management and Operations of PAF**

Section 3.01. PAF shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and economic practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. PAF shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all

necessary repairs and renewals thereof, all in accordance with sound engineering, financial and economic practices.

Section 3.03. PAF shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) PAF 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 its operations and financial condition and to register separately the operations, resources and expenditures related to the Project; and

- (b) PAF shall:
  - (i) have its financial statements (balance sheets, statements of income and expenses and related statements) 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 (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
  - (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon PAF's reporting obligations set out in paragraph 4 of Schedule 3 to this Agreement, PAF shall prepare and furnish to the Association a Financial Monitoring Report (FMR), 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 FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first fiscal trimester 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 fiscal trimester; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent fiscal trimester, and shall cover the period not covered by the previous FMR until the end of such fiscal trimester.

## **ARTICLE V**

### **Effective Date; Termination; Cancellation and Suspension**

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Grant Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of PAF thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Grant Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Grant Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify PAF of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

## ARTICLE VI

### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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

For PAF:

Nepal Poverty Alleviation Fund  
Kathmandu, Nepal

Facsimile:  
  
(977-1) 555-3674

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of PAF, or by PAF on behalf of the Recipient under the Development Grant Agreement, may be taken or executed by its Vice-Chair person or such other person or persons as shall be designated in writing by him. The Vice-Chair person shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.



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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative

POVERTY ALLEVIATION FUND

By /s/ Raj Babu Shrestha

Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with: (i) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (ii) the provisions of the following Parts of this Section I.

##### Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

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

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

- (i) invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper, at least thirty (30) days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;
- (iv) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (vi) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (vii) contracts shall be awarded to the lowest evaluated bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;
- (ix) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (x) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xi) re-bidding shall not be carried out without the prior concurrence of the Association;
- (xii) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xiii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

- (xiv) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.
- (xv) extension of bid validity shall not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than eight (8) weeks; and (B) for all subsequent requests for extension irrespective of the period;
- (xvi) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and
- (xvii) there shall not be any restrictions on the means of delivery of the bids.

2. International or National Shopping

Goods estimated to cost less than \$50,000 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. Community Participation

For the purposes of carrying out Sub-Projects under Parts A, B and C of the Project estimated to cost less than \$50,000 equivalent per contract:

- (a) labor may be provided by the Beneficiaries at market rates or as part of their in-kind contribution towards the capital costs of the Sub-Projects; and
- (b) materials may be procured by the Beneficiaries under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of the regulation and manual of PAF.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and

approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first two (2) contracts for equipment and vehicles, and works, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Association in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services costing less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

## SCHEDULE 2

### **Terms and Conditions of, and Procedures for Contracting with POs and Provision of Block Grants to Beneficiaries**

#### Part A: Contracting with POs

Except as the Association shall otherwise agree, POs shall be contracted by PAF for the purposes of facilitating the preparation for, and carrying out of, Sub-Projects by Beneficiaries.

#### Terms and Conditions Procedures

(a) PAF shall, through an advertisement to be published in national newspapers from time to time, invite POs to submit written proposals on how they would facilitate Beneficiaries mobilization and Sub-Projects preparation for one or more districts within the Project Area.

(b) On the basis of such proposals, PAF shall carry out a series of preliminary appraisals, desk appraisals and field appraisals of the proposed POs in accordance with its Operational Manual, in order to establish, *inter alia*, whether proposed POs can:

- (i) satisfy the relevant eligibility criteria;
- (ii) accept PAF's policies;
- (iii) demonstrate a high degree of compatibility with PAF's financing strategy; and
- (iv) demonstrate that they employ, or can employ, the operational policies, procedures and human resources, required in furtherance of the proposed partnership between themselves and PAF.

(c) Without limiting the generality of sub-paragraphs 1 (a) and 1 (b) of this Part A, in order to receive financing for the purposes of facilitating the carrying out Sub-Projects or the preparation of proposals thereof, each eligible PO shall enter into a written agreement with PAF, and, except as the Association shall otherwise agree, such agreement (PO Agreement) shall provide, *inter alia*, for:

- (i) the PO to declare its commitment to the objectives of the Project and to undertake to conduct its operations and affairs in accordance with sound financial standards and practices, with

qualified and experienced management and in accordance with its charter;

- (ii) the PO to establish and maintain satisfactory procedures and operational policies for supervision and monitoring of Sub-Projects so as to ensure the achievement of the objectives of the Project; and
- (iii) the PO to exchange views with PAF with regard to the performance of its obligations under the PO Agreement and other matters relating to the purposes of the Project.

Part B: Block Grants to Beneficiaries

1. Eligibility Criteria

Except as the Association shall otherwise agree, Block Grants shall be made only to:

- (a) Beneficiaries who satisfy the eligibility criteria set forth in the Operational Manual, which shall include that:
  - (i) the Beneficiaries shall be considered poor under the definition of poverty adopted by PAF or under a more specific standard for measuring poverty to be developed by PAF;
  - (ii) the Beneficiaries shall conduct their affairs in a participatory manner including women and disadvantaged groups in their Sub-Projects' proposals development, pursuant to VCDP, within the Project Area; and
  - (iii) the Beneficiaries shall:
    - (aa) conduct their affairs in an equitable manner and in accordance with sound and transparent administrative and financial practices;
    - (bb) hold regular meetings of their governing body; and
    - (cc) actively involve women in decision making.



- (b) Eligibility criteria for IGSPs set forth in the Operational Manual, shall include the following:
  - (i) the IGSPs shall be in compliance with the Recipient's laws and regulations relating to health, safety and environmental protection, including the EMF, VCDP; and are able to generate income; and
  - (ii) the IGSPs shall not be on PAF's negative list set forth in the Operational Manual.
- (c) Eligibility criteria for SSIPs set forth in the Operational Manual, shall include the following:
  - (i) SSIPs shall be in compliance with the Recipient's laws and regulations relating to health, safety and environmental protection, including the EMF and VCDP; and
  - (ii) SSIPs shall be equitable (with more than 50% of the Beneficiary community concerned benefiting in each case); and technically viable.

## 2. Terms and Conditions

Except as the Association shall otherwise agree, Block Grants shall be made: (i) on a non-reimbursable basis; and (ii) denominated in Nepalese Rupee.

## 3. Procedures

(a) Proposals for Sub-Projects may be initiated or sponsored by Beneficiaries in their own capacity or liaising with POs, as the case may be, and shall identify the type of Sub-Project and the Beneficiary, describe the works or goods to be financed and any goods or works to be provided in-kind by the Beneficiary, identify the PO, if any, and its facilitating role.

(b) Block Grants shall be made on such terms as shall enable the PAF to obtain by written contract (Sub-Project Grant Agreement) with the concerned Beneficiary rights adequate to protect the interests of the Recipient, the Association and the PAF, including the right to:

- (i) require that the Sub-Project for which the Block Grant is made be carried out in accordance with the Operational Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and

that adequate records to reflect the operations, resources and expenditures in respect of the Sub-Project be maintained;

- (ii) require that:
  - (aa) the goods, works and services to be financed from the proceeds of the Block Grant be procured in accordance with the procedures set forth in Schedule 1 to this Agreement; and
  - (bb) such goods, works and services be used exclusively in the carrying out of the Sub-Project for which the Block Grant is made;
- (iii) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Sub-Project for which the Grant is made, the operations thereof and any relevant records and documents;
- (iv) obtain all such information as the Association shall reasonably request, regarding the administration, operation and financial condition of the Sub-Project for which the Block Grant is made;
- (v) suspend or terminate the right of the Beneficiary to use the proceeds of the Block Grant upon the failure by the Beneficiary to perform any of its obligations under the Sub-Project Grant Agreement; and
- (vi) require that:
  - (aa) the Beneficiary identify and approve the IGSP or SSIP for which the Block Grant is made through an open and participatory process;
  - (bb) the Beneficiary sign the Sub-Project Grant Agreement on terms of partnership approved in its general body meeting, with its responsibilities clearly defined;
  - (cc) the Beneficiary contribute towards the capital cost of the IGSP and SSIP for which the Block Grant is made, such contribution varying according to the capacity to pay, as set forth in the Operational Manual;
  - (dd) the Beneficiary implement the IGSP and SSIP for which

the Block Grant is made within a stipulated time and budget;

- (ee) the Beneficiary open a separate bank account, to be operated by at least two (2) signatories, and maintain a record of all receipts and payments, all relating to the IGSP and SSIP for which the Block Grant is made;
- (ff) the Beneficiary submit its work to supervise and certification for quality and adherence to specifications by the PAF, having the right to suspend payments under the Block Grant in respect of sub-standard work until such time as such work has been rectified;
- (gg) the Beneficiary be fully responsible for the operation and maintenance costs of the IGSP and SSIP for which Block Grant is made; and
- (hh) The Beneficiary contribute skilled and/or unskilled labor, whether in cash or in kind.

### **SCHEDULE 3**

#### **Implementation Program**

1. PAF shall at all times:
  - (a) maintain a Board of Directors which shall have general oversight over the Project, and which shall on a quarterly bases meet to discuss matters related to the implementation of the Project;
  - (b) maintain staff, to include an Executive Director (ED) and at least one (1) senior officer who shall undertake the overall environmental monitoring responsibility, all of whom shall have appropriate experience and qualifications and shall have been appointed in accordance with guidelines acceptable to the Association;
  - (c) keep the Association promptly informed of changes in membership of its Board of Directors and Executive Director referred to in sub-paragraph (b); and
  - (d) the PAF shall implement the VCDP in accordance with objectives, policies, procedures, time schedules and other provisions set forth therein, to ensure that vulnerable people in the Project Area shall benefit fully from the activities financed under the Project.
2. PAF shall:
  - (a) carry out its activities under the Project in accordance with the procedures, principles and practices set forth in the Operational Manual;
  - (b) take all measures necessary to ensure that activities of Beneficiaries and POs under the Project are carried out in conformity with the Operational Manual; and
  - (c) not assign, amend, abrogate or waive the Operational Manual or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect Beneficiaries and POs' performance or the implementation of the Project.
3. PAF shall:
  - (a) ensure that all Sub-Projects will be carried out in accordance with the provisions of the EMF and VCDP; and

(b) not assign, amend, abrogate or waive the EMF and VCDP or any provisions thereof if, such assignment, amendment, abrogation, or waiver will materially and adversely affect the implementation of the Project or any Sub-Project.

4. PAF shall:

(a) 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 4 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 1, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by February 1, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

#### SCHEDULE 4

##### Performance Indicators

<b>INDICATOR</b>	<b>BASELINE</b>	<b>MIDTERM</b>	<b>FINAL</b>
1. Number of Sub-Projects	0	300	1000
2. Number of groups of beneficiaries	0	400	1000
3. Percentage of women membership in groups.	0%	20%	30%
4. Percentage of <i>Dalit</i> membership in groups.	0%	20%	30%
5. Percentage of indigenous membership in groups.	0%	20%	30%
6. Number of villages covered.	0	50	100
7. Amount of contribution of communities.	0	US\$15,000	US\$50,000
8. Number of Beneficiaries.	0	3,000	10,000
9. Number of Beneficiaries trained.	0	3,000	10,000