

CONFORMED COPY

CREDIT NUMBER 2755 ZA

Development Credit Agreement
(Second Social Recovery Project)

between

REPUBLIC OF ZAMBIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1995

CREDIT NUMBER 2755 ZA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 18, 1995, between the REPUBLIC OF ZAMBIA (the Borrower) and the 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, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from the Kingdom of Sweden (Sweden) a grant (the Swedish Grant) in an aggregate principal amount equivalent to \$700,000 to assist in financing Parts B and C of the Project on the terms and conditions set forth in an agreement (the Swedish Grant Agreement) to be entered into between the Borrower and Sweden;

(C) the Borrower intends to contract from the Kingdom of Norway (Norway) a grant (the Norwegian Grant) in an aggregate principal amount equivalent to \$2,000,000 to assist in financing Parts B and C of the Project on the terms and conditions set forth in an agreement (the Norwegian Grant Agreement) to be entered into between the Borrower and Norway; 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;

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 thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

"Except as the Association 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 member of the Association 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 Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. 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 Community" means a community that will be served by a Micro-Project;

(b) "Financing Agreement" means an agreement to be entered into between the Borrower and a Project Committee for financing of a Micro-Project through the provision of a grant;

(c) "Implementation Manual" means the documents prepared by the Borrower and furnished to the Association under cover of a letter dated May 15, 1995 setting out the procedures and guidelines for carrying out Part A of the Project as such documents may be amended or modified from time to time by agreement between the Borrower and the Association;

(d) "Kwacha" means the currency of the Borrower;

(e) "Micro-Project" means an activity financed or to be financed in whole or in part out of the proceeds of the Credit under Part A.1 of the Project;

(f) "MPU" means the Micro-Projects Unit established in the Borrower's National Commission for Development Planning for the purpose of appraising and financing Micro-Projects;

(g) "NGO" means a non-governmental organization operating in the territory of the Borrower;

(h) "Participatory Assessment Group" means the NGO registered on February 27, 1995 under the Borrower's Societies Act which will, among other things, assist targeted indigent communities to prioritize problems and identify Micro-Projects; undertake participatory monitoring of poverty and disseminate research findings; carry out beneficiary assessments of Micro-Projects; and conduct other training to assist Beneficiary Communities;

(i) "Project Account" means the account referred to in Section 3.04 (a) of this Agreement;

(j) "Project Committee" means the committee to be established by each Beneficiary Community in accordance with paragraph 1 of Part C of Schedule 4 to this Agreement for the purpose of identifying, preparing and carrying out Micro-Projects, and such term includes, but is not limited to, Parent-Teacher Associations, NGOs, Cooperatives or other associations established in accordance with the respective laws of the Borrower; and

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

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 this Agreement, an amount in various currencies equivalent to nineteen million one hundred thousand Special Drawing Rights (SDR 19,100,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by the MPU on account of withdrawals made by a Beneficiary Community under a Grant to meet the reasonable cost of goods and services required for the Micro-Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A.2, A.3, A.4, B and C of the Project described in Schedule 2 to this Agreement 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 dollars a special deposit account in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 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 or 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 payment 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 per cent (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 May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1 commencing November 1, 2005 and ending May 1, 2035. Each installment to and including the installment payable on May 1, 2015 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 through MPU with due diligence and efficiency and in conformity with appropriate economic 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 through MPU in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. The Borrower shall, until completion of the Project, maintain the MPU with staff having qualifications, experience and terms and conditions of employment acceptable to the Association.

Section 3.03. (a) For the purposes of Part A.1 of the Project, the Borrower shall make the proceeds of the Credit available to each Project Committee as a grant under a Financing Agreement as provided for in Part E of Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights under each Financing 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 Financing Agreement or any provision thereof.

(c) The Borrower undertakes that, unless the Association shall otherwise agree, Micro-Projects will be identified, appraised and carried out in accordance with the procedures and on the terms and conditions set forth or referred to in the Implementation Manual and in Schedule 4 to this Agreement.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall for the purposes of Parts A and B of the Project:

(a) open and/or maintain in Kwacha in the name "Social Recovery Project" an account (the Project Account) in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial amount equivalent to \$100,000;

(c) thereafter, deposit into the Project Account, not later than June 30 and December 31 in each year during the implementation of the Project, the amount necessary to replenish the Project Account to the amount of \$ 100,000 equivalent or such greater amount as may be required for the purposes of the Project; and

(d) ensure that amounts deposited into the Project Account pursuant to paragraphs (b) and (c) above shall be used only to make payments to meet expenditures made or to be made in respect of the reasonable cost of works, goods and services for the Project not financed or to be financed out of the proceeds of the Credit or of the grants referred to in the Preamble to this Agreement.

Section 3.05. 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 3 to this Agreement.

Section 3.06. Without limitation to or restriction upon its other reporting requirements under Section 9.06 of the General Conditions and Article 4 of this Agreement, the Borrower shall, by June 1 in each year with effect from 1996 until completion of the Project, submit to the Association for its review, a progress report on the implementation of the Project. The said progress report shall cover, among other things:

(a) the results of the external financial audits of a representative sample of Microprojects, details of disbursements to, and justifications for, Microprojects, a review of procurement issues, a description of monitoring activities of the quality and timeliness of implementation of Micro-Projects and a summary of the impact of Micro-Projects;

and

(b) in respect of Parts B and C of the Project, a summary of surveys and statistical analysis undertaken thereunder, the number of studies carried out thereunder and the findings and recommendations thereof.

Section 3.07. (a) On or about the date thirty (30) months after the Effective Date, or when one half (1/2) of the amount of the Credit has been committed or disbursed, whichever is earlier, the Borrower shall carry out, jointly with the Association, a mid-term review of the progress made in carrying out the Project (referred to in this section as the mid-term review). The mid-term review shall cover, among other things:

- (i) a review of the geographical, community, district and provincial poverty indicators and of the distribution of Micro-Projects in order to measure the effectiveness of the poverty targeting process under Part A of the Project;
- (ii) a review of the progress made by the MPU in preparing for the transfer of its functions and the skills of its staff to other agencies of the Borrower upon the completion of the Project; and of the administrative and financial arrangements made by the Borrower to accommodate such transfer; and
- (iii) a discussion of the options for ensuring the long term sustainability of the institutional arrangements for financing policy oriented research commenced under Part C of the Project.

(b) The Borrower shall, at least four (4) weeks prior to the mid-term review, furnish to the Association a separate report describing the status of implementation of each part of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than four (4) weeks after the mid-term review, prepare an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the mid-term review and, thereafter, implement such action program.

Section 3.08. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future sustainability of activities commenced under the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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 Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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) 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

- (a) (i) Subject to subparagraph (ii) of this Paragraph: (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing thereof, or (B) any such

loan shall have become due and payable prior to the agreed maturity thereof.

- (ii) Paragraph (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) 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.

(b) The Norwegian Grant Agreement or the Swedish Grant Agreement shall have failed to become effective by February 28, 1996, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso in paragraph (a) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has established the Project Account and deposited therein the initial amount referred to in Section 3.04 (b) of this Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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 50062
Lusaka, Zambia

Cable address:

MINFIN
Lusaka

Telex:

42221

Telefax

222440/
250886

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 ZAMBIA

By /s/ Dunstan Weston Kamana
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Katherine Marshall
Acting Regional Vice President
Africa

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:

SCHEDULE WAS DONE IN COLUMNS, WOULD NOT CONVERT

2. For the purpose of this Schedule:

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

(c) the term incremental recurrent costs means the incremental costs to the MPU incurred under the Project on account of maintenance of offices, vehicles and equipment, acquisition of office supplies, staff travel and subsistence and salaries of non-professional staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. It is understood that the percentage in Category 4 in the

table in paragraph 1 of this Schedule has been calculated on the basis of the provisions of the Customs and Excise Act, Chapter 662, of the Laws of the Borrower, which exempts the goods, works and services to be financed under this Credit from taxes and customs duties levied by, or in the territory of, the Borrower. If any change is made to such Act which has the effect of levying taxes or customs duties on such goods, works or services, the percentage referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and services under contracts not exceeding \$100,000 equivalent and for expenditures for works under contracts not exceeding \$250,000 equivalent, 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 assist the Borrower in implementing its poverty reduction program through financing community initiatives and strengthening the Borrower's capacity for poverty analysis and monitoring.

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 objective:

Part A: Micro-Projects

1. Financing Micro-Projects related to health, education and vocational training, water and sanitation, economic infrastructure and activities and environment.
2. Provision of training to staff of agencies of the Borrower involved in the implementation of Part A.1 of the Project to assist them in selecting, monitoring and supervising Micro-Projects.
3. Provision of training, through the Participatory Assessment Group, other NGOs and the MPU, to potential and actual Beneficiary Communities to assist them in identifying, preparing and carrying out Micro-Projects.
4. Acquisition of vehicles and office equipment for use by the Borrower in the supervision and monitoring of Micro-Projects.

Part B: Poverty Monitoring

Carrying out coordinated collection of statistics and information to monitor changes in living conditions of the population in the territory of the Borrower using living conditions monitoring surveys and participatory assessments in order to assist the Borrower to better target its interventions to alleviate poverty

Part C: Poverty Analysis

Carrying out studies on poverty and social issues, including, but not limited to:

1. Analysis of poverty issues and the Borrower's current poverty reduction policies.
2. Analysis of the impact of the Borrower's structural adjustment programs on groups that are vulnerable to poverty.

* * *

The Project is expected to be completed by June 30, 2000

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 (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, works and goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. Preference for domestically manufactured goods and domestic contractors with respect to works and goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B, 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

Works estimated to cost \$500,000 equivalent or less per contract and \$6,600,000 equivalent or less in the aggregate, and goods estimated to cost \$100,000 equivalent or less per contract and \$1,200,000 equivalent or less in the aggregate 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 \$50,000 equivalent or less per contract and \$4,800,000 equivalent or less in the aggregate, 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. Procurement of Small Works

Works estimated to cost \$50,000 equivalent or less per contract, and not to exceed \$ 12,500,000 in the aggregate, shall be procured under lumpsum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work and who has the experience and resources to successfully complete the contract.

Part D: Review by the Association 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 Association, for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$250,000 or more and for goods estimated to cost the equivalent of \$100,000 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. 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 Association 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 Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association 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.

3. The exceptions to prior Association 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 Association, (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 equivalent or above.

SCHEDULE 4

Implementation Program

Except as the Association shall otherwise agree, in carrying out Part A.1 of the Project, MPU shall apply the procedures and guidelines set out in the Implementation Manual including, but not limited to, the following:

Part A: The following types of Micro-Projects will be eligible for financing under the Credit:

1. Health Micro-Projects

Expansion, repair and, where appropriate, construction of primary health care facilities .

2. Education and Vocational Training Micro-Projects

(a) Rehabilitation and expansion of primary schools and vocational training centers; and

(b) training in vocational skills including, but not limited to, on-farm storage, well-digging, sanitation, functional literacy, primary health and nutritional training, basic veterinarian skills, animal husbandry, marketing, horticulture, environmental issues and training of trainers in all of the above.

3. Water and Sanitation Micro-Projects

(a) Rehabilitation and expansion of community based water supply and sanitation systems and;

(b) rehabilitation and expansion of water and sanitation facilities in primary and secondary schools, health facilities and vocational training facilities.

4. Economic Micro-Projects

(a) Reconstruction and rehabilitation of earth surface roads in rural areas to improve access to markets and facilitate social service delivery;

(b) construction, upgrading and rehabilitation of, bridges, market place facilities and community owned and operated grain banks, irrigation systems and cattle crushes for small scale farmers; and

(c) acquisition of equipment and materials for use in small scale entrepreneurial activities.

5. Environment

(a) Community based soil conservation schemes;

(b) establishment of tree nurseries; and

(c) reforestation activities.

Part B: The following criteria shall be utilized in the selection of Micro-Projects:

1. The Micro-Project must be initiated, prepared, implemented and maintained by the Beneficiary Community.

2. The Beneficiary Community must be poor or belong to a vulnerable group, both as described in the Implementation Manual.

3. The Micro-Project must meet the priority needs of the majority of the Beneficiary Community.

4. The Micro-Project must be simple enough to be implemented without significant technical assistance from outside the Beneficiary Community and must be implementable within one year.

5. The Beneficiary Community must be able and willing to contribute in cash or kind about 25% of the cost of the Micro-Project and to undertake the post-investment operation and maintenance of the Micro-Project in a manner acceptable to the Borrower and the Association.

6. The Beneficiary Community must, where applicable, have an existing and active preventative maintenance committee in place for the Micro-Project.

7. The Micro-Project must be compatible with the Borrower's priorities and policies.

Part C: The following Micro-Projects shall be given priority in the selection process

1. Micro-Projects proposed by Beneficiary Communities living in remote, rural, poorly accessible and chronically food insecure areas.

2. Micro-Projects specifically targeted to benefit women.

Part D: The following procedures shall be followed in identifying, processing and approving Micro-Projects:

1. records and documents Each Beneficiary Community will establish a committee (hereinafter referred to as the Project Committee) which will be responsible for preparation and implementation of the Micro-Project Communities that lack the resources to identify and prepare Micro-Projects on their own and shall receive assistance from the Participatory Assessment Group, other NGOs or the MPU.

2. The Project Committee shall submit its proposal for a Micro-Project using the approved application form to a committee (hereinafter referred to as the Desk Appraisal Committee), composed of the MPU Regional Officer, the Provincial Planning Officer, and representatives of the relevant line ministries, the District Council and concerned NGOs. The Micro-Project proposal shall include:

1. a description of the Micro-Project including details showing that the Micro-Project proposal presents a solution to an identified priority problem and showing how the proposed Micro-Project will benefit the poor and vulnerable within the Beneficiary Community;

2. information on the members of the Beneficiary Community, including indication of their ability to contribute in cash or in kind to the cost of the Micro-Project; and

3. a statement of the post investment operation and maintenance arrangements for the Micro-Project.

3. Proposals approved by the Desk Appraisal Committee shall be subject to an appraisal by the Field Appraisal Team composed of the MPU Regional Officer, a member of the Provincial Planning Unit, a member of the District Council staff and a representative of the relevant line ministry.

4. The Field Appraisal Team shall submit its report to the MPU Head Office for review and evaluation.

5. The Technical Section of the MPU shall calculate a budget for the Micro-Project.

6. After review and evaluation, the MPU shall submit the Micro-Project proposal to the MPU Steering Committee for approval.

7. The MPU shall submit all Micro-Projects estimated to cost the equivalent of \$100,000 or more to the Association for approval prior to the signing of the respective Financing Agreement.

Part E: Financing Agreements

1. After approval of the proposal by the MPU Steering Committee, the Borrower shall, through MPU, enter into a Financing Agreement with the Project Committee. The terms of the Financing Agreement shall be satisfactory to the Association and shall include MPU obtaining rights adequate to protect the interests of the Borrower and the Association through, inter

alia, the following provisions:

1. the Project Committee shall carry out the Micro-Project with due diligence and efficiency, in accordance with sound technical, financial and managerial standards and to maintain adequate records;

2. the goods, civil works and services to be financed out of the proceeds of the Credit for Micro-Projects shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

3. the MPU shall have the right to inspect, by itself or jointly with the Association and other agencies of the Borrower, such goods and the sites, works, plants and construction included in the Micro-Project, the operation thereof and any relevant;

4. the MPU shall have the right to obtain all such information as MPU or the Association shall reasonably request regarding the foregoing, the administration, operations and financial condition of the Micro-Project and the benefits to be derived from the Micro-Project;

5. the MPU shall have the right to suspend or terminate the right of the Project Committee to use the proceeds of the Credit for the Micro-Project upon failure by any such Project Committee to perform any of its respective obligations under the Micro-Project Agreement; and

6. the Project Committee shall have the obligation to report to the MPU on the progress in implementing the Micro-Project.

2. The District Council, the relevant line ministry and the Provincial Planning Unit shall co-sign the Financing Agreement and jointly undertake to monitor and supervise the Micro-Project and to provide, promptly as needed, all assistance as may be required to ensure the successful implementation of the Micro-Project.

3. Terms and Conditions of Micro-Projects shall be financed under the following terms and conditions:

1. financing shall be provided on a grant basis;

2. the Beneficiary Community shall contribute in cash or in kind about 25% of the cost of the Micro-Project.

3. a mobilization advance of 36%, or such higher percentage as the Association may specify at the request of the Borrower, of the estimated value of the Borrower's contribution to the cost of the Micro-Project may be paid upon signing of the Financing Agreement. Two subsequent disbursements of 24% of the estimated value of the Borrower's contribution to the cost of the Micro-Project shall be made when 75% of the amount of the previous disbursements have been justified with receipts. The final disbursement shall be made after an estimate has been made of the remaining works and shall be based on such estimate.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means

expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 \$3,000,000 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 a deposit or deposits 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, less the amount of any outstanding special commitment 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.

