

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N019-ZIM

Interim Fund
Development Credit Agreement

(Rural District Council Pilot Capital Development Project)

between

REPUBLIC OF ZIMBABWE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of
the interim trust fund established with funds contributed by
certain members of International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

Dated August 14, 1997

INTERIM FUND CREDIT NUMBER N019-ZIM

INTERIM FUND
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 14, 1997, between REPUBLIC OF ZIMBABWE (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) by agreement dated May 15, 1997 (the Dutch Grant Agreement), the Kingdom of the Netherlands (Netherlands) has agreed to make a grant (the Dutch Grant) to the Borrower in an aggregate amount equivalent to \$3,000,000 to assist in financing part of the Project on the terms and conditions set forth in the Dutch Grant Agreement; and

(D) by agreement dated June 13, 1997 (the Swedish Grant Agreement), the Kingdom of Sweden (Sweden) has agreed to make a grant (the Swedish Grant) to the

Borrower in an aggregate amount equivalent to \$4,000,000 to assist in financing part of the Project on the terms and conditions set forth in the Swedish Grant Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively;

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution"; and "Participating Countries" means, collectively, all such countries";

(d) The last sentence of Section 3.02 is deleted.

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

"Except as the Administrator and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time, the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the

procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of the expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be cancelled."

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) "Beneficiary" means beneficiary of a Sub-grant or a Sub-loan;
- (b) "Beneficiary Contract" means the contract referred to in paragraph 6 (g) of Schedule 4 to this Agreement;
- (c) "CBCC" means the Capacity Building Coordinating Committee referred to in paragraph 1 (a) of Schedule 4 to this Agreement;
- (d) "CBU" means the Capacity Building Unit referred to in paragraph 1 (b) of Schedule 4 to this Agreement;
- (e) "Eligible RDC" means a Rural District Council which is determined to be eligible in terms of the eligibility criteria referred to in paragraph 7 of Schedule 4 to this Agreement;
- (f) "Eligible RDC Expenditures" means expenditures of an Eligible RDC, which are determined to be eligible for financing under a Grant, a Loan, a Sub-grant or a Sub-loan in terms of criteria specified in the Project Operational Manual;
- (g) "Fiscal year" or "FY" means the Borrower's fiscal year;
- (h) "Grant" means a grant under Part A of the Project, made, or to be made, to an Eligible RDC pursuant to a Grant Participation Agreement;
- (i) "Grant Participation Agreement" means a Grant Participation Agreement under Section 3.04 (a) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Grant Participation Agreement;
- (j) "Loan" means a loan under Part B of the Project made, or to be made, to an RDC pursuant to a Loan Participation Agreement;
- (k) "Loan Participation Agreement" means a Loan Participation Agreement under Section 3.04 (b) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Loan Participation Agreement;
- (l) "MLGRUD" means the Borrower's Ministry of Local Government, Rural and Urban Development;
- (m) "Participation Agreement" means a Grant Participation Agreement or a Loan Participation Agreement, as the case may be;
- (n) "Project Implementation Manual" means the Project Implementation Manual referred to in paragraph 3 (a) of Schedule 4 to this Agreement, and adopted pursuant to Section 6.01 (a) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;
- (o) "Project Operational Manual" means the Project Operational Manual referred to in paragraph 3 (b) of Schedule 4 to this Agreement, and adopted pursuant to Section 6.01 (a) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Project Operational Manual;
- (p) "RDC" means a Rural District Council established pursuant to the Borrower's Rural District Councils Act 1988;
- (q) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(r) "Sub-grant" means a grant made, or to be made, under a Beneficiary Contract to finance a Sub-project under Part A of the Project;

(s) "Sub-loan" means a loan made, or to be made, under a Beneficiary Contract to finance a Sub-project under Part B of the Project;

(t) "Sub-project" means a sub-project under Part A or Part B of the Project.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to eight million nine hundred thousand Special Drawing Rights (SDR8,900,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Interim Fund Credit; and (ii) amounts paid (or, if the Administrator shall so agree, to be paid) on account of withdrawals made for the benefit of an Eligible RDC under a Grant, a Loan, a Sub-grant or a Sub-loan to meet the reasonable cost of Eligible RDC Expenditures, and in respect of which the withdrawal from the Interim Fund Credit Account is requested.

(b) The Borrower 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 Administrator, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the Administrator shall establish. The Administrator 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 Interim Fund 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 Interim Fund Credit Account or cancelled; 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 Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semi-annual installments payable on each February 15 and August 15, commencing August 15, 2007 and ending February 15, 2037. Each installment to and including the installment payable on February 15, 2017 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 Administrator 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 Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund 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 Administrator 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 Administrator 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 Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, 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 Administrator 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:

- (i) shall carry out Part C of the Project through MLGRUD, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, and technical practices, and provide, promptly as needed, the funds, facilities, services and other resources required for Part C of the Project; and
- (ii) shall cause Eligible RDCs to carry out Parts A and B of the Project, with due diligence and efficiency, in conformity with appropriate administrative, financial, environmental, and technical practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Eligible RDCs to carry out Parts A and B of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of Parts A and B of the Project by Eligible RDCs.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Administrator shall otherwise agree, the Borrower shall carry out Part C of the Project, and cause Eligible RDCs to carry out Parts A and B of the Project, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Administrator 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 Interim Fund Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.04. (a) For the purposes of Part A of the Project, the Borrower shall conclude for each fiscal year an agreement (hereinafter called a Grant Participation Agreement) with each Eligible RDC, whereby the Borrower shall agree to provide to each such Eligible RDC an annual grant, including an amount of the proceeds of the Interim Fund Credit, on a non-reimbursable basis, and on the terms and conditions set forth in paragraph 6 of Schedule 4 to this Agreement.

(b) For purposes of Part B of the Project, the Borrower shall conclude an agreement (hereinafter called a Loan Participation Agreement) with each Eligible RDC, whereby it shall agree to on-lend to each such Eligible RDC an amount of the proceeds of the Interim Fund Credit not exceeding the equivalent of \$500,000, on the terms and conditions set forth in paragraph 6 of Schedule 4 to this Agreement, and on the basis of the on-lending terms set forth below:

- (i) an adjustable rate of interest, which shall correspond to the rate established from time to time by the Borrower in relation to its Public Sector Investment Program (PSIP) loans;
- (ii) a repayment period not exceeding:
 - (A) twelve years, in the case of plant and equipment Sub-projects;
 - (B) twenty five years, in the case of infrastructure Sub-projects; and
 - (C) thirty years, in the case of community development Sub-projects; and
- (iii) a requirement that the principal amount of the Loan repayable by each Eligible RDC shall be the local currency equivalent of the currency or currencies withdrawn from the Interim Fund Credit Account, such equivalent to be determined as of the date or respective dates of withdrawals from the Interim Fund Credit Account.

(c) The Borrower shall exercise its rights under each Participation Agreement, in such manner as to protect the interests of the Borrower and the Administrator, and to accomplish the purposes of the Interim Fund Credit; and, except as the Administrator shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such Participation Agreement or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;
- (ii) furnish to the Administrator as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning said records and accounts, and the audit thereof, as the Administrator shall from time to time reasonably request.

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

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator'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) The Borrower shall cause Eligible RDCs to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial conditions of such Eligible RDCs.

(b) The Borrower shall, or shall cause Eligible RDCs to:

(i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Project for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Borrower and the Administrator as soon as available, but in any case not later than nine months after the end of each such year, (A) certified copies of their financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and

(iii) furnish to the Borrower and the Administrator such other information concerning such records, accounts, financial statements and the audits thereof as the Administrator shall from time to time reasonably request.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause Eligible RDCs:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Administrator for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on their operations and conduct their affairs in accordance with sound technical, administrative and financial practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain their equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and

renewals thereof, all in accordance with sound engineering, financial and administrative practices.

ARTICLE VI

Remedies of the Association and the Administrator

Section 6.01. (a) Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified: namely, that, subject to subparagraph (b) of this paragraph, the right of the Borrower to withdraw the proceeds of the Dutch Grant or the Swedish Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Dutch Grant Agreement and the Swedish Grant Agreement.

(b) Paragraph (a) of this section shall not apply if the Borrower establishes to the satisfaction of the Administrator that: (i) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VII

Effective date; Designation of Administrator

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted a Project Implementation Manual and a Project Operational Manual, both of which shall be acceptable to the Administrator;

(b) the Dutch Grant Agreement and the Swedish Grant Agreement have been executed and delivered, and all conditions precedent to the effectiveness thereof, or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Interim Fund Development Credit Agreement, have been fulfilled; and

(c) Grant Participation Agreements have been duly executed on behalf of the Borrower and not less than ten Eligible RDCs.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator: namely, that Participation Agreements, as and when executed in accordance with the model forms provided in the Project Operational Manual and referred to in paragraph 3 (a) (ii) of Schedule 4 to this Agreement, and duly authorized or ratified by the Borrower and the respective Eligible RDCs, will be legally valid and binding upon the Borrower and the respective Eligible RDCs in accordance with their respective terms.

Section 7.03. 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. Section 7.04. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

The Senior Secretary
Ministry of Finance
Private Bag 7705
Causeway, Harare
Zimbabwe

Cable address:

MINFIN
Harare

Telex:

MINFIN 22141 ZW
Zimbabwe

For the Association and the Administrator:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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 ZIMBABWE

By /s/ A. Midzi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established with
funds contributed by certain members of
International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

By /s/ Praful Patel

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

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

	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
1. Grants:		
(a) FY 1997/98	1,700,000	35% of amounts of Grants approved

(b) FY 1999	3,550,000	63% of amounts of Grants approved
2. Loans		100% of amounts of Loans disbursed
3. Consultants' services and audits	100%	
TOTAL	8,900,000	

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

(a) in respect of payments made for expenditures prior to the date of this Agreement; or

(b) in respect of expenditures under Category (1) (b) of the table in paragraph 1 of this Schedule, unless (i) a review of the performance of Eligible RDCs under Part A of the Project for FY 1997/98 has been conducted, and (ii) based on the results of such review, corresponding annual investment plans for FY 1999 have been submitted by Eligible RDCs, and approved by the Borrower; or

(c) in respect of any Grant or Loan, as the case may be, unless the Grant or Loan has been provided in accordance with the procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Project Operational Manual.

3. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for Eligible RDC Expenditures, consultants' services (firms) under contracts not exceeding \$100,000 equivalent, consultants' services (individuals) under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop the capacity of Rural District Councils (RDCs) to plan, implement and manage the sustainable delivery of essential services by providing RDCs with access to funds necessary to provide critical services and infrastructure, and creating incentives for improved RDC performance.

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

Part A: District Development Grants

Provision of grants to Eligible RDCs to finance local infrastructure development and service delivery sub-projects to be undertaken by Eligible RDCs themselves, or through local community groups or other organizations.

Part B: District Development Loans

Provision of loans to Eligible RDCs to finance local infrastructure development and service delivery sub-projects to be undertaken by Eligible RDCs themselves, or through local community groups or other organizations.

Part C: Decentralization Policy Support

Development of critical policies required to sustain implementation of the Borrower's decentralization program, including:

(a) review of international experience in inter-governmental fiscal reform and identification of strategies for potential application by the Borrower;

(b) review of other areas of inter-governmental relations critical to the development of the autonomy of local authorities, with particular emphasis on opportunities for increasing private sector participation in the financing and provision of key services and infrastructure; and

(c) provision of advisory services to assist in the monitoring of implementation of the Project.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

Contracts for goods may be grouped in bid packages estimated to cost \$250,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost \$1,000,000 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 in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$3,200,000 equivalent, and works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$2,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$570,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Goods and works required for Parts A and B of the Project, up to an aggregate amount not to exceed \$130,000 equivalent, in the case of goods, and \$350,000 equivalent, in the case of works, shall be procured in accordance with procedures acceptable to the Administrator.

4. Procurement of Small Works

Works estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent, 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 Administrator, 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.

5. Force Account

Works required for Parts A and B of the Project, which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$3,500,000 equivalent or less in aggregate, may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$250,000 or more, and works estimated to cost the equivalent of \$1,000,000 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 paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Subject to the eligibility restrictions set forth in Section III of this Schedule, consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Administrator review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Administrator, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000.

Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods and works provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

SCHEDULE 4

Implementation Program

General Provisions

1. The Borrower shall maintain:

(a) the Capacity Building Coordinating Committee (CBCC), whose functions, composition and terms of reference shall be acceptable to the Administrator, to be responsible for providing overall policy and strategic guidance for the Project and, in particular, to review the progress of the Project, and address policy issues arising in the course of the implementation of the Project; and

(b) the Capacity Building Unit of MLGRUD (CBU), whose functions, composition and terms of reference shall be acceptable to the Administrator, to be responsible for overall coordination of implementation of the Project.

2. The Borrower shall maintain, in each of the eight provinces that comprise RDCs:

(a) a Provincial Development Committee to monitor on a continuing basis the activities undertaken by RDCs under the Project; and

(b) a Provincial Support Team, consisting of a team leader and the requisite number of facilitators, to support the Provincial Development Committee and facilitate improvements in the planning, implementation and management processes of RDCs.

3. The Borrower shall:

(a) prepare and transmit to the Administrator:

(i) a Project Implementation Manual, acceptable to the Administrator, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Administrator for purposes of the Project, and

(ii) a Project Operational Manual, acceptable to the Administrator, giving details of all procedural arrangements for the preparation and implementation of Sub-projects, including Sub-project identification and appraisal procedures, relevant environmental appraisal criteria, monitoring and evaluation processes, applicable procurement, disbursement and other implementation guidelines, criteria for the determination of Eligible RDCs and selection of sub-projects, model forms of Participation Agreements and Beneficiary Contracts and, in the case of Sub-projects under Part B of the Project, the applicable borrowing capacity appraisal procedures and on-lending terms and conditions; and

(b) carry out the Project in accordance with procedures set out in the Project Implementation Manual and the Project Operational Manual, and, except as the Administrator shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Administrator, materially or adversely affect the implementation of the Project.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 3 (a) (i) of this Schedule, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than October 31, 1998, undertake, in conjunction with the Administrator and Eligible RDCs, a midterm review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower and Eligible RDCs of their respective obligations under this Agreement, including:

- (i) the progress achieved by the Borrower and Eligible RDCs in the implementation of the Project, having regard to the performance indicators referred to in paragraphs 3 (a) (i) and 4 (a) of this Schedule;
- (ii) a review of the proposed work plans and budget for the forthcoming fiscal year;
- (iii) the performance of Eligible RDCs in the implementation of Sub-projects; and
- (iv) review of the progress achieved in the implementation of the Borrower's decentralization policy;

(c) not later than one month prior to the midterm review, furnish to the Administrator, for its comments, a report, in such detail as the Administrator shall reasonably request, on the progress and status of the Project, and giving details, of the various matters to be discussed at such review; and

(d) following the midterm review, undertake to act promptly and diligently in order to take, or cause Eligible RDCs to take, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or cause Eligible RDCs to implement, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

5. (a) The Borrower shall, not later than one month prior to the beginning of each fiscal year, submit to the Administrator, for review and approval, proposed annual work plans and budget for the forthcoming fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement activities, and such other particulars as the Administrator may require.

(b) The Borrower shall, not later than March 31 and September 30 of each year, submit to the Administrator for review semi-annual progress reports on the status of the Project, and the performance by the Borrower and Eligible RDCs of their respective obligations under this Agreement.

Additional Terms and Conditions Governing Loans and Grants

6. Further to Section 3.04 of this Agreement, the proceeds of the Interim Fund Credit provided to Eligible RDCs under Parts A and B to finance Grants or Loans, as the case may be, shall be subject to the following additional terms and conditions:

(a) in the case of Grants only:

- (i) the amount so provided to Eligible RDCs shall be used exclusively to finance Sub-projects under Part A of the Project, or to provide Sub-grants to Beneficiaries to finance Sub-projects under Part A of the Project;
- (ii) except as the Administrator may otherwise agree, the amount of each Grant shall not exceed \$250,000 equivalent in any fiscal year; and
- (iii) each Eligible RDC shall allocate an amount of not less than 10 percent of the amount of its annual Grant to finance community development Sub-projects initiated and implemented by local community groups or organizations, in accordance with criteria specified in the Project Operational Manual;

(b) in the case of Loans only, the amount so provided to Eligible RDCs shall be used exclusively to finance Sub-projects under Part B of the Project or, where appropriate, to provide Sub-loans to Beneficiaries to finance Sub-projects under Part B of the Project;

(c) no Sub-project shall be considered for financing under the Project, except in accordance with criteria, and terms and conditions, set forth in the Project Operational Manual;

(d) goods and services required for the purposes of financing Sub-projects shall be procured in accordance with procedures referred to in Part C of Schedule 3 to this Agreement, and set forth in the Project Operational Manual;

(e) no Sub-project shall be considered for financing under the Project, unless (i) the proposed Sub-project has been properly appraised to ensure that it is viable and fully justified, and that the proposed option represents the least-cost alternative; and (ii) the Eligible RDC or the Beneficiary, as the case may be, has made adequate arrangements for the financing of maintenance and other incremental recurrent costs of the Sub-project, if any;

(f) every Sub-project proposal shall be classified according to environmental impact category, and subjected to environmental impact assessment, to ensure that: (i) it is fully consistent with environmental criteria set out in the Project Operational Manual, and (ii) where appropriate, mitigation measures designed to minimize adverse effects of proposed Sub-projects are identified and incorporated in the Sub-project design;

(g) for purposes of each Sub-project to be executed by a Beneficiary, the Eligible RDC shall conclude a contract with the Beneficiary substantially in the form of the model form provided in the Project Operational Manual, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, the amount of the Beneficiary's counterpart contribution, if any, details of any further safeguards as may be needed for the protection of the environment, and, where appropriate, the right of the Eligible RDC to:

- (i) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;
- (ii) obtain all such information as the Administrator or the Eligible RDC shall reasonably request relating to the implementation of the Sub-project and the performance of the Beneficiary thereunder; and
- (iii) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Grant or Loan upon failure by such Beneficiary to perform its obligations under such contract.

(h) the proceeds of a Grant or Loan shall not be used to finance taxes or duties levied on or in respect of Eligible RDC Expenditures, or any part thereof; and

(i) Eligible RDCs shall have their administrative, technical and managerial performance for each fiscal year audited by independent auditors acceptable to the Administrator, having regard to the provisions of their respective Participation Agreements and the Project Operational Manual.

7. For purposes of Parts A and B of the Project, an RDC shall be deemed eligible for a Grant or a Loan, as the case may be, if:

(a) it has had its annual investment plan for the forthcoming fiscal year evaluated and approved in accordance with the Project Operational Manual;

(b) it has engaged the requisite number of suitably qualified and experienced personnel, in accordance with the requirements of Section 5.01 of this Agreement and the Project Operational Manual;

(c) it satisfies the other eligibility criteria specified in the Project Operational Manual; and

(d) in the case of eligibility for a Loan only, it has:

- (i) successfully undertaken the borrowing capacity assessment procedures prescribed in the Project Operational Manual, and
- (ii) opened a commercial bank account on terms acceptable to the Borrower and the Administrator, and deposited therein the equivalent of not less than 10 percent of the total estimated investment cost of the corresponding Sub-project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (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 services required for Part C of the Project, as well as amounts paid or to be paid on account of Loans, to be financed out of the proceeds of the Interim Fund Credit allocated from time to time to the eligible Categories, and in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Interim Fund Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Interim Fund Credit Account allocated to Categories (2) and (3), plus the total amount of all outstanding special commitments entered into by the Administrator, pursuant to Section 5.02 of the General Conditions, under Parts B and C of the Project, shall be equal to or exceed the equivalent of SDR1,000,000.

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

3. After the Administrator 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 Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund 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 Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to, or at the time of, each such request, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund 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 Administrator from the Interim Fund 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 Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

Thereafter, withdrawal from the Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Administrator, refund to the Administrator such outstanding amount.

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

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

