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CREDIT NUMBER 3368-RW

Development Credit Agreement

(Rural Water and Sanitation Project)

between

RWANDESE REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 2000

CREDIT NUMBER 3368-RW

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 7, 2000, between RWANDESE REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated May 5, 2000, from the Borrower describing its objectives and policies with respect to the reform of the water and sanitation sector in its territory and designed, inter alia, to ensure an adequate transition from the existing framework of development and management of water and sanitation services investments based on state intervention to a decentralized system of development and management of such investments by local communities and the private sector (hereinafter called the Letter of Sector Policy); and

(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 Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the 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 (as amended through October 6, 1999), with the modifications set forth below, constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

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

"Except as the Borrower and the Association 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 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" means: (i) a community represented by a Community Development Committee (as hereinafter defined) to which or for whose benefit a Grant (as hereinafter defined) is made, or proposed to be made; or (ii) a Community-Based Group (as hereinafter defined) to whom or for whose benefit a Sub-Grant (as hereinafter defined) is made or proposed to be made;

(b) "Commune" means a legal entity of the Borrower, established pursuant to the Law of November 23, 1963 on Communal Organization to exercise limited jurisdiction over a designated area and population within the territory of the Borrower, as amended to the date of this Agreement;

(c) "Participating Commune" means a Commune selected by MINALOC (as hereinafter defined) and MINERENA (as hereinafter defined) to participate in the Project in accordance with the criteria set forth in

paragraph 5 (a) of Schedule 4 to this Agreement;

(d) “Community-Based Group” means any group of two or more individuals residing in a Participating Commune that organizes itself for the purpose of submitting and carrying out a Subproject (as hereinafter defined);

(e) “Community Development Committee” or “CDC” means a committee made of members of the administration of a Participating Commune and elected representatives of its population, established and operating as an autonomous legal entity with powers to carry out activities under the Project;

(f) “Community Development Plan” means a plan prepared by a Community Development Committee containing a phased and costed program of development activities based on the needs expressed by the population of the Commune where it is located, including a list and description of any planned Subprojects;

(g) “Grant” means a grant made or proposed to be made by the Borrower through DEA (as hereinafter defined) to a Community Development Committee for the purpose of financing Subprojects (as hereinafter defined) under Part A of the Project;

(h) “Sub-Grant” means a grant made or proposed to be made by a Community Development Committee to a Community-Based Group for the purpose of financing a Subproject (as hereinafter defined) under Part A of the Project;

(i) “Grant Agreement” means an agreement between the Borrower represented by MINERENA (as hereinafter defined) and a Community Development Committee setting forth the terms and conditions under which proceeds of the Credit shall be made available to a Community Development Committee for the purpose of financing Subprojects (as hereinafter defined) under Part A of the Project;

(j) “MINECOFIN” means the Borrower's Ministry of Finance and Economic Planning;

(k) “MINALOC" means the Borrower’s Ministry of Local Government and Social Affairs;

(l) “MINERENA” means the Borrower’s Ministry of Energy, Water and Natural Resources;

(m) “DEA” means the Directorate of Water and Sanitation of MINERENA;

(n) “Partner Agency” means a non-governmental organization or other public or private entity established and operating under the laws of the Borrower, selected to participate in the Project in accordance with the criteria specified in paragraph 7 of Schedule 4 to this Agreement;

(o) “Project Implementation Manual” means the manual referred to in sub-paragraph 1 (a) of Schedule 4 to this Agreement;

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

(q) “Subproject” means a water supply or sanitation activity proposed by a CDC or a Community-Based Group, within the scope defined in Part A of the Project and financed or to be financed out of the proceeds of the Credit;

(r) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(s) “Project Account” means the account referred to in Section 3.02 (a) of this Agreement;

(t) “Initial Amount” means the initial amount referred to in Section 3.02 (b) (i) of this Agreement;

(u) “Rwandese Franc” means the currency of the Borrower;

(v) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on December 16, 1998 and on behalf of the Borrower on December 23, 1998;

(w) “Second Water Supply Project” means the Project described in Schedule 2 to the Development Credit Agreement (Second Water Supply Project) dated August 14, 1987 (Credit No. 1783 RW) between the Borrower and the Association;

(x) “Project Year” means the 12 month period beginning from the Effective Date and ending 12 months thereafter and each successive 12 month period following thereafter;

(y) “Communal Water and Sanitation Committee” means a Subcommittee established by a CDC for the purpose of monitoring the operations of Water Users’ Associations;

(z) “Water Users’ Association” means the Régies associatives, established to manage water systems pursuant to the Presidential Decree No. 292/04 dated May 15, 1987;

(aa) “Project Executing Units” or “PEUs” means institutional units of the Borrower carrying out components of the Project; and

(bb) “Community Advance Account” means the account referred to in Section 2.02 (c) 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 the Development Credit Agreement, an amount in various currencies equivalent to fifteen million one hundred thousand Special Drawing Rights (SDR 15,100,000).

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) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association

shall so agree, amounts to be paid) by the Borrower on account of withdrawals made to meet the reasonable cost of goods, works and services required for any Subproject in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower shall cause each CDC to:

(i) open and maintain in Rwandese Francs, an advance account of the Special Account, denominated Community Advance Account, in a financial institution acceptable to the Association on terms and conditions satisfactory to the Association, including, in the case of a commercial institution, appropriate protection against set off, seizure or attachment, to be used by such CDC exclusively for the purposes of financing works, goods and services required under the Project; and

(ii) withdraw from the Special Account and deposit into each Community Advance Account the amount needed to cover Eligible Expenditures for a period not exceeding ninety days, and thereafter replenish said Advance Account in accordance with Paragraph 7 of Schedule 5 to this Agreement.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to

the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2010 and ending April 1, 2040. Each installment to and including the installment payable on April 1, 2020 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01.(a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement

and, to this end, shall carry out the Project through MINERENA and other Project Executing Units with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and sanitation practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. 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:

(a) open an account in Rwandese Francs in its Central Bank (the Project Account), and thereafter maintain said Project Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Project Account: (i) an initial amount equivalent to $30,000 to finance the Borrower's contribution to Project expenditures for the first three months of the First Project Year; (ii) an additional amount of $90,000 to finance the Borrower's contribution to Project expenditures for the remaining period of the First Project Year;

(c) thereafter replenish the Project Account every 12 months following the end of the First Project Year, by depositing therein the amounts agreed upon with the Association and required to finance the Borrower's contribution to Project expenditures for each subsequent Project Year; and

(d) ensure that funds deposited into the Project Account in accordance with paragraphs (b) and (c) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit.

Section 3.03. 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 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

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, as well as any entities 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 no later than six 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 Association shall have reasonably requested; and

(iii) furnish to the Association as soon as available, but in any case no later than six 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 Association shall have reasonably requested; and

(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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association’s representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, no later than eighteen (18) months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association no later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 501. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted the Project implementation Manual, in form and substance satisfactory to the Association;

(b) the Borrower has established an adequate financial management system, satisfactory to the Association to ensure proper monitoring of the Project activities; and

(c) the Borrower has opened the Project Account and has deposited therein the Initial Deposit referred to in Section 3.02 (b) (i) of this Agreement

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for Finance and Planning is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the

purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and
Economic Planning
B.P. 158
Kigali
Rwandese Republic

Cable address:	Telex:
MINFIN-RWANDA	22687 MINFIN-RAW

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

RWANDESE REPUBLIC

By /s/ Dr. Richard Sezibera
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi
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:

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1)	Grants	8,300,000	100% of amounts disbursed
(2)	Works	2,150,000	100% of foreign expenditures and 85% of local expenditures
(3)	Equipment and vehicles	830,000	100% of foreign expenditures and 90% of local expenditures
(4)	Consultants' services, audit and training	2,300,000	100%
(5)	Operating Costs	600,000	85%
(6)	Refunding of Project Preparation Advance	575,000	Amount due pursuant to Section 2.02 (d) of this Agreement
(7)	Unallocated	345,000	
	TOTAL	15,100,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods 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 "Operating Costs" means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel and accommodation, telecommunication charges, and Project staff salaries but excluding salaries of the Borrower's civil servants.

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

(a) payments made for expenditures prior to the date of this Agreement; and

(b) expenditures under Category (1) unless the Grant has been made in accordance with the procedures and terms and conditions set out or referred to in sub-paragraph 3 (a) of Schedule 4 to this Agreement and

in more detail in the Project Implementation Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) works under contracts not exceeding the equivalent of $250,000 each; (ii) goods under contracts not exceeding the equivalent of $100,000 each; (iii) consultants' services under contracts not exceeding (A) $100,000 each for consulting firms, and (B) $30,000 each for individual consultants; and (c) training and Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) increasing the availability and sustainability of water supply and sanitation services in the rural areas of the Borrower's territory; (ii) strengthening the capacity of (A) communities to plan water supply and sanitation investments and manage water supply and sanitation services, and (B) agencies responsible for water supply services, communes, water users and the private sector to carry out their respective responsibilities under the Borrower's water sector strategy; and (iii) mobilizing community support for (A) the rehabilitation or expansion of the major regional water systems, and (B) the operation by the private sector of the said systems.

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

Part A: Subprojects

1. The carrying out of Subprojects for the improvement of rural water supply and sanitation services, including Subprojects for:

(a) the protection of springs;

(b) the provision of spring catchments (gravity and pumped) with a distribution network, storage and standpipes;

(c) the rehabilitation of small piped systems with standpipes;

(d) expansion of distribution networks connected to regional trunk systems;

(e) the drilling of boreholes equipped with hand-pumps;

(f) the construction of rainwater catchments;

(g) the construction of sanitation facilities, including latrines for households, schools, health centers and (where feasible) markets and high density rural settlement areas; and

(h) the construction of systems of drainage and disposal of rainwater and waste water.

2. Preparation of water and sanitation of components of Community Development Plans, through the provision of technical advisory services

and training to CDCs.

3. Design and execution of the engineering components of Subprojects, including the technical design of water systems.

4. Capacity Building for Community-Based Groups:

(a) assisting communities to (A) organize themselves into Water Users' Associations to facilitate the provision of their contributions to the Project, and (B) make informed choices about their preferred water supply and sanitation service level options;

(b) carrying out of training programs for communities participating in the Project, including training courses in hygiene education, financial management and completion of Subproject proposals; and

(c) strengthening Community-Based groups to carry out Subprojects, including:

(i) the provision of training in (A) contracting, works supervision and procurement of goods, (B) the establishment of Communal Water and Sanitation Committees and Water User Associations, and (C) training in administration, operation and maintenance of Subprojects;

(ii) hygiene education; and

(iii) any other relevant training required by Subproject proposals.

Part B: Major Water Supply Systems

1. (a) The restoration and expansion of water services in the area supplied by the Mayaga system, including the rehabilitation of: (i) the water catchment, treatment plant, headworks and other production facilities of the Mayaga system; and (ii) the main trunk of the said system.

(b) The provision of technical advisory services for the carrying out of Part B.1 (a) of the Project and for the management of the said system.

2. Support for the rehabilitation of the Lava Region systems, including: (i) an assessment of (A) the technical, operational, social and management conditions of the facilities built under the Second Water Supply Project, and (B) the investments required to achieve the initial service targets of the said systems; and (ii) the development and carrying out of sustainable operational and management arrangements, including facilitating the operation of the systems by private sector entities.

Part C: Capacity Building

1. Strengthening stakeholder capacity to ensure adequate and timely provision of goods, works and services for the water supply and sanitation sector, consisting of:

(a) Strengthening the capacity of CDCs to carry out their

functions under the Project through:

(i) the holding of orientation courses for CDC staff, members of the Communal Water and Sanitation Committees, school health program coordinators and the personnel of the Water Users Associations, to provide participants in such courses with relevant information about Project matters, including information about contracting arrangements and financial management;

(ii) the provision of technical advisory services to and logistical support to CDCs, their subcommittees and staff.

(b) Provision of adequate training, including on procurement, to service providers and Partner Agencies;

2. Strengthening MINERENA's capacity to carry out its functions under the Project, through:

(a) the provision of technical advisory services to MINERENA staff assigned to the Project;

(b) the carrying out of (A) water supply and sanitation program reviews, (B) topical research and special studies, (B) mass media campaigns for the dissemination of hygiene education, (C) external impact assessments of the Project, and (D) exchange programs with other countries on matters relevant to the Project.

Part D: Project Management

1. Strengthening the management and supervision capacity of MINERENA and the CDCs, through: (i) the provision of office space to the sub-committees of the CDCs and regional offices of MINERENA; and (ii) the acquisition of office equipment, vehicles, motorcycles and bicycles.

2. Carrying out of monitoring and evaluation activities and audits of the Project.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

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

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be

references, respectively, to “Participating Countries” and “Participating Country”.

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) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost $100,000 equivalent or more each.

(c) Preference for domestically manufactured goods

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than $100,000 equivalent per contract, up to an aggregate amount not to exceed $500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than $250,000 equivalent per contract, up to an aggregate amount not to exceed $1,000,000 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 $500,000 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 Subprojects shall be procured in accordance with paragraph 3.15 of the Guidelines and as specified in the Project Implementation Manual.

4. Procurement of Small Works

Works estimated to cost less than $10,000 equivalent per contract, up to an aggregate amount not to exceed $100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of written quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to 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: (i) each contract for (A) goods estimated to cost the equivalent of $100,000 or more, and (B) works estimated to cost the equivalent of $250,000 or more; and (ii) the first two contracts for civil works in each Participating Commune, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section,

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than $100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Financial audit services may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Technical advisory services for Part B.1 (a) of the Project which are estimated to cost less than $400,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, and each contract for the employment of individual consultants estimated to cost the equivalent of $30,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and

5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to all contracts for the employment of consulting firms, and each contract for the employment of consultants on the basis of single source selection procedures, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Project Implementation Manual and General Provisions

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in a form and substance satisfactory to the Association. The Project Implementation Manual shall, inter alia, set out the eligibility criteria, policies, procedures, guidelines and standard contracts for the Project.

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual, and except as the Association shall otherwise agree, shall not amend or waive any provision of the Project Implementation Manual, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the carrying out of the Project.

(c) The Borrower shall: (i) carry out Parts B, C and D of the Project through MINERENA; and (ii) to that end, appoint and assign to the Project MINERENA staff with qualifications and experience satisfactory to the Association.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association for the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on a six monthly basis, beginning six months after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) above on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, every semester, starting six months after the Effective Date, or such later date as the Association shall request, the reports referred to in subparagraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on

the conclusions and recommendations of said reports and the Association's views on the matter;

(d) no later than thirty months after the Effective Date, carry out jointly with the Association a mid-term review. Such review shall assess the overall progress made in the carrying out of the Project; the result of the monitoring and evaluation activities; and progress on procurement, disbursement and other financial management issues;

(e) furnish to the Association through MINERENA biannual financial reports summarizing progress made in the carrying out of the respective Community Development Plans, including Subprojects reviewed and approved and progress made in the carrying out of Project-related activities and disbursement of funds; and

(f) submit annual reports to the Association, beginning on a date twelve months after the Effective Date. Such reports shall address, as a minimum, evaluation of Subprojects during the preceding twelve-month period, the carrying out and supervision of Project activities, procurement, rate of disbursements and any specific operational issues that have presented difficulties and for which guidance from MINERENA has been sought.

3. (a) Following approval by MINERENA and MINALOC of a Community Development Plan that includes a water and sanitation component, MINERENA may, as representative of the Borrower, enter into a grant agreement with the concerned CDC for the financing of selected activities under such component under terms and conditions satisfactory to the Association, including terms and conditions specified in the relevant model agreement attached to the Project Implementation Manual. The provisions of the Grant Agreement shall require :

(i) the CDC to provide evidence showing that the CDC has (A) appointed an accountant with adequate qualifications and experience satisfactory to the Association, and (B) established a an accounting system satisfactory to the Association;

(ii) the CDC to (A) carry out the water and sanitation component of the Community Development Plan with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and sanitation standards, and (B) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of every Subproject financed out of the proceeds of any Grant made to the CDC;

(iii) the CDC to maintain adequate records for each Subproject for which it makes a Sub-Grant;

(iv) the CDC to provide all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the CDC and the benefits to be derived from the Subproject; and

(v) the Borrower to suspend or terminate the right of the CDC to the use of the proceeds of the Grant upon failure by the CDC to perform its obligations under the Grant Agreement.

(b) Each CDC shall, out of the proceeds of the Grant, make a

Sub-Grant to each Beneficiary meeting the eligibility criteria and conditions set out in the Project Implementation Manual under a decision which shall set forth the rights and obligations of the Community Development Committee and the Beneficiary of the Sub-grant. The decision shall include, in particular, the following provisions:

(i) the Beneficiary carries out the Subproject for which the Sub-Grant is made with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and sanitation standards and practices;

(ii) the Beneficiary maintains adequate records for the Subproject;

(iii) the Beneficiary procures goods, works and services to be financed out of the proceeds of the Sub-Grant at a reasonable price, account being taken also of other relevant factors such as (A) time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and (B) in the case of services, the quality of such services and the competence of the parties rendering such services;

(iv) the Beneficiary uses the goods, works and services to be financed out of the proceeds of a Sub-Grant exclusively in the carrying out of the Subproject;

(v) the Borrower or the CDC may at any time, by itself or jointly with representatives of the Association, if the Association shall so request, inspect any goods, works, plants and construction included in a Subproject, the operation thereof, and any relevant records and documents;

(vi) the Beneficiary provides all such information as the Association, the Borrower or CDC shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and the benefits to be derived from the Subproject; and

(vii) the CDC suspends or terminates, in consultation with MINERENA the right of the Beneficiary to the use of the proceeds of the Sub-Grant upon failure by such Beneficiary to perform its obligations under the decision awarding the Sub-Grant.

B. Overall Project Implementation

4. (a) The Borrower shall establish and maintain within DEA a water project team in a form and with functions and resources satisfactory to the Association. The water project team shall be headed by a national coordinator, assisted by staff (including a deputy coordinator, a rural water supply engineer, a chief financial officer and a social scientist), all of whom shall have qualifications and experience satisfactory to the Association.

(b) DEA shall be responsible for the day to day management of the Project and the coordination of Project activities in accordance with the Project Implementation Manual. DEA’s functions shall include:

(i) assisting Project Executing Units in the preparation

of annual work programs and budgets for their respective components of the Project;

(ii) coordinating all aspects of Project execution with the relevant Ministries of the Borrower;

(iii) supervising and coordinating the actions of the CDCs;

(iv) ensuring that the Borrower's contribution to Project expenditures is adequately budgeted;

(v) evaluating the water and sanitation components of the Community Development Plans;

(vi) disbursing Grants to CDCs and maintaining adequate financial records with respect to the Grants;

(vii) preparation and submission of replenishment requests and withdrawal applications to the Association;

(viii) monitoring the carrying out of the Project and submitting the required technical, financial and other Project reports to MINALOC, MINECOFIN and to the Association;

(ix) initiating studies and capacity building efforts necessary to the achievement of the objectives.

C. Specific Project Implementation Arrangements: Selection of Participating Communes

5. MINALOC and MINERENA shall select communes eligible to participate in the Project in accordance with criteria set out in the Project Implementation Manual and the following provisions of this paragraph, namely:

(a) The Commune must:

(i) attach a high priority to the improvement of water supply and sanitation services, as evidenced by the existence of a water supply and sanitation component in its Community Development Plan;

(ii) be affected by significant health and sanitary problems related to the lack of adequate water services, as evidenced by the data on water-born diseases in the Commune;

(iii) have a satisfactory record or potential in community management of water services, as assessed on the basis of the criteria set out in the Project Implementation Manual; and

(iv) have established a CDC and such CDC has become operational.

(b) In addition to the above criteria, DEA may, for added flexibility in the selection of Participating Communes, also take into account additional criteria, including the presence of potential Partner

Agencies in the prospective Commune, and its poverty level.

(c) All decisions regarding the carrying out of the Project in a Participating Commune shall be taken by the CDC of that Commune.

D. Preparation, Evaluation and Approval of Community Development Plans with Water and Sanitation Components

6. MINERENA shall advertise publicly and request expressions of interest from potential Partner Agencies to assist CDCs in the preparation of the water and sanitation components of Community Development Plans.

7. Potential Partner Agencies shall be required to have: (i) proven experience in comparable community development activities in the territory of the Borrower and in participatory project design and implementation; (ii) proven technical expertise in their area of intervention; (iii) adequate financial and administrative capacity; and (iv) been registered and have the legal capacity to contract under the laws of the Borrower.

8. Following the selection of Partner Agencies in accordance with the criteria set forth in the preceding subparagraph, MINERENA shall, whenever necessary, enter into contracts, in accordance with the provisions of Section II of Schedule 3 to this Agreement, with such Partner Agencies to assist CDCs in the preparation and presentation of the water and sanitation components of Community Development Plans.

9. The water and sanitation components of a Community Development Plan shall contain: (i) a phased and costed program of water and sanitation activities, based on the needs expressed by the CDCs of the concerned Commune; and (ii) a detailed implementation plan including a list and description of the planned Subprojects and a description of the role that Beneficiaries will play in the implementation of the Subprojects.

10. The water supply and sanitation components of Community Development Plans may not be financed from the proceeds of the Credit unless they have been reviewed and approved by MINERENA. In evaluating the water and sanitation components of a Community Development Plan submitted by a CDC, DEA shall verify whether said component of the Community Development Plan satisfies the following criteria: (i) envisages water and sanitation activities that reflect the needs and preferences of the populations of the concerned Commune and can be implemented in accordance with the time-table and disbursement schedule included in the plan; and (ii) allows for periodic adjustment in content, funding requirements and implementation arrangements.

E. Approval and Implementation of Subprojects

The approval and implementation of Subprojects shall be subject to the following procedures, criteria and terms and conditions:

11. Subprojects shall be prepared by a Community-Based Group, with the assistance of a Partner Agency if necessary, and submitted to the CDC for its evaluation in accordance with the criteria specified in the Project Implementation Manual. In evaluating Subprojects, the CDC shall in particular take into account the following criteria, as further detailed in the Project Implementation Manual: the capacity of the Beneficiaries to sustain the operation and management of the Subproject as evidenced by a management plan including provision for the recovery of operating costs; the average investment costs per person served; and the compliance with environmental criteria.

12. Before approving any Subproject, the CDC shall submit it to MINERENA for its review. In reviewing Subprojects, DEA shall ensure that they are consistent with the objectives of the relevant Community

Development Plan and have been appraised in accordance with the criteria, policies and procedures set forth in the Project Implementation Manual.

13. (a) The decision approving the Subproject shall set forth the rights and obligations of the CDC and the Beneficiary of a Sub-Grant, in particular, the obligation of the Beneficiary of such Sub-Grant to contribute, in cash or in kind, 10% of the total cost of financing the Subproject. This percentage may be increased or decreased depending on the specific circumstances of the Subproject or the Beneficiary and in accordance with the criteria specified in the Project Implementation Manual.

(b) A CDC may enter into a contract with a Partner Agency to assist a Beneficiary of a Sub-Grant, in the preparation and implementation of a Subproject. Such contract shall provide, inter alia, for: (i) specific terms of reference for the Partner Agency based on the requirements of the Subproject; (ii) the terms of payments by the CDC to the Partner Agency, which shall be based on a predetermined payment schedule that shall be part of every Subproject proposal; and (iii) the right of the CDC to withhold payments to the Partner Agency and suspend or terminate the activities under the Subproject if the Partner Agency fails to comply with its obligations under the contract. Payments for expenditures incurred for Subprojects shall be effected by the CDC on behalf of Beneficiaries of Sub-Grants in accordance with the procedures set forth in the Project Implementation Manual.

(c) The Borrower shall ensure that all procurement and contracting of consultants' services to be undertaken by CDCs and Partner Agencies for specific Subprojects are carried out in accordance with the provisions of Schedule 3 to this Agreement and the Project Implementation Manual.

(d) The Borrower shall closely monitor the performance of CDCs and Partner Agencies and, to that end, shall require adequate reports from them and shall, through MINERENA, undertake visits to the CDCs and to the local offices of the Partner Agencies.

F. Role of MINERENA in the Management of the Water Sector

14. The Borrower shall:

(a) adopt no later than December 31, 2001, a program of actions, satisfactory to the Association, designed to ensure the conversion of MINERENA into a ministry essentially responsible for regulating, promoting and monitoring the water and sanitation sector, in accordance with the objectives of the Letter of Sector Policy. Such actions shall, in particular, include, adequate measures to revise the structure, functions and activities of MINERENA in order to make them consistent with the objectives of the said Letter of Sector Policy; and

(b) implement no later than December 31, 2005, the actions described in the program referred to in the preceding subparagraph.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services, as well as

amounts paid or to be paid under Grants, 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 $1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.

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 Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the

Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

7. (a) The Borrower shall withdraw from the Special Account and deposit into each Community Advance Account an advance for a period not exceeding ninety days to allow the relevant CDC to finance Sub-grants for approved Subprojects and other Eligible Expenditures. Advances shall be made by the Borrower to a Community Development Committee upon receipt

and approval by DEA of a quarterly work plan and funding requirement submitted by the Community Development Committee. Each subsequent advance shall be contingent upon satisfactory justification of the preceding period’s advance with sufficient financial reporting on a monthly basis to ensure that cost overruns or unexecuted projects are identified.

(b) Payments out of Community Advance Accounts shall only be made for Eligible Expenditures in respect of Categories (1) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) Any withdrawal from any Community Advance Account must be justified to the Borrower by the same documentation and other evidence regarding Eligible Expenditures.