

CONFORMED COPY

CREDIT NUMBER 3879 MAI

Development Credit Agreement

(Development Learning Center Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 1, 2004

CONFORMED COPY

CREDIT NUMBER 3879 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 1, 2004, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Parts A and D of the Project will be carried out by the Malawi Institute of Management (MIM) with the Borrower's assistance, and for purposes of Parts B, C and D of the Project, MIM shall facilitate the establishment of the Development Learning Center (the DLC) as an autonomous legal entity within one year of the Effective Date of this Agreement, for purposes of implementation of the said parts of the Project;

(C) as part of the Borrower's assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to MIM, and to the DLC upon its establishment, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement, the agreement of even date herewith between the Association and MIM (the MIM Project Agreement), and the agreement expected to be entered into between the Association and the DLC (the DLC Project 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 modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower

shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “DLC Project Agreement” means the agreement to be entered into between the Association and the DLC, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the DLC Project Agreement;

(b) “DLC Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and the DLC pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the DLC Subsidiary Grant Agreement;

(c) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of the Project Agreements;

(d) “Fiscal Year” or “FY” means the fiscal year of the Borrower, commencing on July 1 and ending on June 30 of each calendar year;

(e) “Initial Deposit” means the initial counterpart contribution deposited by the Borrower into the Project Account (as hereinafter defined), and referred to in Section 3.04 (b) of this Agreement;

(f) “Malawi Kwacha” or “MK” means the currency of the Borrower;

(g) “MIM” means the Malawi Institute of Management, a training institute established under the Malawi Institute of Management Act, Chapter 30:07 of the laws of the Borrower;

(h) “MIM Project Agreement” means the agreement between the Association and MIM of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the MIM Project Agreement;

(i) “MIM Subsidiary Grant Agreement” means the agreement to be entered into between the Borrower and MIM pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MIM Subsidiary Grant Agreement;

(j) “MOU” means the memorandum of understanding to be entered into between MIM and the DLC setting out, inter alia, the terms and conditions under which MIM shall host the DLC and the nature of the relationship between the two institutions, and referred to in paragraph 3 (a) iv of Schedule 1 to this Agreement;

(k) “PCU” means the Project coordination unit established within MIM with staff and functions described in paragraph 2 of Section II of Schedule 3 to this Agreement;

(l) “PIP” means the Project implementation plan prepared by the Borrower setting out the Project’s implementation arrangements, including procurement, financial management and disbursement procedures, and the monitoring and evaluation framework;

(m) “POM” means the Project Operations Manual, acceptable to the Association, setting forth, inter alia, the Project’s institutional arrangements, and the procurement, financial management and disbursement procedures to be followed during Project implementation, as the same may be amended from time to time with the concurrence of the Association;

(n) “Project Account” means the account opened by the Borrower for the deposit of counterpart contributions, and referred to in Section 3.04 (a) of this Agreement;

(o) “Project Agreements” means the DLC Project Agreement and the MIM Project Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreements;

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

(q) “Sub-DLC” means a branch of the DLC to be set up by the DLC in the city of Blantyre.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to two million seven hundred thousand Special Drawing Rights (SDR 2,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the

reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a separate 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 4 to this Agreement. The Special Account so established will be managed by MIM until the DLC becomes operational when the DLC shall take over the management of the said Account.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, 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 Borrower from the Credit 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 2.06 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 Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 1, 2014 and ending March 1, 2044.

Each installment to and including the installment payable on March 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the 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 Borrower 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, educational, engineering, financial, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) Without any limitation upon any of its obligations under this Agreement, the Borrower shall: (i) cause MIM to carry out Parts A and D and the DLC to carry out Parts B, C and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, engineering, financial and technical practices; (ii) cause MIM or the DLC, as the case may be, to perform their obligations in accordance with the provisions of their respective Project Agreements; (iii) take or cause to be taken all actions including the provision of funds, facilities, services and other resources necessary or appropriate to enable MIM and the DLC to perform such obligations; and (iv) not take or permit to be taken any action which would prevent or interfere with such performance.

(d) For purposes of carrying out the Project, the Borrower shall make available to MIM and the DLC their respective proceeds of the Credit allocated from time to time to the categories in the table set forth in paragraph 1 of Schedule 1 to this Agreement under the MIM Subsidiary Grant Agreement and the DLC Subsidiary Grant Agreement, respectively, under terms and conditions which shall have been approved by the Association.

(e) The Borrower shall exercise its rights under the MIM Subsidiary Grant Agreement and the DLC Subsidiary Grant Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the said Agreements or any provision thereof.

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 Credit shall be governed by the provisions of Schedule 1 to the Project Agreements.

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

(a) prepare, jointly with MIM and the DLC, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower shall:

(a) open and maintain in MK, until the completion of the Project, a Project Account in a commercial bank acceptable to the Association, under terms and conditions satisfactory to the Association;

(b) make an Initial Deposit into the Project Account in an amount of three million Malawi Kwacha (MK3,000,000) to finance the Borrower's contribution to the expenditures under the Project for the initial three-month period;

(c) deposit into the Project Account such amounts as are estimated to be required at any given time for each ensuing three-month period thereafter, as shall be agreed upon between the Borrower and the Association; and

(d) ensure that the funds deposited into the Project Account in accordance with paragraphs (b) and (c) of this Section shall be used exclusively to finance the Borrower's contribution to the expenditures under the Project which are not otherwise financed from the proceeds of the Credit.

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and D of the Project shall be carried out by MIM pursuant to Section 2.03 of the MIM Project Agreement, and Parts B and C of the Project shall be carried out by the DLC pursuant to Section 2.03 of the DLC Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such 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, accounts and the audit of such financial statements, 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 Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;
- (ii) enable the Association's representatives to examine such records; and

- (iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) MIM or the DLC shall have failed to perform any of their respective obligations under the respective Project Agreements.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that MIM or the DLC will be able to perform their respective obligations under the Project Agreements.

(c) The Malawi Institute of Management Act of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MIM to perform any of its obligations under the MIM Project Agreement.

(d) The Borrower shall: (i) have failed to establish the DLC within one year of the Effective Date of this Agreement in a form and substance that is satisfactory to the Association; (ii) have failed to cause the DLC to enter into the DLC Project Agreement with the Association to effectively transfer MIM's existing DLC-related obligations to the DLC and facilitate the commencement by the DLC of its operations; and (iii) have amended, suspended, abrogated or waived the relevant law establishing the DLC so as to affect materially and adversely the ability of the DLC to perform any of its obligations under the DLC Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

- (a) the MIM Subsidiary Grant Agreement has been executed on behalf of the Borrower and MIM;
- (b) the Borrower has opened the Project Account and deposited therein the Initial Deposit referred to in Section 3.04 (b) of this Agreement;
- (c) the Borrower has adopted and furnished to the Association the PIP and the POM in a form and substance that is satisfactory to the Association; and
- (d) the Borrower has established or caused to be established a financial management system that is acceptable to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) that the MIM Project Agreement has been duly authorized or ratified by MIM, and is legally binding upon MIM in accordance with its terms; and
- (b) that the MIM Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and MIM and is legally binding upon the Borrower and MIM in accordance with its terms.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
P.O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address:	Telex:	Facsimile:
FINANCE Lilongwe	44407 MI	(265) 1 789173

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 MALAWI

By /s/ Victor Decio Geddes

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nils Tcheyan

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Part A of the Project		
(a) Civil Works	405,000	100% of foreign expenditures 80% of local expenditures
(b) Goods	540,000	100% of foreign expenditures 80% of local expenditures
(c) Consultant Services	70,000	100% of foreign expenditures 80% of local expenditures
(d) Operating Costs	10,000	80% for FY2005
(2) Parts B and D of the Project		
(a) Consultant Services	540,000	100% of foreign expenditures 80% of local expenditures
(b) Training	35,000	100% of foreign expenditures 80% of local expenditures

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(c) Goods	100,000	100% of foreign expenditures 80% of local expenditures
(d) Operating Costs	360,000	80% for FY2006 60% for FY2007 40% for FY2008 20% for FY2009
(3) Part C of the Project		
(a) Civil Works for Part C.1 of the Project	170,000	100% of foreign expenditures and 80% of local expenditures
(b) Goods		100% of foreign expenditures 80% of local expenditures
(i) Part C.2 of the Project	135,000	
(ii) Part C.4 of the Project	35,000	
(c) Consultant Services		100% of foreign expenditures 80% of local expenditures
(i) Parts C.1 and C.3 of the Project	25,000	
(ii) Part C.4 of the Project	15,000	
(d) Training for Part C.4 of the Project	25,000	100% of foreign expenditures 80% of local expenditures
(e) Operating Costs for Part C.4 of the Project	205,000	60% for FY2007 40% for FY2008 20% for FY2009
(4) Unallocated	30,000	
TOTAL	<u>2,700,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods, works or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term “Operating Costs” means the expenses associated with the operations of the PCU and the establishment and operations of the DLC and the Sub-DLC including office supplies, utilities, salaries of administrative support staff, maintenance of network and communication equipment, satellite band width payments, and vehicle operation and maintenance, but excluding the salaries of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made from:

(a) category 2 for Part B of the Project until:

(i) Part A of the Project has been fully implemented to the satisfaction of the Association;

(ii) the DLC has been legally established by the Borrower under the relevant law(s) of the Borrower and its Board of Directors has been constituted in a manner that is satisfactory to the Association;

(iii) DLC’s business plan for its first year of operation has been prepared and approved by its Board of Directors and the Association;

(iv) the MOU has been entered into between MIM and the DLC setting out the terms and conditions of the hosting arrangements and relationship between the two parties;

(v) the DLC Project Agreement has been entered into between the Association and the DLC and the Association has received from the DLC a legal opinion in a form and substance that is satisfactory to the Association affirming that it is legally binding on the DLC;

(vi) the Borrower and the DLC have entered into the DLC Subsidiary Grant Agreement and the Association has received a legal

opinion from both parties affirming that it is legally binding on each of them;

- (vii) the appointment of all key staff referred to in Part A.3 of Schedule 2 to this Agreement in accordance with terms of reference acceptable to the Association and using the Association's procurement procedures, as set forth in Schedule 1 of the MIM Project Agreement;
- (viii) the POM has been updated to include the DLC's operations, approved by the Association, and adopted by the DLC's Board of Directors; and
- (ix) an independent auditor acceptable to the Association has been appointed in accordance with terms of reference that are satisfactory to the Association.

(b) category 3 (b) ii, 3 (c) ii, 3 (d) and 3 (e) for Part C.4 of the Project, until Part C.1 of the Project is fully implemented and the Sub-DLC is established in a manner that is satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; and (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training; and (f) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to test the effectiveness and sustainability of a DLC at strengthening the capacity of the Borrower's public and private sectors and of civil society to design, plan and implement social and economic development programs, as part of a global knowledge-sharing network.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Establishment of the DLC

1. Construction of facilities for the DLC including a video conference room, multi-media room, a technical and communications room, a library and staff offices.
2. Acquisition and installation of equipment for the DLC including a small aperture terminal, video, telecommunications and microprocessor equipment, security equipment, and office and classroom furniture.
3. Recruitment of the DLC staff including a director, training coordinator, administrative assistant, an accountant and an information technology specialist.
4. Establishment of a financial management system.

Part B: Support to the DLC's Operations

Provision of technical advisory services, training, equipment and financing of operating costs to assist the DLC in: (a) strengthening of its human, business planning, financial management and operational management capacity; (b) developing training programs and pedagogical skills; and (c) monitoring and evaluation.

Part C: Establishment and Support of Sub-DLC Operations

1. Construction of facilities for the Sub-DLC, including a video conference room, a multi-media room and staff offices.
2. Acquisition and installation of equipment for the DLC including video, telecommunications and microprocessor equipment, security equipment, and office and classroom furniture.
3. Recruitment of Sub-DLC staff including a manager, training coordinator, administrative assistant and an information technology specialist.

4. Provision of technical advisory services, training, equipment and financing of operating costs to assist the Sub-DLC in: (a) strengthening its human, business planning, financial management and operational management capacity; (b) developing training programs and pedagogical skills; and (c) monitoring and evaluation.

Part D: Monitoring and Evaluation

Monitoring of the DLC and Sub-DLC activities and evaluation of the Project's achievements by inter alia assessing the needs of the target population and the relevance of the training, the viability of the DLC and Sub-DLC, and the effects of the training programs on the design, planning and implementation of development programs, through the provision of technical advisory services.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Implementation Program

Section I: Implementation Arrangements

1. General:

The Borrower shall ensure that the Project is carried out in accordance with the PIP and the POM, and except as the Association shall otherwise agree, shall not amend or waive any provisions of the PIP or the POM, if such amendment or waiver may in the opinion of the Association materially or adversely affect the implementation of the Project.

2. The PCU:

(a) Staffing

The Borrower shall cause MIM to maintain a PCU for the duration of the Project with staffing and resources satisfactory to the Association. Without limitation to the generality of the foregoing, the PCU shall consist of the following staff, with terms of reference, qualifications and experience satisfactory to the Association: (i) a Project coordinator; (ii) a procurement officer; and (iii) an accountant.

(b) Role

The Borrower shall cause the PCU to carry out the following functions:

- (i) prior to the establishment of the DLC, the PCU shall carry out the day-to-day implementation of Part A of the Project including the procurement and financial management aspects. The PCU shall transfer the procurement and financial management responsibilities under the Project to the DLC once it becomes operational.
- (ii) following the commencement of the DLC's operations, the PCU shall carry out an oversight role over the implementation by the DLC of Parts B and C of the Project, and implement Part D of the Project in close collaboration with the DLC.

Section II: Monitoring and Evaluation

3. The Borrower 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 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) participate in the preparation by the DLC and MIM of a report by November 30, 2006, or such later date as the Association shall agree to, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this section on the progress achieved in carrying out of the Project during the period preceding the date of said report for discussion during the Project's mid-term review to be carried out among the Borrower, the Association, the DLC and MIM by January 15, 2007, or such later date as the Association shall agree to; and

(c) take such corrective actions as shall be recommended by the Association to achieve the objectives of the Project promptly after the said mid-term review.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means categories 1, 2, and 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit 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 \$250,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the

Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the

Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

SCHEDULE 5

Performance Monitoring Indicators

1. Number of participants trained by the DLC and Sub-DLC in best practice project management techniques.
2. Introduction by the DLC and the Sub-DLC of at least two (2) courses in the first year of their respective existence, and of at least three (3) courses in each subsequent year of Project implementation thereafter, that improve the Borrower's capacity to implement its poverty reduction strategy.
3. The DLC meets at least eighty per cent (80%) of its operating expenses by the fourth year of its operations and Sub-DLC one hundred per cent (100%) of its operating expenses by the third year of its operations through revenue generation.
4. At least two (2) training institutions use the DLC and the Sub-DLC in each year of Project implementation following their respective establishment.
5. Eighty (80) training sessions are held during the first year of Project implementation following the respective establishment of the DLC and Sub-DLC, and one hundred twenty (120) training sessions for each subsequent year thereafter.
6. The content offered in the DLC and Sub-DLC training sessions covers at least three (3) sectors during the first year of Project implementation following their respective establishment and at least five (5) sectors in each year thereafter.