

**CONFORMED COPY**

**CREDIT NUMBER 4002 TA**

**H134 TA**

**GRANT NUMBER**

# **Development Financing Agreement**

**(Second Social Action Fund Project)**

**between**

**THE UNITED REPUBLIC OF TANZANIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 19, 2005**

## **CREDIT NUMBER 4002 TA**

## **GRANT NUMBER H134 TA**

### **DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated January 19, 2005, between THE UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated October 20, 2004 (the Letter of Policy) describing a program designed to strengthen community participation in the decentralization process (the Program) and declaring the Borrower's commitment to the execution of such Program;

(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 and the Grant 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 May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary" means: (i) Service Poor Community (ies); or (ii) Food Insecure Household (s); or (iii) Vulnerable Group (s), as the case may be;

(b) “CMC” means a Community Management Committee established by a Village Council pursuant to the provisions of Section 107 of the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended, to implement Subprojects;

(c) “Community” means a group of people with common needs;

(d) “District” means an administrative area established pursuant to Section 6 of the Regions and Districts (Establishment Procedures) Act No. 12 of 1994 for Mainland Tanzania or pursuant to the Regional Administration Authority Act No. 1 of 1998 for Zanzibar, representing a designated area and population within the territory of the Borrower;

(e) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(g) “ESMF” means the Environmental and Social Management Framework dated July 2004, approved by the Association, setting forth an environmental and social screening process that will enable Subproject implementers to identify and assess potential adverse environmental and social impacts, offset and reduce them to acceptable levels, or to enhance positive impacts, and in accordance with which environmental management plans will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the concurrence of the Association;

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

(i) “Fiscal Year” or “FY” means the Borrower’s fiscal year which commences on July 1 of each calendar year and ends on June 30 of the following calendar year;

(j) “Food Insecure Household” means a household that does not have ready access to food due to inability of able bodied adults in the household to obtain gainful employment, and who are expected to benefit from working on the Subprojects;

(k) “HIV/AIDS” means Human Immuno-deficiency Virus/Acquired Immunity Deficiency Syndrome;

(l) “LG Act” means the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended, or the Local Government (Urban Authorities) Act No. 8 of 1982, as amended, either individually or collectively, as the case may be;

(m) “LGA” or “Local Government Authority” means a District authority or an urban authority established pursuant to the respective LG Act;

(n) “LGA Finance Committee” means the committee referred to in paragraph 6 of Schedule 4 to this Agreement;

(o) “LSP” means a local service provider recruited by a LGA in accordance with the procedures set forth in Section III of Schedule 3 to this Agreement to supervise Subproject implementation;

(p) “Mainland Tanzania” means all parts of the Borrower’s territory with the exception of Zanzibar;

(q) “Millennium Development Goals” means the eight (8) development goals agreed upon during the fifty-fifth session of the United Nations General Assembly which opened on September 5, 2000, as follows: (i) eradication of extreme poverty and hunger; (ii) achievement of universal primary education; (iii) promotion of gender equality and empowerment of women; (iv) reduction of child mortality; (v) improvement of maternal health; (vi) combating HIV/AIDS, malaria and other diseases; (vii) environmental sustainability; and (viii) development of a global partnership for development;

(r) “National Steering Committee” or “NSC” means the committee referred to in paragraph 2 of Schedule 4 to this Agreement;

(s) “National Village Fund” or “NVF” means the fund to be established by the Borrower referred to in Part A of Schedule 2 to this Agreement;

(t) “POM” means the Project Operations Manual, satisfactory to the Association, setting forth the implementation arrangements for the Project including inter alia financial management, disbursement and procurement procedures, as the same may be amended from time-to-time with the concurrence of the Association, and such term includes any schedules thereto;

(u) “Poverty Reduction Strategy” means the Borrower’s strategy paper describing its macroeconomic, structural, social and sectoral policies and programs aimed at promoting growth and reducing poverty, as well as its associated financing needs;

(v) “Procurement Plan” means the Borrower’s procurement plan, dated October 13, 2004, covering the initial eighteen (18) month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods of Project implementation;

(w) “Project Account” means the account opened by the Borrower pursuant to Section 3.04 (a) of this Agreement, for purposes of providing its counterpart contribution for the Project;

(x) “Region” any part proclaimed or deemed to be proclaimed by the President of the United Republic of Tanzania to be a region, pursuant to the powers conferred upon him by the constitution;

(y) “Regional Consultative Committee” means the committee referred to in paragraph 5 of Schedule 4 to this Agreement;

(z) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Financing Accounts referred to in Part A.5 of Schedule 1 to this Agreement;

(aa) “Resettlement Policy Framework” or “RPF” means the framework dated July 2004, approved by the Association, setting forth the governing framework for land acquisition, resettlement and compensation under Part A of the Project, and in accordance with which resettlement action plans will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the concurrence of the Association;

(bb) “Sector Experts Team” or “SET” means the team of sectoral experts appointed by the Borrower referred to in paragraph 3 of Schedule 4 to this Agreement;

(cc) “Service Guidelines on Community Participation” means the Service Guidelines, consistent with the POM, prepared by the Borrower for purposes of Project implementation, and referred to in Section 6.01 (c) of this Agreement;

(dd) “Service Poor Community” means a community which does not have ready access to services such as health, roads, education, water and sanitation, village markets and banking services;

(ee) “Special Account A” means the special deposit account opened for withdrawals in respect of expenditures to be financed from the Credit, and referred to in Part B.1 of Schedule 1 to this Agreement;

(ff) “Special Account B” means the special deposit account opened for withdrawals in respect of expenditures to be financed from the Grant, and referred to in Part B.1 of Schedule 1 to this Agreement;

(gg) “Special Accounts” means Special Account A and B;

(hh) “Subproject” means a specific activity financed or to be financed from the proceeds of the Credit or the Grant, as the case may be, under Part A of the Project;

(ii) “Subproject Financing Agreement” means a tripartite agreement to be entered into among a LGA, Village Council, and a CMC on behalf of a Beneficiary, in accordance with the provisions of paragraph 8 (i) of Schedule 4 to this Agreement;

(jj) “Tanzania Shilling” or “Tshs” means the currency of the Borrower;

(kk) “TASAF” means the Tanzania Social Action Fund established by the Borrower to spearhead community-driven development;

(ll) “TASAF MU” means the TASAF Management Unit established within the Borrower’s Office of the President to carry out the Project;

(mm) “Village” means a village registered as such pursuant to the provisions of the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended, representing a designated area and population in Mainland Tanzania;

(nn) “Village Assembly” as defined in Section 55 of the provisions of the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended, consists of every person who is ordinarily resident in the Village and who has attained the apparent age of eighteen (18) years;

(oo) “Village Council” means the council established for a Village pursuant to the provisions of Section 25 of the Local Government (District Authorities) Act No. 7 of 1982;

(pp) “Village Fund” means the fund to be established by each Village into which funds from the NVF shall be disbursed, and referred to in paragraph 8 (b) of Schedule 4 to this Agreement;

(qq) “Village Government” means the Village Assembly and Village Council, as set forth in Sections 55 – 62 of the Local Government (District Authorities) Act No. 7 of 1982;

(rr) “Vulnerable Groups” means groups such as orphans, the disabled and elderly, and persons living with HIV/AIDS; and

(ss) “Ward” means the administrative sub-division of a District referred to in Section 29 of the Local Government (District Authorities) Act No. 7 of 1982.

Section 1.03. Where the terms “LGA”, “Village”, “Village Council”, “Village Government” and “Ward” are used in this Agreement, for purposes of Mainland Tanzania, they shall be deemed to apply equally to the equivalent administrative areas or institutions in Zanzibar, as the case may be.

## **ARTICLE II**

### **The Financing**

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to eighty seven million nine hundred thousand Special Drawing Rights (SDR 87,900,000) (the Credit); and

(b) an amount in various currencies equivalent to fourteen million four hundred thousand Special Drawing Rights (SDR 14,400,000) (the Grant).

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: (A) 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 (B) amounts paid (or, if the Association shall so agree, amounts to be paid) under Part A of the Project to meet the reasonable costs of goods, works and services required for the Subprojects benefiting Service Poor Communities, in respect of which withdrawal from the Credit Account is requested.

(b) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement amounts paid (or, if the Association shall so agree, amounts to be paid) under Part A of the Project to meet the reasonable costs of goods, works and services required for Subprojects benefiting Food Insecure Households and Vulnerable Groups, in respect of which withdrawal from the Grant Account is requested.

Section 2.03. The Closing Date shall be June 30, 2010 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: (i) 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; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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 May 15 and November 15 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 May 15 and November 15 commencing May 15, 2015 and ending November 15, 2044. Each installment to and including the installment payable on November 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date



referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

Section 2.08. The currency of United States Dollars 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 TASAF MU, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of 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. (a) 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 Financing shall be governed by the provisions of Schedule 3 to this Agreement, as the said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. 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.

Section 3.04. The Borrower shall for purposes of making the counterpart contribution to the financing of the Project:

(a) open, and thereafter maintain, until the completion of the Project, the Project Account in Tanzania Shillings in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial contribution of six hundred million Tanzania Shillings (Tshs 600,000,000) as provided in Section 6.01 (a) of this Agreement;

(c) thereafter replenish the said Account on a quarterly basis with such amounts as shall have been agreed with the Association; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Credit.

## **ARTICLE IV**

### **Financial Covenants**

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

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Financing Accounts were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraphs 9, 10 and 11 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

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

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
- (b) The LG Act shall have been amended, suspended, abrogated, or waived so as to materially and adversely affect the ability of the Borrower to perform any of its obligations.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified, namely, that the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI**

### **Effective Date; Termination**

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

(a) the Borrower has opened the Project Account and deposited the initial contribution referred to in Section 3.04 (b) of this Agreement;

(b) the Borrower has established at TASAF MU a computerized management information system for the Project satisfactory to the Association; and

(c) the Borrower has furnished to the Association a POM and Service Guidelines on Community Participation that are satisfactory, in form and substance, to the Association.

Section 6.02 The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

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

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

Ministry of Finance:

P. O. Box 9111  
Dar es Salaam  
Tanzania

Cable address:	Telex:	Facsimile:
TREASURY Dar es Salaam	41329	(255) 222 11 77 90

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	1 (202) 477-6391

Washington, D.C.

64145 (MCI)

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

**UNITED REPUBLIC OF TANZANIA**

**By /s/ Andrew Daraja**

**Authorized Representative**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By /s/ Nils Tcheyan**

**Authorized Representative**

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Financing**

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Subprojects under Part A of the Project			95% of amounts disbursed
(a) Food Insecure Households	0	6,850,000	
(b) Vulnerable Groups	0	6,850,000	
(c) Service Poor Communities	61,300,000	0	
(2) Goods	2,730,000	0	100% of foreign expenditures 90% of local expenditures

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Consultants' services	6,850,000	0	93%
(4) Training	5,410,000	0	100%
(5) Operating Costs	3,400,000	0	90%
(6) Unallocated	8,210,000	700,000	
TOTAL	<u>87,900,000</u> =====	<u>14,400,000</u> =====	



2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods 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 on account of Project coordination, implementation, and monitoring activities carried out by TASAF MU, including office rent, equipment and office supplies, utilities, maintenance and operation of Project motor vehicles, per diems and travel allowances for staff from the Borrower’s National Audit Office undertaking the Project’s annual audit pursuant to Section 4.01 (b) of this Agreement, per diems and travel allowances for staff at TASAF MU, salaries of contacted support staff at TASAF MU, but excluding the salaries of the Borrower’s civil service.

3. The Association may require withdrawals from the Financing Accounts to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) Subprojects costing less than \$30,000 equivalent; (e) training and workshops; and (f) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. 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.

5. The Borrower may request withdrawals from the Financing Accounts to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Financing Accounts, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the quarter following the date of such request.

**B. Special Account**

1. The Borrower may open and maintain in Dollars Special Account A and Special Account B in its central bank on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Financing Accounts of amounts to be deposited into the Special Accounts shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the respective 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Financing Accounts; or

(c) 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 the said Section in respect of the audit of: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Accounts in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any 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 determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 Accounts.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account or the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

**Annex A**

**to**

**SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means:
  - (a) with respect to Special Account A, for Categories (1) (c) through (5), the amount of \$10,000,000 to be withdrawn from the Credit Account and deposited into the said Special Account pursuant to paragraph 2 of this Annex; and
  - (b) with respect to Special Account B, for Categories (1) (a) and (1) (b), the amount of \$2,000,000 to be withdrawn from the Grant Account and deposited into the said Special Account pursuant to paragraph 2 of this Annex.
2. 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 respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount as the Borrower shall have requested.
  - (b) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 or the Grant Account and deposit into the respective 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 respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total unwithdrawn amount of the Credit and the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B**

**to**

**SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Credit Account and the Grant Account shall be deposited by the Association into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Credit or the Grant, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the quarter following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to empower communities to access opportunities so that they can request, implement and monitor the delivery of services through Subprojects that contribute to improved livelihoods and are linked to the attainment of the associated Millennium Development Goals indicators specified in the Borrower's Poverty Reduction Strategy.

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:            National Village Fund

Establishment of a National Village Fund to provide grants to finance the implementation of Subprojects including the construction of roads, bridges, water points, classrooms, health facilities, staff housing, village markets, banking facilities, food storage structures, post-harvest produce handling facilities, skills training, mosquito bed nets promotion and bicycle ambulances.

Part B:            Capacity Enhancement

Carrying out of capacity enhancement measures by providing technical advisory services, training and equipment to:

(a) support the institutional development of implementing agencies at the national, regional, District, Ward, Village and Community levels including:

- (i) National: strengthening TASAFA MU's financial management, internal audit, procurement, environmental and social, monitoring and evaluation, and research and communication capabilities;
- (ii) Regional: strengthening of the capacity of the Regional Consultative Committee to monitor and evaluate resource management accountability systems developed by LGAs;
- (iii) Local Government Authorities: strengthening the capacity of LGAs to carry out participatory planning, Subproject appraisals, taking into account *inter alia* environmental and social factors, supervision, monitoring and evaluation;

- (iv) Wards: strengthening the capacity of extension staff to provide assistance to Village Governments and Communities in the implementation of Subprojects, including the environmental and social factors affecting such Subprojects;
  - (v) Village Government: strengthening the capacity of Village Governments to manage and account for resources, and to provide support to Communities with respect to environmental and social factors affecting Subprojects; and
  - (vi) Community: provision of training and implementation support to CMCs through out the Subproject implementation cycle.
- (b) promote the accumulation of savings by local Communities to assist them in the management of social risks and shocks.

The Project is expected to be completed by December 31, 2009.



### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

##### B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Community Participation. Goods, works and services required for Part A of the Project may be procured on the basis of Community participation in accordance with the procedures set forth in the POM.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

6. Training. Training shall be carried out on the basis of annual work programs which shall have been approved by the Association, and which shall identify: (a) the training envisaged; (b) the personnel to be trained; (c) the selection methods of institutions or individuals conducting the training; (d) the individuals who, or institutions which, will conduct the training, if already selected; (e) the duration of proposed training; and (f) the cost estimate of the training.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following shall be subject to Prior Review by the Association: (a) all terms of reference for consulting services shall be subject to the Prior Review of the Association; (b) each contract for goods estimated to cost the equivalent of \$150,000 or more; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (d) each contract for individual consultants estimated to cost the equivalent of \$50,000 or more; and (e) each Subproject estimated to cost more than \$30,000. All other contracts shall be subject to Post Review by the Association.

## SCHEDULE 4

### Implementation Program

#### Part A: Project Management

##### General:

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

##### Project Coordination and Implementation:

#### 2. National Steering Committee:

(a) Membership: The Borrower shall maintain the NSC under terms of reference and with a membership composition that is satisfactory to the Association which shall include the Permanent Secretary, Vice President's Office as Chair, the TASAF Executive Director, and representatives from the Vice President's Office, Ministry of Finance, Ministry of Community Development, Gender and Children, the President Office's Regional Administration and Local Government, the President Office's State House, the Presidential Trust Fund for Self Reliance, Research on Poverty Alleviation, and two representatives from the Chief Minister's Office.

(b) Role: The NSC shall oversee the implementation of the Project by the TASAF MU, and without limitation to the generality of the foregoing shall: (i) set the policy framework underpinning the implementation of the Project; (ii) approve TASAF MU's annual workplans; and (iii) endorse all Subprojects.

#### 3. Sector Experts Team:

The Borrower shall maintain throughout Project implementation a SET to provide the NSC with advice regarding the compliance of proposed Subprojects with sector norms and standards.

#### 4. TASAF MU:

(a) Staffing: The Borrower shall maintain the TASAF-MU for the duration of the Project with staffing and resources satisfactory to the Association. Without limitation to the generality of the foregoing, the Borrower shall ensure that the following key positions are at all times staffed by persons with terms of reference, qualifications

and experience that are satisfactory to the Association: the Executive Director, Finance Director, Internal Audit Director and Procurement Specialist.

(b) Role: Without limitation to the provisions of Section 3.01 of this Agreement, the TASAF-MU shall: (i) ensure that the Project is carried out in accordance with the POM; (ii) ensure that Project funds are disbursed promptly and accounted for in accordance with the financial management principles set forth in this Agreement; (iii) carry out all the procurement not being undertaken by the Communities; (iv) prepare annual work plans that are satisfactory to the Association for the approval of the NSC; and (v) prepare the FMRs referred to in Section 4.02 of this Agreement, and the quarterly and annual progress reports, referred to in paragraphs 9 and 10 of this Schedule.

5. Regional Consultative Committee:

Regional Commissioners shall maintain throughout Project implementation a Regional Consultative Committee to monitor the progress made by LGAs in developing resource accountability measures. The said Committee shall report back to the NSC and to the Ministry of Finance's quarterly sector consultations on a six-monthly basis.

6. LGA Finance Committees:

The Borrower shall maintain LGA Finance Committees which shall be responsible for overseeing the implementation of the Project at the local government level.

Part B: Environmental and Social Measures

7. ESMF and RPF:

The Borrower shall implement the Project in accordance with the ESMF and the RPF. Without limitation to the generality of the foregoing:

(a) the Borrower shall ensure that an environmental and social impact assessment in a form that is satisfactory to the Association is carried out prior to the implementation of Subprojects financed under the Project, based on the results of the environmental and social screening process;

(b) in the event that the environmental and social impact assessment carried out under sub-paragraph 7 (a) above determines that a proposed Subproject would have a potential negative environmental or social impact, the Borrower shall ensure that a management plan that is satisfactory to the Association is prepared and implemented to mitigate against the potential negative impacts; and

(c) without limitation to the generality of sub-paragraph 7 (b) above, if it is determined that a Subproject would involve involuntary resettlement of persons and/or loss of economic activities previously undertaken by the affected persons as a result of

the involuntary acquisition of land, the Borrower shall ensure that resettlement action plans that are satisfactory to the Association are prepared and implemented for the benefit of the affected persons.

Part C: Terms and Conditions for Financing of Subprojects under Part A of the Project

8. (a) To manage the NVF, LGAs must meet the eligibility criteria agreed with the Association and set out in the POM, including inter alia that they shall have : (i) established a computerized management information system that is satisfactory to the Association; and (ii) met the required financial management, fiscal, and procurement standards.

(b) Each Village shall establish a Village Fund in accordance with the provisions of the LGA Act, into which the TASAF MU shall disburse funds from the National Village Fund.

(c) LSPs may be contracted by the LGAs or Village Councils to supervise the implementation of the Subprojects.

(d) A Subproject proposal shall be submitted for the approval of the Village Council or Local Government Authority, as the case may, depending upon the size of the Subproject, as further set out in the POM. The LGA staff shall appraise the Subproject to ensure that it meets the eligibility criteria for funding from the National Village Fund including confirmation that: (i) the Subproject was proposed after carrying out an extended participatory rural appraisal; (ii) counterpart contribution has been provided by the Beneficiary, if required; (iii) the proposed Subproject is in compliance with sectoral norms and standards; (iv) the proposed Subproject is economically and technically viable in accordance with the standards specified in the POM; (v) an environmental and social impact assessment has been carried out and an environmental management plan or resettlement action plan prepared, as the case may be, to address any environmental or social impacts so identified; and (vi) the proposed Subproject is in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

(e) TASAF MU shall prepare quarterly work plans comprising inter alia the list of Subprojects approved at the Village Council and Local Government Authority levels, against which disbursements of funds shall be made to the Local Government Authority or the Village Council or to the CMC as set forth in the POM. To facilitate this process, the TASAF MU shall enter into a memorandum of understanding with each LGA participating in the Project, under terms and conditions that are satisfactory to the Association, setting forth their respective responsibilities with respect to implementation of the Project at each stage of the Subproject cycle.

(f) TASAF MU shall provide an amount equivalent to 10% of its contribution to the Subproject costs to be used by the LGA and the Village Council for Subproject management and supervision including the recruitment of LSPs.

(g) In cases where an LGA has been certified as having satisfactory financial management capacity, TASAF MU shall disburse the 10% referred to in paragraph (f) directly to the LGA to disburse 2.5% to the Village Council, and to retain 7.5%.

(h) In cases where an LGA has not been certified as having satisfactory financial management capacity, TASAF MU shall disburse 7.5% out of the 10% referred to in paragraph (f) above to the Village Council, and 2.5% to the LGA.

(i) The CMC shall be responsible for Subproject implementation, and for this purpose, the respective LGA and Village Council shall enter into a Subproject Financing Agreement with each CMC under terms and conditions that are satisfactory to the Association including but not limited to:

- (i) funds shall be provided on a non-reimbursable grant basis;
- (ii) procedures for the disbursement of funds that are consistent with the provisions of this Agreement including the requirement that the CMC open a separate account for the management of Subproject funds;
- (iii) the provision of the agreed counterpart contribution by the Subproject Beneficiary;
- (iv) the requirement that the CMC carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and maintain adequate records;
- (v) the right of the Borrower to obtain all such information, records or documents as the Association or Borrower shall reasonably request relating to the implementation of a Subproject or to inspect either by itself or jointly with the Association, if the Association shall so request, the Subprojects;
- (vi) the CMC shall maintain adequate records reflecting the operations, resources and expenditures incurred under the Subprojects in accordance with sound accounting practices that are acceptable to the Association;
- (vii) the CMC shall procure the goods, works and services financed from the proceeds of the Credit or the Grant, as the case may be, in accordance with the procedures set forth in Schedule 3 to this

Agreement, and use these exclusively in the implementation of the Subprojects; and

- (viii) the right of the Borrower to suspend or terminate the right of a participating LGA or a Village Council to the proceeds of the Credit or the Grant upon failure by such CMC to perform its obligations under the Subproject Financing Agreement.

(j) The CMCs shall prepare quarterly progress reports including financial reports for submission to the Village Council, and subsequent consolidated submission by LGAs of such reports to TASAF MU and SET. The TASAF MU shall utilize these reports in the preparation of the progress reports referred to in paragraph 9 and 10 below.

Part D: Progress Reporting, Monitoring and Evaluation

9. Quarterly progress reports:

Without limitation to the provisions of Section 4.02 of this Agreement, the Borrower shall prepare, under terms of reference satisfactory to the Association, quarterly progress reports at the end of March, June, September and December of each year of Project implementation, and furnish to the Association copies of such reports for its review and comments. The Borrower shall undertake any corrective actions deemed by the Association to be necessary to remedy any shortcomings identified in the implementation of the Project.

10. Annual Progress Reports:

The Borrower shall prepare, under terms of reference satisfactory to the Association, annual progress reports, on or about September 30 of each year of Project implementation, and furnish to the Association copies of such reports for its review and comments. The Borrower shall undertake any corrective actions deemed by the Association to be necessary to remedy any shortcomings identified in the implementation of the Project.

11. Mid-term Review:

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of



this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by January 15, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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 the said report and the Association's views on the matter.

Part E: Mainstreaming of the Community-Driven Development Approach

12. The Borrower shall establish guidelines, procedures, and mechanisms, to be detailed in the POM, to ensure effective and consistent implementation of projects using the community-driven development approach that are financed from other funding sources.

## **SCHEDULE 5**

### **Performance Monitoring Indicators**

1. Number and % increase in citizen satisfaction with delivery of basic social services.
2. Increased income from wages earned from the implementation of public works Subprojects.
3. Annual drop out rate % of students in primary and secondary schools.
4. Number and % of girls and boys in primary and secondary schools.
5. Number and % of children under the age of five (5) suffering from malnutrition using the weight for age method.
6. Number of maternal deaths in the Communities.
7. Number of households using insectisized treated nets.
8. Number and % of persons with access to protected water sources.
9. Number of operational drug revolving funds.
10. Number of vulnerable individuals provided with assistance by type of vulnerability.
11. Number of households with access to safe waste disposal methods.
12. Number of individuals participating in community saving schemes.

## SCHEDULE 6

### Modifications to the General Conditions

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

1. Section 1.01 is modified to read:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.”

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”. Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read, “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or

currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

9. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

(b) The word “credit” in paragraph (b)(i) is replaced with the words “credit, grant or financing”.

10. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”

11. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”