

**CONFORMED COPY**

**GRANT NUMBER H094 RW**

# **Development Grant Agreement**

**(Decentralization and Community Development Project)**

**between**

**REPUBLIC OF RWANDA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 30, 2004**

**CONFORMED COPY**

**GRANT NUMBER H094 RW**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated June 30, 2004, between REPUBLIC OF RWANDA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated January 22, 2002, from the Recipient describing a program of actions, objectives and policies designed to facilitate conception and implementation of local development actions by local government and communities (the Program) and declaring the Recipient's commitment to the execution of the Program;

(B) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, and which forms part of the Program, 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 Grant to the Recipient 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) (the General Conditions), with the modifications set forth in Schedule 5 to this Agreement, constitute an integral part of this Agreement.

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

(a) “Annual Plan” means the plan of Subprojects (as hereinafter defined) submitted each year by the Community Development Committee (as hereinafter defined) of a District or Town (as hereinafter defined) to the Project Coordination and Monitoring Unit (as hereinafter defined);

(b) “Beneficiary” means: (i) a District or Town (as hereinafter defined) represented by a CDC to which or for whose benefit a Sub-Grant (as hereinafter defined) is made, or proposed to be made; or (ii) a Community-Based Group (as hereinafter defined) represented by a CDC to which or for whose benefit a Sub-Grant is made or proposed to be made;

(c) “Community-Based Group” or “CBG” means any group of two or more individuals residing in a Participating District (as hereinafter defined) or Town (as hereinafter defined) that organizes itself for the purpose of submitting and implementing a Subproject;

(d) “Community Development Committee” or “CDC” means a committee comprising the Executive Secretary of a Participating District or Town and elected representatives of such District or Town, said Committee established and operating under the Recipient’s Ministerial Order No. 003 / 07.04;

(e) “Community Development Plan” or “CDP” means a plan prepared by the CDC of a Participating District or Town outlining potential development activities for the District or Town;

(f) “Community Reintegration and Development Project” or “CRDP” means the operation of the Association in the territory of the Recipient which had as its objectives to assist returnees and other vulnerable groups through a process of community-based reintegration and development and to strengthen the capacity of local communities and the administration at the communal and national levels for the implementation of development projects and which operation closed on June 30, 2003;

(g) “Directorate of Local Development Planning and Coordination” means the unit within MINALOC responsible for local development planning and coordination;

(h) “District” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 04/2001 of January 13, 2001, representing a designated area and population within the territory of the Recipient;

(i) “District Council” means the administrative organ of a District, established and operating pursuant to the Recipient’s Law No. 04/2001 of January 13, 2001, and which is responsible for, *inter alia*, approval of the CDP and any grants, bequests, and credits made to the District;

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

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

(l) “Environmental and Social Management Framework” or “ESMF” means the framework, dated January 2004, satisfactory to the Association, describing measures for the mitigation of the potential adverse environmental and social impact of the Project, as the same may be updated from time to time with the approval of the Association, to be applied by the Recipient in accordance with the provisions of paragraph 1 of Part III of Schedule 4 to this Agreement;

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

(n) “Fiscal Year” or “FY” means the Recipient’s fiscal year, which runs from January 1 through December 31;

(o) “IAPSO” means the Inter-Agency Procurement Services Office of the United Nations;

(p) “Initial Deposit” means the deposit referred to in Section 6.01 (a) of this Agreement;

(q) “Manual of Financial and Accounting Procedures” or “MFAP” means the manual, in form and substance satisfactory to the Association, contained in the Project Implementation Manual (as hereinafter defined) and outlining the financial and accounting procedures, policies, and guidelines to be followed by the Recipient in Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the MFAP;

(r) “Ministry of Local Administration, Community Development, and Social Affairs” or “MINALOC” means the agency of the Recipient responsible for implementation of the Program;

(s) “Monitoring and Evaluation Plan” or “MEP” means the plan, in form and substance satisfactory to the Association, contained in the Project Implementation Manual and outlining the information management and monitoring and evaluation system and indicators to be followed by the Recipient in monitoring and evaluating Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the MEP;

(t) “National Tender Board” means the body established and operating pursuant to the Recipient’s Law No. 13/02 of July 29, 1993, as amended by the Recipient’s Law No. 91/03 of December 31, 2002, and which is responsible for oversight of the application of public procurement laws as well as public procurement policy issued by the cabinet;

(u) “Partner Agency” means a non-governmental organization or other public or private entity established and operating under the laws of the Recipient, selected in accordance with the criteria specified in paragraph 4 (d) of Part II of Schedule 4 to this Agreement, to assist CDCs in Participating Districts or Towns in the preparation and implementation of Subprojects (as hereinafter defined);

(v) “Participating District” means a District of the Recipient selected in accordance with the criteria set forth in paragraph 1 (a) of Part II of Schedule 4 to this Agreement;

(w) “Participating Province” means a Province of the Recipient in which is located a Participating District or Town (as hereinafter defined);

(x) “Participating Town” means a Town of the Recipient selected in accordance with the criteria set forth in paragraph 1 (a) of Part II of Schedule 4 to this Agreement;

(y) “Project Account” means the account referred to in Section 3.04 of this Agreement;

(z) “Project Coordination and Monitoring Unit” or “PCMU” means the unit established within MINALOC for purposes of the coordination and monitoring of the Project in accordance with the provisions of paragraph 1 of Part I of Schedule 4 to this Agreement;

(aa) "Project Implementation Manual" or "PIM" means the manual adopted by the Recipient, and outlining procurement and disbursement arrangements, arrangements for environmental and social monitoring, a manual of financial procedures, and other administrative and organizational arrangements, as shall have been agreed with the Association for purposes of Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the PIM;

(bb) "Project Implementation Plan" or "PIP" means the plan adopted by the Recipient, and outlining the conduct of Project implementation through all stages of such implementation, as shall have been agreed with the Association for purposes of Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the PIP;

(cc) "Project Preparation Advance" means the project preparation advance granted by the Association to the Recipient pursuant to the Letter Agreement signed on behalf of the Association on November 4, 2003 and on behalf of the Recipient on November 14, 2003;

(dd) "Project Provincial Officer" or "PPO" means the officer in the PCMU responsible for coordination of Project activities with other development activities in the Province and for provision of support to the Provincial Coordinating Committee (as hereinafter defined);

(ee) "Province" means an administrative area of the Recipient, established pursuant to the Recipient's Law No. 43/2000 of December 29, 2000, representing a designated area and population within the territory of the Recipient;

(ff) "Provincial Coordinating Committee" or "PCC" means the body established and operating pursuant to the Recipient's Law No. 43/2000 of December 29, 2000, and which is responsible for coordination of development activities in and between Districts and Towns;

(gg) "Provincial Coordination Office" or "PCO" means the unit established at the Province level by the Recipient, through the PCMU, for purposes of provision of technical assistance to the provincial administration, including Districts and Towns, in accordance with the provisions of paragraph 3 of Part I of Schedule 4 to this Agreement;

(hh) "Provincial Development Plan" or "PDP" means the plan prepared by each Province consolidating the CDPs of the Districts and Towns located in such Province;

(ii) “Report-Based Disbursements” means the Recipient’s option for withdrawal for funds from the Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(jj) “Rwandan Francs” or “RWF” means the currency of the Recipient;

(kk) “Special Account” means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(ll) “Sub-Grant” means a grant made or proposed to be made by the Recipient to a District or Town for the purpose of financing Subprojects;

(mm) “Sub-Grant Agreement” means an agreement between the Recipient represented by the PCMU and a District or Town, setting forth the terms and conditions under which proceeds of the Grant shall be made available to the District or Town for the purpose of financing Subprojects;

(nn) “Sub-Sub-Grant” means a grant made or proposed to be made by a District or Town to a CBG for the purpose of financing Subprojects;

(oo) “Sub-Sub-Grant Agreement” means an agreement between a District or Town and a CBG, setting forth the terms and conditions under which proceeds of the Grant shall be made available to the CBG for the purpose of financing Subprojects;

(pp) “Subproject” means a development activity proposed by a Beneficiary under Part C of the Project and financed or to be financed out of the proceeds of the Grant;

(qq) “Town” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 05/2001 of January 18, 2001, representing a designated area and population within the territory of the Recipient; and

(rr) “Town Council” means the administrative organ of a Town, established and operating pursuant to the Recipient’s Law No. 05/2001 of January 18, 2001, and which is responsible for, *inter alia*, the development of such Town.

## **ARTICLE II**

### **The Grant**

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount in various currencies equivalent to thirteen million seven hundred thousand Special Drawing Rights (13,700,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 Grant; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under Sub-Grants in respect of the reasonable cost of goods, works and services required for Subprojects and in respect of which the withdrawal from the Grant Account is requested.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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 un-withdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. (a) The Recipient shall pay to the Association 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, 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant 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 2.04 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 Recipient; and (iii) in the currency specified in this Agreement or



in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.05. The Closing Date of the Grant shall be September 30, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out, through the MINALOC, with due diligence and efficiency and in conformity with appropriate technical, financial, administrative, and environmental 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient and the Association, a plan designed to ensure the continued achievement of the Project objective; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall for purposes of making the counterpart contribution to the financing of the Project:

(a) establish and thereafter maintain, until completion of the Project, in RWF, a project account in a commercial bank satisfactory to the Association, under terms and conditions satisfactory to the Association, including appropriate protection against, set-off, seizure or attachment;

(b) (i) deposit into the Project Account an initial amount in accordance with the provisions of Article 6.01 (a); and (ii) at annual intervals, replenish the Project Account by amounts required to finance the Recipient's contribution for expenditures under the Project as shall be agreed upon between the Recipient and the Association; and

(c) ensure that the funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance its contribution for expenditures under the Project.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account and Project Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year,

(A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Grant Account were Report-Based Disbursements or made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and separate 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 Grant 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 reports or statements of expenditures are included in the annual audit referred to in paragraph (b) of this Section.

Section 4.02. Without limitation upon the Recipient's progress reporting obligations set out in Section IV of Schedule 4 to this Agreement, the Recipient shall prepare, in accordance with terms of reference acceptable to the Association, and furnish to the Association an FMR, in form and substance satisfactory to the Association, which:

- (a) sets forth actual and projected sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and projected sources and uses of such funds;

- (b) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the previously forecast and actual implementation targets; and
- (c) 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 event is specified, namely, that an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Recipient has established:

- (a) for purposes of making the counterpart contribution to the financing of the Project, in RWF, a project account in a commercial bank satisfactory to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment, and has made an Initial Deposit into that account in the amount of \$30,000 equivalent;
- (b) a financial management system, in form and substance satisfactory to the Association, to ensure proper execution and monitoring of Project activities; and

(c) four (4) PCOs in accordance with paragraph 3 and 4 of Part I of Schedule 4 to this Agreement.

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

Section 6.03. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

## ARTICLE VII

### Representative of the Recipient; Addresses

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

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

For the Recipient:

Ministry of Finance and Economic Planning  
P. O. Box 158  
Kigali  
Republic of Rwanda

Facsimile: (250) 577 581

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(202) 477 6391

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

REPUBLIC OF RWANDA

By /s/ Zac NSENGA

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Grant**

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of 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 Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-Grants and Sub-Sub-Grants	5,810,000	100% of amounts disbursed
(2) Goods	620,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services (including audits)	1,050,000	100% of foreign expenditures and 85% of local expenditures
(4) Training	3,820,000	100%
(5) Incremental operating costs	1,360,000	90%
(6) Refunding of the Project Preparation Advance	350,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7) Unallocated	690,000	
	<hr/>	
TOTAL	<u>13,700,000</u>	



2. For the purposes of this Schedule:

(a) "Foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) "Local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) "Incremental operating costs" means the incremental expenses incurred by the PCMU and the PCOs on account of Project implementation, management and monitoring, including office space rental and utilities, office supplies, bank charges, communications, vehicle operation, maintenance and insurance, building and equipment maintenance costs, travel and supervision costs, and salaries of supporting staff, but excluding salaries of officials of the Recipient's civil service.

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

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

(b) expenditures under Category (1) of the table in Part A.1 of this Schedule, for any Sub-Grant, unless such Sub-Grant has been made in accordance with the provisions set forth in Part II of Schedule 4 to this Agreement and with the PIM and the PIP, and a Sub-Grant Agreement, on the terms and conditions specified in Part II of Schedule 4 to this Agreement and in the PIM and the PIP, has been duly executed by and is binding on the parties thereto, and has become effective.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$150,000 equivalent each; (b) services of consulting firms under contracts costing less than \$100,000 equivalent each; (c) services of individual consultants under contracts costing less than \$50,000 equivalent each; (d) Sub-Grants; (e) training not subject to contract; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account 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 Recipient (Report-Based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a

statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may, for the purposes of Categories (1) through (5) of the table in Part A.1 of this Schedule, open and maintain in US Dollars a special deposit account 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 Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient 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 Recipient 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 Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient 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 the Special Account if:

(a) 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) the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) the Recipient 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: (A) the records and accounts for the Special Account; or (B) the records and accounts

reflecting expenditures with respect to which withdrawals were Report-Based Disbursements or made on the basis of statements of expenditure.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from 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 Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the 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 Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient 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 the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to 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 the amount of \$1,500,000 equivalent to be withdrawn from the Grant Account and deposited into the 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 Recipient shall furnish to the Association a request or requests for deposit into the 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount, as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total un-withdrawn amount of 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 Grant Account of the remaining un-withdrawn amount of the Grant shall follow such procedures, as the Association shall specify by notice to the Recipient. 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.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account**

**When Withdrawals Are  
Report-Based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account 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 Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the 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 accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. The Association shall not be required to make further deposits into the Special Account, once the total un-withdrawn amount of 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 Grant Account of the remaining un-withdrawn amount of the Grant shall follow such procedures, as the Association shall specify by notice to the Recipient. 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.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to boost the emergence of a dynamic local economy through empowerment of communities to lead their own development process under effective local government.

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

A. Institutional Capacity Building

Strengthening the technical, financial management, organizational and operational capacities of the Provincial, District, and Town administrations, CDCs, and Community-Based Groups in the Participating Districts and Towns, through the provision of technical advisory services and the carrying out of training programs. Strengthening participatory planning systems.

Strengthening the technical, financial management, organizational and operational capacities of the PCMU and the PCOs, through the provision of technical advisory services and the carrying out of training programs.

B. Information, Education, and Communication (IEC)

Provision of financial and technical support for development of an IEC strategy in relation to the Program and the Project. Acquisition of equipment, materials and supplies to implement IEC activities. Provision of financial and technical support for participatory meetings among representatives of CDCs, and for monitoring and evaluation of the Project.

C. Community Development Initiatives

Provision of Sub-Grants for the financing of development activities related to: (i) social and economic infrastructure, including health, education, social protection, transport, and water supply infrastructure; (ii) a pilot program of income-generating projects; and (iii) specialized training based on the local needs of the CDCs and the administration of the Participating Districts and Towns.

D. Project Coordination and Monitoring

Project coordination and monitoring through the: (a) acquisition of equipment, vehicles, materials and supplies for the PCMU and the PCOs; (b) acquisition of supplies for Participating Districts and Towns; (c) provision of financial support to National Tender Board for delivery of District- and Town-level training in procurement under the Project; (d) acquisition of a vehicle and equipment, and financing of related maintenance costs for the Directorate of Local Development Planning and Coordination within MINALOC; (e) carrying out of external evaluations of the implementation of the Project focusing, *inter alia*, on the effectiveness of the participatory methods of the Project and its administrative arrangements and mechanisms; and (f) carrying out of financial and technical audits of the Project.

\* \* \*

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



### **SCHEDULE 3**

#### **Procurement and Consultants' Services**

##### Section I. Procurement of Good and Works

###### A. General

Goods and works shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section.

B. International Competitive Bidding. 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.

###### C. Other Procurement Procedures.

1. National Competitive Bidding. Goods under Parts A, B, and D of the Project estimated to cost less than \$150,000 equivalent per contract, goods under Part C of the Project estimated to cost \$30,000 equivalent or more, and works under Part C of the Project estimated to cost \$50,000 equivalent or more per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping. Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting. Works under Part C of the Project estimated to cost \$5,000 equivalent or less per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies. Goods, including computers and vehicles, estimated to cost less than \$250,000 equivalent per contract may be procured from the IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation. Works under Part C of the Project estimated to cost less than \$5,000 equivalent per contract shall be procured in accordance with procedures acceptable to the Association.

6. Procurement of Small Works. Works under Part C of the Project estimated to cost more than \$5,000 equivalent per contract and less than \$50,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the 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.

D. Review by the Association of Procurement Decisions

1. Procurement Planning. Prior to the issuance of any invitations to bid for contracts, the proposed annual 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 the first three contracts for goods under Parts A, B, and D of the Project estimated to cost less than \$150,000 equivalent per contract, the first three contracts for goods under Part C of the Project estimated to cost \$30,000 equivalent per contract or more, and the first three contracts for works under Part C of the Project estimated to cost \$50,000 equivalent or more per contract, 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

A. General

Consultants' services shall be procured in accordance with: (a) the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Recipients" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1

of Appendix 1 thereto, Appendix 2 thereto; and (b) the following provisions of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the shortlist 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 and footnote 8 of the Consultant Guidelines.

C. Other Procedures for the Selection of Consultants

1. Least-cost Selection. Services for financial audits 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 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services of consulting firms estimated to cost less than \$50,000 equivalent per contract 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. Services of consultants 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. Individual Consultants. Services of individual consultants shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

D. Review by the Association of the Selection of Consultants

1. Selection Planning. A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants'

services shall be undertaken in accordance with such selection plan as shall have been approved by the Association.

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, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for the employment of consultants procured under Section C.3 of this Part II, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant 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 Consultant Guidelines shall apply.

## SCHEDULE 4

### Implementation Program

#### I. Overall Project Coordination and Monitoring

1. The PCMU shall be responsible for the overall implementation of the Project in accordance with the provisions of this Agreement, the PIM, including the MFAP, and the PIP. The PCMU shall: (a) evaluate and approve Annual Plans submitted by the Districts or Towns; (b) make disbursements of Sub-Grants to Districts or Towns under the Project and maintain adequate financial records with respect to such Sub-Grants; (c) prepare and submit replenishment requests and withdrawal applications to the Association; (d) monitor the implementation of the Project and submit the required technical, financial and other reports to MINALOC and to the Association; and (e) initiate studies and capacity building efforts necessary for the achievement of the objectives of the Project and monitor its implementation.

2. The Recipient shall, not later than sixty (60) days after the date of this Agreement, appoint to the following positions in the PCMU persons having qualifications and experience satisfactory to the Association: (a) a Capacity Building, Participation, and Communications Officer, (b) and a Management and Information Systems Officer. The Recipient shall ensure that, at all times during the execution of the Project, the PCMU is staffed by persons having qualifications and experience satisfactory to the Association, including (a) a National Project Coordinator, (b) a Financial Controller, and (c) support staff.

3. The PCMU shall be represented in the Recipient's Participating Provinces by a PCO. The Recipient shall, not later than sixty (60) days after the date of this Agreement, establish a PCO, in form and substance and with resources and functions satisfactory to the Association, in each of the four (4) Participating Provinces covered in their entirety by the Project. The Recipient shall ensure that the PCMU is represented by one of the four PCOs in the fifth Participating Province.

4. The Recipient shall ensure that, at all times during Project implementation: (a) each PCO shall be staffed by a PPO and an accountant, each having qualifications and experience satisfactory to the Association; and (b) at least two Infrastructure Officers having qualifications and experience, including in relation to procurement, satisfactory to the Association are available, each appointed to a separate PCO, to provide technical assistance to Participating Districts and Towns through all stages of the Participating Districts' and Towns' Subprojects.

5. Except as the Association shall otherwise agree, procurement of the consultants' services required for the PCMU and the PCOs and to be financed out of the proceeds of the Grant shall be governed by the provisions of Section II of Schedule 3 to this Agreement.

6. The PCOs shall support the PCC in providing guidance and training to their respective Participating Districts and Towns. The PCOs shall provide to the PCCs and their respective Participating Districts and Towns technical assistance and training in planning, IEC, financial management, procurement, environmental and social assessment and mitigation, monitoring and evaluation and other areas as required. The PCOs shall ensure that Project funds are managed in accordance with the provisions of this Agreement, the PIM and the PIP and shall arrange financial audits. The PCOs shall monitor and report on activities in their respective Participating Districts and Towns and in their respective Participating Provinces in accordance with the Project's MEP. The PCOs shall assist the PCCs in coordinating Project activities with sector ministries and Partner Agencies.

7. Except as the Association shall otherwise agree, the Recipient shall: (i) apply the criteria, policies, procedures, guidelines and standard contracts set out in the PIM and PIP in the carrying out of the Project; and (ii) not amend or waive the PIM or PIP, or any provision thereof, in a manner which, in the opinion of the Association, may materially or adversely affect the implementation of the Project.

II. Identification and Approval of Subprojects

1. General Framework: CDPs

(a) Participating Districts and Towns shall be those selected by MINALOC in accordance with the following criteria and as more fully specified in the PIM. The Project shall cover: (i) at least thirty-nine (39) Districts, including the eleven (11) Districts of the CRDP; (ii) four (4) entire Provinces; and (iii) a mix of peri-urban and rural Districts and Towns. The Recipient, through the PCMU, shall verify the existence of a CDP and suitable development planning capacity in a Participating District or Town before disbursing funds.

(b) Subprojects proposed for funding under the Project must derive from the CDP of the Participating Districts or Towns. These CDPs shall promote the following principles: (i) self-sufficiency of the population; (ii) participation of all stakeholders in development activities; (iii) reinforcement of local capacity to implement and manage activities to reduce poverty; (iv) awareness of gender equity and the protection of vulnerable persons; (v) community participation in development as a process for conflict resolution locally and nationally; and (vi) maximization of opportunities for labor-intensive works through small infrastructure projects.

(c) Each CDP shall contain: (i) a description of the methodology used to prepare the Plan; (ii) a brief description of the relevant District or Town and the status of its economy and its economic and social infrastructure; (iii) a reference to the national development and poverty reduction efforts which impact the District or Town, and an analysis of the District or Town's specific needs; and (iv) a phased and cost-calculated program of priority development activities, based on the needs expressed by the District or Town. A CDP shall not be implemented unless approved by the District or Town Council.

2. Identification of Subprojects

The CDC shall identify specific Subprojects from amongst the priority development activities set out in the CDP, to incorporate into the Annual Plan. The Annual Plan shall include a list, description, budget and implementation and disbursement schedule of the proposed Subprojects, and a description of the role that the Beneficiaries will play in the implementation of the Subprojects. The Plan shall be sent to the PCC for further action.

3. Approval of Subprojects

(a) The PCC reviews the Annual Plan of the CDC to ensure that agreed criteria set out in the PIM have been applied. The PCC shall verify whether said plan: (i) is in conformity with the CDP applicable to the Participating District or Town in which the CDC is located; and (ii) envisages activities that reflect the needs and preferences of the populations of the Participating Districts or Towns and can be implemented in accordance with the timetable and disbursement schedule included in the Plan. Once verified, the CDC's Annual Plan is transmitted by the PCC to the PCMU.

(b) Upon receipt of a CDC's Annual Plan from a PCC, the PCMU verifies conformity with the agreed criteria for the Project set out in the PIM. The PCMU shall enter into a Sub-Grant Agreement with the District or Town, in accordance with the terms and conditions specified in the model agreements contained in the PIM, which shall include the following: (i) the obligation of the District or Town to carry out the implementation of the Subprojects in the Annual Plan with due diligence and efficiency, in accordance with the PIM as well as sound technical, financial, environmental, social impact, and managerial standards and to maintain adequate records to reflect, in accordance with sound economic practices, the operations, resources and expenditures in respect of every Subproject financed out of the proceeds of the Grant; (ii) the requirement that the goods, works and services to be financed from the proceeds of the Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and such goods, works and services shall be used exclusively for the purpose of carrying out of the Subprojects; (iii) the right of the Recipient to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and

construction included in any Subproject, the operations thereof and any relevant records and documents; (iv) the right of the Recipient to obtain all information as the Recipient or the Association shall reasonably request regarding the administration, operation and financial condition of any Subproject; and (v) the right of the Recipient to suspend or terminate the right of the District or Town to use the proceeds of the Grant for a Subproject upon the failure by the District or Town to perform any of its obligations.

(c) The Recipient shall, through the PCMU, cause each Participating District or Town to open and maintain an account at a commercial bank satisfactory to the Association on terms and conditions satisfactory to the Association, including appropriate protection against seizure, set-off, or attachment. Such accounts shall be separate from any other accounts of the Participating Districts or Towns, and only funds from the Special Account shall be deposited therein. Advances shall be made by the PCMU to a Participating District or Town upon signature of the Sub-Grant Agreement between the PCMU and the Participating District or Town. Each subsequent advance shall be contingent upon satisfactory justification of the preceding period's advance with sufficient financial and technical reporting to ensure that cost overruns or unexecuted Subprojects are identified.

#### 4. Preparation and Implementation of Subprojects

Preparation and implementation of Subprojects shall be subject to the following procedures:

(a) Subprojects shall be prepared by the CDC within the framework of the CDP. They shall be reviewed by the PCO of the relevant Participating Province to ensure that they have been prepared and appraised in accordance with the criteria, policies and procedures set forth in the PIM.

(b) 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 PIM and approval. The decision approving the Subproject shall set forth the rights and obligations of the CDC and the Beneficiary of the Sub-Grant, in particular, the obligation of the Beneficiary of the Sub-Grant to carry out the implementation of the Subproject with due diligence and efficiency and the right of the CDC and the PCO of the Participating Province and the PCMU to monitor and inspect the implementation of the Subproject by the Beneficiary and its Partner Agency. In addition, a CDC may require a Beneficiary of a Sub-Grant to make financial contributions, in such manner as shall be determined by the CDC, to a community revolving fund as may be set up by the CDC or a CDC-approved Partner Agency, once the Subproject starts generating income. The CDC shall communicate to any CBG whose proposal for a Subproject was rejected the reasons for such rejection and invite it to re-submit its proposal after making necessary changes if the rejection was due to technical deficiencies in the proposal.



(c) A CDC may contract a Partner Agency to assist in the preparation and implementation of a Subproject, including on behalf of a Beneficiary of a Sub-Grant. 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 PIM.

(d) Potential Partner Agencies shall be required to have: (i) proven experience in comparable community development activities in the territory of the Recipient 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 Recipient.

(e) The CDCs shall supervise the implementation of the Subprojects, manage funds for the Subprojects, and ensure that there is adequate capacity in the Participating District or Town to implement the Subprojects in accordance with the provisions of the PIM.

(f) The Recipient shall, through the PCMU and the PCO of the Participating Province, 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 PIM.

(g) The Recipient shall closely monitor the performance of CDCs and Partner Agencies and, to that end, shall require adequate reports from them and shall, through the PCMU and the PCO of the Participating Province, undertake visits to the Participating Districts and Towns and to the local offices of the Partner Agencies.

### III. Safeguard Policies

1. The Recipient shall, through the PCMU and the PCO of the Participating Provinces, ensure that the Project is implemented in accordance with the provisions of the ESMF, PIM, and PIP, and except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the aforementioned if such amendment or waiver may, in the opinion of the Association, materially or adversely affect Project implementation.

IV. Monitoring and Evaluation

Annual Work Plans and Budgets

1. The Recipient shall, through the PCMU, furnish to the Association as soon as available, but in any case not later than June 15 of each year, the annual work plan and budget for each subsequent Fiscal Year following FY 2004, of such scope and in such detail as the Association shall have reasonably requested, with confirmation of availability of the Recipient's contribution for expenditures under the Project for that Fiscal Year.

Annual Reviews

2. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the provisions of the MEP and indicators satisfactory to the Association, 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 April 30 and October 30 in each year, 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 May 15 and November 15 in each year, 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.

Midterm Reviews

3. The Recipient shall:

(a) carry out jointly with the Association, no later than thirty-six (36) months after the Effective Date, a mid-term review to assess the status of Project implementation, as measured against the project development indicators referred to in Schedule 6 to this Agreement. Such review shall include an assessment of the following: (i) overall progress in the implementation of the Project; (ii) results of monitoring and evaluation activities; (iii) the Subprojects and the work plans; and (iv) progress on procurement and disbursements; and make adjustments to the Project and reallocate funds to improve performance, if needed;

(b) prepare and furnish to the Association, through MINALOC, three (3) months before such review, a report, in scope and detail satisfactory to the Association, needed to undertake the review, 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 the 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, jointly with the Association, 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.

## SCHEDULE 5

### Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 3.05, 6.05, Article VII, are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
  - (a) The term “Borrower” is modified to read “Recipient”;
  - (b) The term “Credit” is modified to read “Grant”;
  - (c) The term “credit” is modified to read “grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”;
  - (d) The term “Credit Account” is modified to read “Grant Account”; and
  - (e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. 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 Commitment Charges are Payable*

    - (i) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant 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.”

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

(a) Section 4.03 and its heading are modified to read as follows:

*“Section 4.03. Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

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

7. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

## **SCHEDULE 6**

### **Performance Indicators**

At Midterm Review:

1. 100% of CDCs and Participating Districts and Towns have completed training in priority setting, project planning, financial management, monitoring and evaluation, problem resolution and the participatory development planning process;
2. 30% of the Participating Districts and Towns and local stakeholders such as CDCs and civil society organizations express satisfaction with their District or Town participatory development planning process, as reflected in a beneficiary assessment to be conducted by an individual consultant at Midterm Review; and
3. 40% of Participating Districts and Towns have implemented or are implementing Subprojects in accordance with proposals made in their CDPs.