

Public Disclosure Authorized

CONFORMED COPY

IDA GRANT NUMBER H067 MOZ

Development Grant Agreement

(Decentralized Planning and Financing Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 19, 2003

Public Disclosure Authorized

IDA GRANT NUMBER H067 MOZ

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated December 19, 2003, between REPUBLIC OF MOZAMBIQUE (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Recipient (the Letter of Sector Commitment), dated August 13, 2003, describing a program designed to strengthen the role of districts and communities in the planning and management of local development, to modernize public resource planning tools at provincial and district levels, and to transfer responsibility and specific capacities to local administration, thus providing them with improved tools to deliver services (the Program) and declaring the Recipient's commitment to the execution of the Program;

(B) 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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 7 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) "District" means the administrative unit of the Recipient's Provinces (as hereinafter defined) participating in the implementation of the Project, or any successor administrative unit, satisfactory to the Association for the purposes of the execution of the Project;

(b) “District Administrator” or “DA” means the official of the Recipient that has authoritative control of the administration of a District and referred to in Paragraph A (iv) of Schedule 4 to this Agreement, or any successor thereto under any amendment to the administrative position of the DA, satisfactory to the Association for the purposes of the execution of the Project, under the laws of the Recipient;

(c) “DCCs” means the District Consultative Councils in the Project Districts created under Government Decree 15/2000 and associated regulations;

(d) “DPPF” means the Provincial Directorate of Planning and Finance of the MPF (as hereinafter defined);

(e) “Environmental Management Plan” or “EMP” means the plan based on the Environmental Assessment of the Project, adopted by the Recipient on March 26, 2003, describing the environmental planning, review, approval, mitigation, monitoring, training, technical assistance, and institutional measures under the Project referred to in Paragraph E of Schedule 4 to this Agreement;

(f) “Environmental and Social Screening Form” means a screening form included in the Environmental Assessment of the Project, for environmental and social impact assessment and audit of Subprojects under Part B of the project, to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

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

(h) “Guidelines for Community Participation and Consultation in District Planning” means the guidelines adopted by the Recipient pursuant to the provisions of Section 6.01 (f) of this Agreement, containing the methodology to be used by district administrations for involving their communities in the local development planning process;

(i) “Infrastructure Investment Activity” means a Subproject determined priority investments in District plans comprising: (i) District administrative Infrastructure; (ii) Socio-Economic Infrastructure in the District; and (iii) Community Infrastructure Improvement, as defined in the PIM (as hereinafter defined);

(j) “Letter of Sector Policy” means the letter from the Recipient to the Association referred to in Section 3.03 of this Agreement;

(k) “LIG” means the Local Investment Grants provided under the Grant to the Districts through the Provinces (as hereinafter defined) in accordance with the provisions of Paragraphs F and G of Schedule 4 to this Agreement for use by the

Districts in accordance with the provisions of Paragraphs F and G of Schedule 4 and of the PIM (as hereinafter defined), for implementing Subprojects (as hereinafter defined);

(l) “level” means either of the three levels in the Recipient’s Government, namely, the Recipient, Province or the District (all as defined in this Section) for the carrying out of the Project, and the term “levels” refers, collectively, to all the three levels;

(m) “Meticais” means the currency of the Recipient;

(n) “MOU” means a memorandum of understanding between the MPF (as hereinafter defined) and the Government of a Province (as hereinafter defined) for the purpose of making LIG funds available to the Province in accordance with the criteria set forth in Paragraph G of Schedule 4 to this Agreement and of the PIM (as hereinafter defined) for the financing of the Subprojects (as hereinafter defined);

(o) “MPF” means the Ministry of Planning and Finance of the Recipient;

(p) “PCU/UCA” means the Recipient’s Project Coordination Unit in the National Directorate for Planning and Budget of the MPF (DNPO/MPF) and referred to in Paragraph A (iv) of Schedule 4 to this Agreement.

(q) “PIM” means the Project Implementation Manual referred to in Paragraph A (i) (a) of Schedule 4 to this Agreement and adopted by the Recipient pursuant to the provisions of Section 6.01 (e) of this Agreement, containing detailed arrangements regarding the implementation of the Project and operation of different activities under it;

(r) “PPUs/UPPs” means the Provincial Project Units in the Provincial Directorate of Planning and Finance (DPPF/MPF) in each Province (as hereinafter defined) of the Recipient, and in its singular form the term means any one such Unit;

(s) “Project Accounts” means, collectively, all accounts for the Project comprising the Project Account, Second Generation Special Account and the Provincial Project Account referred to in Paragraph B.1 of Schedule 4 to this Agreement;

(t) “Project Executing Agencies” means DNPO/MPF, DPPF/MF and DAs (all as defined in this Section) responsible for the execution of the Project at the level of the Recipient, Provinces and Districts (all as defined in this Section);

(u) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letters agreement signed on behalf of the Association on February 6, 2001 and April 10, 2003, and on behalf of the Recipient on March 21, 2001 and April 10, 2003, respectively;

(v) "Province" means the Administrative unit of the Recipient in the central area of the territory of the Recipient created under the Recipient's Constitution of 1990 as amended in December 1996, participating in the implementation of the Project, and "Provinces" means, collectively, all or more than one Province, as appropriate;

(w) "PY" means the Project Year;

(x) "Resettlement Policy Framework" means the framework dated March 26, 2003, outlining the modalities for land acquisition, resettlement and rehabilitation under Part B of the Project;

(y) "Second Generation Special Account" means the account referred to in Section 2.02 (c) of this Grant Agreement;

(z) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(aa) "Subproject" means a priority small-scale local public infrastructure investment financed through LIG from the proceeds of the Grant under Part B of the Project, and which satisfies the criteria set forth in this Agreement, and "Subprojects" means, collectively, all such Subprojects.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty nine million nine hundred thousand Special Drawing Rights (SDR 29,900,000) (the Grant).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Recipient on account of withdrawals for Local Investment Grants for the benefit of the Districts, to meet the reasonable cost of goods, works and services required for Subprojects to be financed under Part B of the Project.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit 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.

(c) The Recipient shall withdraw from the Special Account and deposit into Second Generation Accounts for each Province supported by the Project an amount in Meticais, in total not exceeding, initially, \$100,000 equivalent, and after the full Authorized Allocation is deposited, an amount in Meticais, in total not exceeding \$200,000 equivalent in commercial banks on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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 June 30, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to Paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in 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. Commitment charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.06. The currency of United States of America 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 Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of Paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. Without limitations upon the provisions of Section 3.04 of this Agreement, by not later than January 31, 2006, the Recipient shall submit to the Association, a Letter of Sector Policy, satisfactory to the Association, detailing, *inter alia*, how the administrative, fiscal and governance aspects of its decentralization program (as outlined in the Letter of Sector Commitment) will proceed until 2010.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (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 designed to ensure the sustainability of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system encompassing both the central and provincial levels of the Project, 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 and each Second Generation 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 months after the end of each such year, (A) certified copies of the financial statements referred to in Paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the 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 provisions of Section 4.01 Of this Agreement, the Recipient 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 60 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 FMR shall be furnished to the Association not later than 60 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 (1) of the General Conditions, the following additional event is specified, namely, a situation shall have arisen which shall make it improbable that the Program or significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Grant Agreement within the meaning of Section 12.01 (b) of the General Conditions :

- (a) the external auditors referred to in Paragraph C.3 (a) of Schedule 4 to this Agreement have been appointed on terms of reference acceptable to the Association;
- (b) the Recipient has appointed Procurement Specialists for the PCU/UCA referred to in Paragraph C.3 (b) of Schedule 4 to this Agreement;

(c) the Recipient has opened the Project Accounts referred to in Paragraph B.1 (a) of Schedule 4 to this Agreement and deposited in the Project Account the initial amount of its counterpart funds referred to in Paragraph B.1 (a) of Schedule 4 to this Agreement;

(d) the Recipient has designed the Financial Management System (FMS), satisfactory to the Association; installed it and the ability to prepare FMRs under the Project demonstrated at the Recipient's level and that at the provincial level: (i) the FMS has been designed and installed; (ii) qualified and experienced Supervisory Accountants have been appointed to the PPU's/UPP's; and (iii) qualified and experienced Project Accountants have been appointed to the PPU's/UPP's;

(e) the Recipient has adopted the PIM referred to in Paragraph A (i) of Schedule 4 to this Agreement, in form and substance satisfactory to the Association; and

(f) the Recipient has published in its Official Gazette, in form and substance satisfactory to the Association, the notice of adoption of the Guidelines for Community Participation and Consultation in District Planning.

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 Recipient; Addresses

Section 7.01. The Governor of the *Banco de Moçambique* is designated as representative of the Recipient 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 Recipient:

Governor
Banco de Moçambique
Departamento de Estrangeiro
Maputo
Republic of Mozambique

| | | |
|----------------|-----------|--------------|
| Cable address: | Telex: | Facsimile: |
| MOBANCO | 6355/BMMO | 258 1 322015 |

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 MOZAMBIQUE

By */s/ Armando Panguene*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By */s/ Nils Tcheyan*
Acting Country Director
Mozambique

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) | Works | 140,000 | 100% of foreign expenditures and 80% of local expenditures |
| (2) | Goods | 3,340,000 | 100% of foreign expenditures and 80% of local expenditures |
| (3) | Consultants' services (excluding trainers) | 6,190,000 | 86% |
| (4) | Training and Audits | 2,420,000 | 100% |
| (5) | Local Investment Grants | 13,650,000 | 100% of amounts disbursed |
| (6) | Operating Costs | 2,630,000 | 80% |
| (7) | Refunding of Project Preparation Advance | 1,370,000 | Amount due pursuant to Section 2.02 (c) of this Agreement |
| (8) | Unallocated | 160,000 | |
| | TOTAL | <u><u>29,900,000</u></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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term “Operating Costs” means the incremental expenses incurred by the Recipient on account of the Project implementation, management and monitoring, including maintenance of information system, office supplies, insurance for, and maintenance and operation of vehicles, travel and salaries of support staff, and travel of civil servants involved in Project supported activities, excluding salaries of civil servants.

(d) the term “Training” means all costs associated with the training of civil servants, government contracted staff and non-governmental persons involved in Project supported activities including travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to course preparation and implementation. Training costs shall also include the reimbursement of the Institutes for Public Administration and Municipal Training (the *Institutos de Formação em Administração Pública e Autárquica* - IFAPAs) for expenses incurred by the IFAPAs in the planning, implementation and supervision of training courses in public administration as agreed between the Provincial Governments and the IFAPAs.

3. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent; (ii) works under contracts costing less than \$100,000 equivalent; (iii) services from consultant firms under contracts costing less than \$100,000 equivalent; (iv) services from individual consultants under contracts costing less than \$50,000 equivalent; and (v) all training, audits, Operating Costs and Local Investment Grants under such terms and conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to improve the institutional performance of its District Administrations to plan and manage small infrastructure investments in response to community demands.

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: Participatory District Planning

1. Support through the provision of methodological tools, training, technical advisory services and mentoring to District Administrations to establish and operationalise District Planning Teams and to prepare strategic and annual plans, including: (a) development of District Planning Manuals; (b) training of Provincial Planning Team members; (c) training of District Technical (Planning) Teams; (d) seminars for Local Administration Personnel including District Administrators; (e) support for District Administrators in providing timely and complete information to DCCs in respect of the process and progress in existing district plan implementation; and (f) holding of annual workshops in each province for sharing of experience.
2. Provision of technical advisory services to develop capacity of civil society and rural communities to effectively participate in the local development planning process and ensure local administration accountability for plan implementation through: (a) support for the Recipient's dissemination of guidelines for the functioning of DCCs; (b) identification, contracting and training of district-based civil society facilitators; and (c) support for the development of a participation network in Provinces to provide capacity building and exchange of experience.
3. Development and implementation of a communications strategy to ensure that the district planning and DCCs operations are characterized by increasing levels of awareness, inclusion and accountability among both public sector and civil society through the provision of methodological tools, training, technical advisory services and mentoring.

Part B: Local Investment Grants (LIGs)

1. Provision of funding for Local Investment Grants (LIGs) for the carrying out of small-scale district level public investments, comprising: (a) District Administrative Infrastructure; (b) Socio-Economic Infrastructure; and (c) Community Infrastructure Improvements.

2. Strengthening the capacity for decentralized management of small-scale district level public investments under the Project by establishing a small infrastructure grants mechanism, including promotion of methods and systems for district administrations to allocate budget for small infrastructure investments along with strengthening capacities for financial and works management by the Recipient's line units and local administration staff through learning-by-doing using government systems.

Part C: Capacity Building for Local Administration

Strengthening the capacity of the staff of about 49 District Administrations and of associated departments of the Provinces to plan and coordinate district development activities, to mobilize and manage resources and to deliver basic administrative services to the public through:

1. The provision for the training of Provincial and District staff related to LIGs to strengthen the District Administrations and relevant provincial departments in financial administration and in small works procurement and supervision management.
2. The provision for training: (a) in the core functions of District Administration; and (b) in other areas identified as priorities by the Provincial and District officials for capacity building of the local public administration to develop the human resource base for a comprehensive and institutionalized decentralization under the Project.

Part D: Support for Decentralization Policy

Development of policies and methodologies conducive to greater decentralization of the fiscal, administrative and governance regimes in rural Mozambique through: (a) the provision of technical advisory services for: (i) decentralization policy analysis and definition; and (ii) decentralization methodology development and dissemination; and (b) funding for decentralization training for central agency policy makers and technicians.

Part E: Support for Project Implementation

1. Strengthening the capacity of the PCU/UCA and PPU/UPPs to carry out their responsibilities under Project.
2. Development of monitoring and evaluation (M&E) system necessary for operational monitoring as well as evaluation of operational systems and institutional change under the Project.
3. Preparation of a future national program of the Recipient for decentralized planning and financing.

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* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with 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 the following provisions of Section I of this Schedule.

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 and domestic contractors

The provisions of Paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured and domestic contractors in the territory of the Recipient.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost \$200,000 equivalent or less per contract, up to the aggregate amount indicated in the Procurement Plan referred to in Part D.1 of this Schedule, may be procured under contracts awarded in accordance with the provisions of Paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$500,000 equivalent per contract, up to the aggregate amount indicated in the Procurement Plan referred to in Part D.1 of this Schedule, may be procured under contracts awarded in accordance with the provisions of Paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to the aggregate amount indicated in the Procurement Plan referred to in Part D.1 of this Schedule, 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

Limited quantities of vehicles and office equipment as specified in the Procurement Plan may be procured from UNDP's Inter-Agency Procurement Service Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 and works 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. Goods

With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in Paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

B. Works

With respect to: (i) each contract estimated to cost the equivalent of \$100,000 or more; and (ii) the first three contracts estimated to cost the equivalent of \$30,000 or more, 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 Paragraphs 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 the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), Paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

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, and the provisions of Paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of Paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Individual Consultants

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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

A. Firms

With respect to: (i) each contract estimated to cost the equivalent of \$100,000 or more; and (ii) each contract estimated to cost the equivalent of less than \$100,000 during the PY1, the procedures set forth in Paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

B. Individuals

With respect to: (i) each contract estimated to cost the equivalent of \$50,000 or more; and (ii) the first three contracts estimated to cost the equivalent of less than \$50,000, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of Paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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. Project Implementation Supervision and Coordination

The Recipient shall:

(i) carry out the Project in accordance with: (a) the procedures and requirements set out in the PIM, which shall, *inter alia*, cover all components of the Project, including the Project objectives, norms and methodologies, lines of responsibility, and reporting, criteria for access to the Project provided resources, and systems for supervision, monitoring and evaluation of local level implementation, details of procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements; and (b) the provisions of the Guidelines for Community Participation and Consultation in District Planning.

(ii) maintain PIM and the Guidelines for Community Participation and Consultation in District Planning in form and substance satisfactory to the Association, subject to modifications based on implementation experience and the reviews referred to Paragraphs H and I of this Schedule, take all measures necessary to ensure that the Project is carried out and operated in conformity with the PIM and the Guidelines for Community Participation and Consultation in District Planning;

(iii) not amend or waive any provision of the PIM or the Guidelines for Community Participation and Consultation in District Planning without prior approval of the Association if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project; and

(iv) ensure coordination and management of the Project implementation at the levels of: (a) the Recipient with the support of the PCU/UCA, including resource management, procurement and reporting functions, and adequate liaison regarding both programmatic and administrative matters between the Recipient and the Association; (b) Provinces under the guidance and supervision of the Provincial Government and the Governor supported by the PPU/UPP, each PPU/UPP staffed by a Provincial Coordinator, a Project Accountant, an Accounting Supervisor, a Works and Procurement Adviser and a Monitoring Technician; and (c) Districts through the District Administrators, all with their roles and responsibilities agreed between the Recipient and the Association; and

(v) maintain at all levels the required additional staffing with their term of reference satisfactory to the Association.

B. Project Accounts

1. Without limitation on its obligations under any other provision of this Agreement, the Recipient shall for the Project open and maintain and cause the Provinces to open and maintain in banks acceptable to the Association, under terms and condition satisfactory to the Association, the following Meticaïs accounts:

(a) (i) a Project Account by the Recipient for deposit therein the Recipient's counterpart contributions to the costs of the Project; (ii) deposit therein an initial amount equivalent to \$100,000; and (iii) thereafter during each following quarter deposit into the Project Account the amounts required to replenish the account for eligible expenditures made during the period in question;

(b) (i) Provincial Project Account by each Province, managed by the PPU/UPP, for deposit therein by the Recipient of its counterpart contributions to the costs of the Project in the Province; (ii) deposit an initial amount equivalent to \$10,000 into its Provincial Project Account; and (iii) thereafter during each following quarter deposit into such account the amounts required to replenish the account for eligible expenditures made during the period in question; and

2. The Recipient and the Association shall jointly monitor the operation and effectiveness of the payment mechanism of the accounts referred to in Paragraph B.1 of this Schedule and review them as necessary. Should the joint reviews conclude that the payment mechanism is not effective, the Recipient shall, not later than three months after being notified by the Association, introduce and implement such modifications of the payment mechanism or of the mechanism or of the applicable administrative and financial rules and procedures as may have been agreed upon with the Association.

C. Provincial and District Level Project Staffing and Training

1. The Recipient shall ensure that: (a) each PPPU/UPP shall appoint a Supervisory Accountant, acceptable to the Association; and (b) each DPPF shall appoint a qualified and experienced Project Accountant to manage the LIGs, on terms and conditions satisfactory to the Association. Except as the Association shall otherwise agree, before becoming eligible for Local Investment Grant financing each District shall verify the presence on its staff of a District Accountant acceptable to the Association to ensure the financial management of Local Investment Grants at the District level.

2. The Recipient shall ensure that each Province shall carry out an intensive financial management system training program for relevant District Administration personnel to be able to manage the LIG accounts. All training under the Project shall be conducted on the basis of programs which shall have been approved by the Association as part of the annual work plan referred to in Paragraph D.1 of this Schedule which shall, *inter alia*, identify: (a) the training envisaged; (b) the personnel to be trained; (c) the selection methods of institutions conducting such training; (d) the institutions

which will conduct training, if already selected; (e) the duration of proposed training; and (f) an estimate of costs.

3. The Recipient shall appoint: (a) external auditors to audit the use by the Project Executing Agencies of the proceeds of the Grant and counterpart contributions for the Project; and (b) two full-time Procurement Specialists to assist PCU/UCA during the first year after Grant Effectiveness, and thereafter, at least one full-time Procurement Specialist with additional support as may be deemed necessary by the Association, all such professionals with qualifications, experience and terms and conditions acceptable to the Association.

D. Annual Work Plan and Quarterly Progress Reports

1. The Recipient shall not later than November 1 of every year, submit to the Association for review and comments an annual work plan for the Project for the following year, including training, and implement such plan taking into account the views of the Association.

2. The Recipient shall submit to the Association quarterly progress reports for the Project, in scope and form agreed with the Association.

E. Environmental Management Plan (EMP) and Resettlement Framework

1. The Recipient shall ensure that: (a) all measures necessary for the carrying out of the EMP are taken in a timely manner; and (b) progress reports referred to in Paragraph H (b) of this schedule shall include adequate information on monitoring of the measures defined in EMP.

2. The Recipient shall cause the eligible District Administrations:

(a) prior to commencing any Subproject and when required under the EMP, carry out an environmental and social impact assessment in accordance with the Environmental and Social Screening Form described in the Environmental Assessment, and in a form satisfactory to the Association;

(b) in the event that an environmental and social impact assessment of a Subproject determines that such a Subproject, if carried out, would have in the opinion of the Association a potential for negative environmental impact, not approve such a Subproject until an appropriate action under the EMP has been discussed and agreed upon by the Recipient and the Association to mitigate such potential negative impact; and

(c) thereafter cause the relevant DA to carry out such agreed management plan referred to in sub-Paragraph (b) above.

3. Prior to commencement of a Subproject involving involuntary resettlement or involuntary acquisition of land, the Recipient shall cause DA to prepare and implement

appropriate resettlement plans for compensation, resettlement and rehabilitation, in accordance with the Resettlement Policy Framework, and in form and substance satisfactory to the Association.

F. Eligibility Criteria for Subprojects and Terms and Conditions for Financing

1. To be eligible for financing a Subproject under Part B of the Project by the District Administration it shall be:

- (a) initiated and identified by the DA as an infrastructure investment activity, acceptable to the Association;
- (b) appraised and carried out in accordance with the procedures and conditions set forth in the PIM;
- (c) economically and technically viable in accordance with the standards specified in the PIM;
- (d) in compliance with the standards set forth in the applicable laws and regulations of the Recipient relating to health, safety and environmental management; and
- (e) satisfy any other requirements of eligibility specified in the PIM.

G. MOU for Participation in LIG

For carrying out Subprojects under Parts B of the Project by the Eligible Districts, the Recipient shall conclude a MOU with the each Province, whereby the Recipient shall agree to provide to the DPPF of each Province a grant from the proceeds of the Grant, on a non-reimbursable basis, on terms and conditions satisfactory to the Association, including the eligibility criteria set forth in Paragraph F of this Schedule and details of disbursement schedules and procurement procedures as set forth in Schedule 3 of this Agreement and Paragraph J of this Schedule, details of any further safeguards as may be needed for the management of the environment, and the following additional terms and conditions:

- (a) require the DPPF to ensure the execution of the Subprojects by the Districts with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and maintain adequate records;
- (b) require that the goods, works and services to be financed from the proceeds of the relevant Local Investment Grant shall be procured in accordance with the provisions of this Agreement and used exclusively in carrying out the Subproject concerned.

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

(d) obtain from the Government of the Province all such information as the Association shall reasonably request relating to the implementation of a Subproject, and the performance of the Government of the Province and of the Administration of the Districts executing the Subprojects; and

(e) suspend or terminate the right of the Government of the Province to the use of the proceeds of the Grant under the Project upon failure by such Province to perform its obligations under the MOU.

H. Monitoring and Reporting

The Recipient 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 6 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 March 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to Paragraph H (a) of this Schedule, 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 April 30 of each year, or such later date as the Association shall request, the report referred to in Paragraph H (b) of this Section, and thereafter act promptly and diligently in order to take, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed between the Recipient and the Association in furtherance of the objectives of the Project.

I. Midterm Review

1. The Recipient shall carry out, jointly with the Association, not later than first half of 2006, a comprehensive mid-term review aimed at: (i) documenting progress toward achieving the Project objectives; (ii) identifying and resolving obstacles to Project implementation; (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review; and (iv) an overall evaluation of the Project against the

Project Performance Indicators and the performance by Local Governments under Parts B of the Project.

2. The Recipient shall not later than four weeks prior to the mid-term review referred to in Paragraph I (1) above, furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, including an evaluation of: (a) the progress achieved in the Project implementation; and (b) the implementation of the Guidelines for Community Participation and Consultation in District Planning in all Provinces of the Recipient.

3. Promptly after completing the mid-term review, the Recipient shall take all measures required to fulfill the recommendations arising out of said review for the efficient completion of the Project and the achievement of the objectives thereof, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

J. Review by the Recipient of Procurement Decisions and Selection of Consultants

Except as provided in Schedule 3 of this Agreement, the following provisions shall apply:

1. Goods and Works

A. Goods

Each contract for goods estimated to cost the equivalent of more than \$5,000 up to \$50,000 shall be subject to prior review by the PCU/UC, following the Recipient's procurement procedures satisfactory to the Association.

B. Works

(i) each contract for works estimated to cost the equivalent of \$30,000 or more shall be subject to prior review by the PCU/UCA, following the Recipient's procurement procedures satisfactory to the Association; and (ii) During the PY1, each contract estimated to cost the equivalent of \$5,000 up to \$30,000 shall be subject to prior review by the PCU/UCA, following the Recipient's procurement procedures satisfactory to the Association.

C. Post Review

Each contract not governed by Paragraph B above, shall be subject to the post review by PCU/UCA in accordance with the Recipient's procedures satisfactory to the Association.

2. Consultants' Services

Individual Consultants

(i) with respect to each contract estimated to cost the equivalent of less than \$10,000 during PY1, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be reviewed and approved by PCU/UCA in accordance with the Recipient's procedures for the selection and employment of consultants', satisfactory to the Association. The contract shall be awarded only after the said approval shall have been given PCU/UCA; and (ii) each contract not subparagraph (i) shall be subject to the post review by PCU/UCA in accordance with the Recipient's procedures for the selection and employment of consultants satisfactory to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1),(2), (3), (4), (5), and (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 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 \$2,800,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to Paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,400,000 until the aggregate amount of withdrawals from 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 4,000,000.
2. Payments out of the Special Account shall be made either: (i) for Eligible Expenditures; or (ii) into a Second Generation Special Account for payments of 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 or the Second Generation Special Accounts 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 Accounts or a Second Generation Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 or the Second Generation Special Accounts 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 or the Second Generation Special Accounts: (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 or the Second Generation Special Accounts 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 or the Second Generation Special Accounts.

(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.

7. (a) The Recipient shall withdraw from the Special Account and deposit into Second Generation Accounts for each Province supported by the Project an amount in Meticaís, in total not exceeding, initially, \$100,000 equivalent, and after the full Authorized Allocation is deposited, an amount in Meticaís, in total not exceeding \$200,000 equivalent in commercial banks on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(b) Payments out of Second Generation Special Accounts shall only be made for Eligible Expenditures in respect of categories (1) to (6) set forth in the table in paragraph 1 of Schedule 1 to the Grant Agreement.

(c) Any withdrawal from any Second Generation Special Account must be justified to the Recipient by the same documentation and other evidence regarding eligible expenditures required pursuant to paragraph 3 of this Schedule.

(d) If the Association or the Recipient shall have determined at any time that any amount outstanding in any Second Generation Special Account will not be required to cover further payments for eligible expenditures, the relevant PPU/UPP shall,

promptly upon notice from the Association or Recipient, refund to the Special Account such outstanding amount.

SCHEDULE 6

Performance Indicators

For the purpose of this Agreement, the performance indicators to be used for the Project implementation are as follows:

1. 80 % of Districts in the Provinces supported by the Project with District Development Plans and Annual Investment Plans approved.
2. 80 % of Districts in the Provinces supported by the Project with District Consultative Councils organized and approving district plans and implementation reports.
3. 60 % of Districts participating in the Local Investment Grants in which participants in planning processes express satisfaction with responsiveness and accountability of district administration.
4. 50 % of Districts participating in the Local Investment Grants rated good or excellent on annual District Performance Evaluation Assessments.
5. 60 % of Districts at national level adopting MPF and MAE approved methodologies for participatory district planning and governance.
6. Key administrative and fiscal instruments adopted by GOM supporting transparent district planning and management, including:
 - (a) Guidelines for Community Participation and Consultation in District Planning published and disseminated.
 - (b) Formalization of District as a budget unit.
 - (c) Operational rules and procedures for district finance published.
 - (d) Provincial budget allocation to districts established for district infrastructure maintenance.
 - (e) 3% per annum increase in share of state investment budget programmed at provincial level with district input to plans.

SCHEDULE 7

Modifications to the General Conditions

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

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

“*Section 4.02 Currencies in which Commitment Charges are Payable*”

 - (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”
 - (b) Wherever used in Section 4.02 (c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.
 - (c) Section 4.03 and its heading are modified to read as follows:

“*Section 4.03. Amount of the Grant*”

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

4. Section 6.02 is modified as follows:
 - (a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement.”
 - (b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement.”
5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.
6. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

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