

CONFORMED COPY

CREDIT NUMBER 3248 PAK

Project Agreement

(Poverty Alleviation Fund Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PAKISTAN POVERTY ALLEVIATION FUND

Dated July 7, 1999

CREDIT NUMBER 3248 PAK

PROJECT AGREEMENT

AGREEMENT dated, July 7, 1999, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PAKISTAN POVERTY ALLEVIATION FUND (PPAF).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to sixty-six million five hundred thousand Special Drawing Rights (SDR 66,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that PPAF agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary financing agreement to be entered into between the Borrower and PPAF, the proceeds of the credit provided for under the Development Credit Agreement will be made available to PPAF on the terms and conditions set forth in said Subsidiary Financing Agreement; and

WHEREAS PPAF, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General

Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) PPAF declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and economic practices, and shall provide, or cause to be provided, 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 Association and PPAF shall otherwise agree, PPAF shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 2.02. (a) PPAF undertakes that, unless the Association shall otherwise agree, financing will be provided by it to POs and Sub-loans and Grants will be financed by POs under Parts A (i) and (ii) of the Project, all in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 to this Agreement.

(b) PPAF shall exercise its rights in relation to financing provided by it to POs and Sub-loans or Grants financed by POs in such manner as to: (i) protect the interests of the Borrower, the Association and PPAF; (ii) comply with its obligations under this Agreement and the Subsidiary Financing Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Association shall otherwise agree, PPAF shall ensure that:

(a) for purposes of financing MCPs under Part A (i) of the Project, no single PO will receive from the Credit proceeds an aggregate amount greater than twenty-five percent (25%) of the amount allocated from time to time to Category 1 (Sub-loans) set forth in the table in Part A.1 of Schedule 1 to the Development Credit Agreement; and

(b) for purposes of financing SSIPs under Part A (ii) of the Project, no single PO will receive from the Credit proceeds an aggregate amount greater than twenty percent (20%) of the amount allocated from time to time to Category 2 (Grants) set forth in the table in Part A.1 of Schedule 1 to the Development Credit Agreement.

Section 2.04. Except as the Association shall otherwise agree:

(a) the level of financing to be made available to each PO out of the proceeds of the Credit will be determined in accordance with performance - and absorptive capacity-related criteria set forth in the Operations Manual; and

(b) such financing will be reduced, suspended, terminated and/or recalled if at any time, in the opinion of PPAF, such PO is no longer in full compliance with said criteria.

Section 2.05. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.06. (a) PPAF shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and the activities to be carried out by PPAF under the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, PPAF shall:

(i) 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 Association and _____ PPAF, a plan for the future operation of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with PPAF on _____ said plan.

Section 2.07. PPAF shall duly perform all its obligations under the Subsidiary Financing Agreement, and, except as the Association shall otherwise agree, PPAF shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Financing Agreement or any provision thereof.

Section 2.08. (a) PPAF shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Financing Agreement and other matters relating to the purposes of the Credit.

(b) PPAF shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by PPAF of its obligations under this Agreement and under the Subsidiary Financing Agreement.

ARTICLE III

Management and Operations of PPAF

Section 3.01. PPAF shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and economic practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. PPAF shall, at all times, operate and maintain its office, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering and financial practices.

Section 3.03. PPAF shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) PPAF shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and shall cause each PO to maintain adequate records and accounts in respect of its activities under the Project and each Subproject.

(b) PPAF shall:

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

(ii) furnish to the Association as soon as available, but in any case not later _____ than six months after the end of each such year the report of such audit by _____ said auditors, of such scope and in such detail as the Association shall have _____ reasonably requested; and

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, PPAF shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable PPAF, not later than July 1, 2001, or such later date as the Association may agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and

(B) shows separately expenditures financed out of the proceeds of the Credit during the six-month period following the period covered by said report.

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and

(B) explains variances between the actual and previously forecast implementation targets; and

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

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, PPAF shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter Project Management Reports for such period.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of PPAF thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify PPAF of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such

party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For PPAF:

House No.6-A,
Park Road, F-8/2
Islamabad, Pakistan

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of PPAF, or by PPAF on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Chief Executive Officer or such other person or persons as its Chief Executive Officer shall designate in writing, and its Chief Executive Officer shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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 city of Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sadiq Ahmed

Country Director
Pakistan

PAKISTAN POVERTY ALLEVIATION FUND

By /s/ Kamal Hyat

Authorized Representative

SCHEDULE I

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. 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 and in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

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

Part B: Procurement Procedures

1. National Competitive Bidding

(a) Except as otherwise provided in this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of subparagraph (a) of this paragraph 1.

- (i) Grouping of Contracts
To the extent practicable, contracts shall be grouped in bid packages to attract national bidders.
- (ii) Improvement of Bidding Procedures
In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:
 - (aa) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
 - (bb) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
 - (cc) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
 - (dd) bidding shall not be restricted to pre-registered firms;
 - (ee) qualification criteria shall be stated in the bidding documents;
 - (ff) bids shall be opened in public, immediately after the deadline for submission of bids;
 - (gg) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
 - (hh) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;
 - (ii) bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates (CSR), except that a CSR may be used only for purposes of estimating costs, provided that such CSR is updated annually to reflect the prevailing markets prices;
 - (jj) contracts shall not be awarded on the basis of nationally negotiated rates;

and (kk) contracts shall be awarded to the lowest evaluated bidders;

lowest (ll) post-bidding negotiations shall not be allowed with the evaluated or any other bidders.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

For the purposes of carrying out Subprojects under Part A(ii) of the Project:

(a) labor may be provided by the Beneficiaries at market rates or as part of their in-kind contribution towards the capital costs of the Subprojects; and

(b) materials may be procured by the Beneficiaries under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Selection Based on Consultants' Qualifications/Single Source Selection

Services of NGOs/consultants for training may be procured either:

(a) under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines; or

(b) with the Association's prior agreement, in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) 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 qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 2

Terms and Conditions of, and Procedures for Financing
provided to, and Sub-loans and Grants made by, POs

Part A: Financing provided to POs

1. Eligibility Criteria

Except as the Association shall otherwise agree, Sub-loans and Grants shall be made only through POs which satisfy, and continue to satisfy, the eligibility criteria set forth for such POs in the Operations Manual, which shall include the following:

(a) the POs shall be registered under the laws of Pakistan;

(b) the POs shall have a proven track record of at least two years in micro-credit/micro-enterprise financing and at least three years in small-scale community physical infrastructure development financing;

(c) the POs shall be involved in participatory development at the grass-roots level, have the capacity to expand their outreach and have a well-developed strategy and work plan for the future;

(d) the POs shall have a proper and transparent accounting system;

(e) the POs shall have micro-credit/micro-enterprise, small-scale community physical infrastructure development and/or capacity building programs for women;

(f) the POs shall be willing and able to submit regular monitoring reports to

PPAF and to submit to monitoring and evaluation by PPAF or by any outside agency appointed by PPAF for this purpose;

(g) the POs shall be willing and able to maintain all relevant records, documents and information in respect of financing received from PPAF, and to furnish these to PPAF; (h) the POs shall have conducted audits in accordance with laws under which they are registered and audit scope acceptable to PPAF and be willing and able to accept mandatory external audits by firms of Chartered Accountants appointed by PPAF;

(i) the POs shall be financially sustainable or on the path to financial sustainability, as judged in the light of a realistic business plan and progress made by them towards achieving self-sufficiency;

(j) the POs shall not be political, discriminatory, ethnic, sectarian or exclusionary in nature; and

(k) the POs shall manage the environmental aspects of their operations in compliance with the Environmental Management Framework.

2. Terms and Conditions

Except as the Association shall otherwise agree, POs shall receive financing from PPAF:

(a) for the purposes of making Sub-loans, on such terms and conditions as the Board of Directors of PPAF shall determine, from time to time, in accordance with principles set forth in the Operations Manual which allow for different terms to be offered to different borrowers so that the poorest of the poor can be targeted by POs; and

(b) for the purposes of making Grants, on a non-reimbursable basis.

3. Procedures

(a) PPAF shall invite POs to submit written proposals for participating in the Project;

(b) On the basis of such proposals, PPAF shall carry out a series of preliminary appraisals, desk appraisals and field appraisals of the proposed POs in accordance with its Operations Manual, in order to establish inter alia, proposed POs can:

(i) satisfy the relevant eligibility criteria;

(ii) accept PPAF's policies regarding the pricing of funds;

(iii) demonstrate a high degree of compatibility with PPAF's financing strategy; and

(iv) demonstrate that they employ, or can employ, the operational policies, procedures and human resources, required in furtherance of the proposed partnership between themselves and PPAF.

(c) Without limiting the generality of paragraphs 1 and 2 of this Part A, in order to receive financing for the purposes of making Sub-loans and Grants, each eligible PO shall enter into a written agreement with PPAF, and, except as the Association shall otherwise agree, such agreement (PO Financing Agreement) shall provide, inter alia, for:

(i) the PO to declare its commitment to the objectives of the Project and to undertake to conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its charter;

(ii) the PO to establish and maintain satisfactory procedures and operational policies for supervision and monitoring of Subprojects so as to ensure the achievement of the objectives of the Project;

(iii) the PO to ensure that the proceeds of Sub-loans and Grants shall be utilized to finance Subprojects in accordance with the procedures and on the terms and conditions set forth or referred to in Part B of this Schedule;

(iv) the PO to exercise its rights under each Subproject Financing Agreement in such manner as to:

and the

(aa) protect the interests of the Borrower, the Association, PPAF PO;

Agreement;

(bb) comply with its obligations under the Subproject Financing and

(cc) achieve the purposes of the Project;

(v) the PO to duly perform all its obligations under the PO Financing Agreement, and not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the PO Financing Agreement or any provision thereof;

(vi) the PO, at the request of PPAF, to exchange views with PPAF with regard to the performance of its obligations under the PO Financing Agreement and other matters relating to the purposes of the Project;

(vii) the PO to promptly inform PPAF of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Credit or the performance by the PO of its obligations under the PO Finance Agreement;

(viii) the PO to maintain procedures adequate to monitor and record the progress of Subprojects for which Sub-loans and Grants have been made through it, to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the PO in respect of the Project and said Subprojects and to have such records and accounts audited in accordance with appropriate auditing principles consistently applied by an independent auditor acceptable to PPAF;

(ix) the PO to provide to PPAF all records, documents and information in respect of the Sub-loans or Grants made through it, the Subprojects for which such Sub-loans or Grants have been made, and other activities of the PO, as PPAF shall reasonably request;

(x) the PO to provide to PPAF at regular intervals specified by PPAF reports indicating the aggregate amount of financing provided under its Micro-credit and Community Infrastructure Development Program during such intervals, the sources of such financing, and the amount of such financing provided as Sub-loans or Grants;

(xi) the PO to provide to PPAF its medium term business plan within the framework of which Sub-loans and Grants shall be made by it; and

(xii) PPAF to have the right to suspend or terminate the right of the PO to the use of the proceeds of the Credit for making Sub-loans or Grants:

(aa) upon failure by the PO to perform its obligations under the PO Financing Agreement, or upon notice by the Association to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General

(bb) upon notice by the PO that it intends to terminate the PO Financing Agreement or upon the actual termination of the PO Financing Agreement, whichever occurs first.

Part B: Sub-loans and Grants made by POs

1. Eligibility Criteria

Except as the Association shall otherwise agree:

(a) Sub-loans shall be made only:

(i) to Beneficiaries who satisfy the eligibility criteria set forth in the Operations Manual for such beneficiaries, which shall include the following:

(aa) the Beneficiaries shall be considered poor under the definition of poverty adopted by the PO concerned (by reference, inter alia, to caloric-intake, basic needs, income poverty, poverty of opportunity and the human poverty index) or under a more specific standard for measuring poverty to be developed by PPAF;

(bb) the Beneficiaries shall be groups or members of groups, organised and/or monitored by the PO concerned;

(cc) the Beneficiaries shall operate a savings program;

(dd) the Beneficiaries shall:

(A) conduct their affairs in an equitable manner and in accordance with sound and transparent administrative and financial practices;

(B) hold regular meetings of their governing body;

(C) actively involve women in decision making; and

(D) maintain and provide upon request to the PO concerned all relevant records, documents and information in respect of the Subprojects for which Sub-loans have been made to them;

(ee) the Beneficiaries, if they have previously availed of any Sub-loans, promptly; and shall have serviced such Sub-loans efficiently and

(ii) for MCPs which satisfy the eligibility criteria set forth in the Operations Manual for such projects, which shall include the following:

(aa) the MCPs shall be in compliance with the Borrower's laws and environmental protection, regulations relating to health, safety and Framework; including the Environmental Management

(bb) the MCPs shall not require a loan in excess of Rs 30,000 each; and

(cc) the MCPs shall not be on PPAF's negative list set forth in the Operations Manual.

(b) Grants shall be made only:

(i) to Beneficiaries who satisfy the eligibility criteria set forth in the Operations Manual for such beneficiaries, which shall

include those set forth in paragraph 1(a)(i) of this Part B; and

(ii) for SSIPs which satisfy the eligibility criteria set forth in the Operations Manual for such projects, which shall include the following:

(aa) the SSIPs shall be in compliance with the Borrower's laws and environmental protection, regulations relating to health, safety and including the Environmental Management Framework;

(bb) the SSIPs shall be:

(A) equitable (with more than 50% of the Beneficiary community concerned benefiting in each case);

(B) cost effective (at least 15 households in Beneficiary community per capita not concerned benefiting in each case, with cost exceeding Rs 5,000);

(C) sustainable (being within the implementation and maintenance capacity of the Beneficiaries concerned);

(D) technically viable; and

(E) productivity enhancing and income generating in their objectives.

(cc) the SSIPs shall give preference to rehabilitation, modernization and/or extension of existing schemes rather than building new schemes where such an option exists.

2. Terms and Conditions

(a) Except as the Association shall otherwise agree:

(i) Sub-loans shall be made on such financial terms and conditions as shall be determined by the PO concerned, from time to time, to reflect its cost structure; provided, however, that the lending rate for Sub-loans will at all times be sufficient to cover the PO's borrowing cost, net operating costs and delinquency charges, and will, at no time, fall below the prevailing commercial bank lending rates and long-term deposit rates;

(ii) Grants shall be made on a non-reimbursable basis and;

(iii) Sub-loans and Grants shall be denominated in Rupees.

3. Procedures

(a) Proposals for Subprojects may be initiated or sponsored by Beneficiaries, and shall identify the type of Subproject and the Beneficiary, describe the works or goods to be financed and any goods or works to be provided in kind by the Beneficiary, identify the PO and its contribution to the financing of the Subproject.

(b) POs shall pre-appraise the proposals for Subprojects received by them for financing in accordance with their own policies and procedures and the Operations Manual.

(c) POs shall appraise Subprojects in accordance with their own policies and procedures and the Operations Manual.

(d) POs shall estimate the value of Subprojects, including the imputed value of the contribution in kind by Beneficiaries, such estimated value to be reasonable and acceptable to PPAF, and sufficient to cover the costs of all goods and works necessary to achieve the benefits expected to result from the Subprojects.

(e) POs shall approve Subprojects in accordance with their own policies and procedures and those set forth in the Operations Manual and shall submit to PPAF for review and approval, prior to entering into the relevant Subproject Financing Agreements:

- (i) the first 10 MCP Sub-loan proposals;
- (ii) the first 5 SSIP Grant proposals;
- (iii) Sub-loan and Grant proposals for Subprojects not included in the eligible project list in the Operations Manual.

(f) POs shall evaluate the eligibility of Beneficiaries for participation in the Project in accordance with criteria satisfactory to PPAF, including those set forth in paragraphs 1(a)(i) and 1(b)(i) of this Part B.

(g) Sub-loans and Grants shall be made on such terms as shall enable the PO concerned to obtain by written contract (Subproject Financing Agreement) with the Beneficiary concerned rights adequate to protect the interests of the Borrower, the Association, PPAF and the PO, including the right to:

(i) require that the Subproject for which the Sub-loan or Grant is made be carried out in accordance with the Operations Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and that adequate records to reflect the operations, resources and expenditures in respect of the Subproject be maintained;

(ii) require that:

(aa) the goods, works and services to be financed from the proceeds of the Credit be procured in accordance with the procedures set forth in Schedule 1 to this Agreement; and

(bb) such goods, works and services be used exclusively in the carrying out of the Subproject for which the Sub-loan or Grant is made;

(iii) inspect by itself, or jointly with PPAF and/or the Association, if PPAF and/or the Association shall so request, the goods, works, sites, plants and construction included in the Subproject for which the Sub-loan or Grant is made, the operations thereof and any relevant records and documents;

(iv) obtain all such information as the PO or PPAF or the Association shall reasonably request, regarding the administration, operation and financial condition of the Subproject for which the Sub-loan or Grant is made; and

(v) suspend or terminate the right of the Beneficiary to use the proceeds of the Credit for the Subproject for which the Sub-loan or Grant is made upon the failure by the Beneficiary to perform any of its obligations under the Subproject Financing Agreement.

(h) Grants shall be made on such additional terms as shall enable the PO concerned to obtain by written contract (Subproject Financing Agreement) with the Beneficiary concerned rights adequate to protect the interests of the Borrower, the Association, PPAF and the PO, including the right to require that:

(i) the Beneficiary identify and approve the SSIP for which the Grant is made through an open and democratic process;

(ii) the Beneficiary sign the Subproject Financing Agreement on terms of partnership approved in its general body meeting, with the responsibilities of the Beneficiary and the PO clearly defined;

- (iii) the Beneficiary contribute towards the capital cost of the SSIP for which the Grant is made, such contribution varying according to the capacity to pay, but in any case not falling below 15% of such cost;
- (iv) the Beneficiary collaborate with the PO in conducting a survey and costing of the SSIP for which the Grant is made;
- (v) the Beneficiary receive from the PO technical and other assistance during identification, planning and implementation of the SSIP for which the Grant is made, as well as operations and maintenance training on a need basis;
- (vi) the Beneficiary implement the SSIP for which the Grant is made within a stipulated time and budget;
- (vii) the Beneficiary open a separate bank account, to be operated by at least two signatories, and maintain a record of all receipts and payments, all relating to the SSIP or which the Grant is made;
- (viii) the Beneficiary implement the SSIP for which the Grant is made, using its own human and material resources and not sub-contract of the construction work to contractors, except works requiring skills not otherwise available to the Beneficiary;
- (ix) the Beneficiary submit its work to supervise and certification for quality and adherence to specifications by the PO, having the right to suspend payments under the Grant in respect of sub-standard work until such time as such work has been rectified; and
- (x) the Beneficiary be fully responsible for the operation and maintenance costs of the SSIP for which Grant is made.

SCHEDULE 3

Implementation Program

1. PPAF shall at all times:

- (a) (i) be governed in accordance with the Memorandum and Articles of Association; and
- (ii) not assign, amend, abrogate or waive the Memorandum and Articles of Association or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect PPAF's performance or the implementation of the Project;
- (b) maintain a Board of Directors which shall have general oversight of the Project, and which shall be required to meet to discuss Project-related operational (and other) issues no less than four (4) times a year;
- (c) maintain staff, to include a Chief Executive Officer (CEO) and unit heads for credit and enterprise development, community infrastructure, human resource development, monitoring, evaluation and research, finance and accounts and internal audit, all of whom shall have appropriate experience and qualifications and shall have been appointed on merit and in a transparent and competitive manner; and
- (d) keep the Association promptly informed of changes in membership of its General Body, Board of Directors including the Chairman, or management team referred to in sub-paragraph (c) above, and ensure that any such changes will be made in accordance with the procedures set forth in the Memorandum and Articles of Association.

2. (a) PPAF shall:

procedures, (i) carry out its activities under the Project in accordance with the principles and practices set forth in the Operations Manual;

the Project (ii) take all measures necessary to ensure that their activities under Manual; and are carried out by POs in conformity with the Operations

provisions (iii) not assign, amend, abrogate or waive the Operations Manual or any thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect PPAF's performance or the implementation of the Project.

(b) PPAF shall prepare and furnish to the Association, with effect from FY 2000, for its review and comments, semi-annual progress reports in such form as the Association shall reasonably request, including, an evaluation of the implementation of the various components of the Project, identification of any problems encountered and suggested remedial actions, and a work plan and budget required for implementation of the Project in the ensuing year.

3. PPAF shall:

(a) ensure that all Subprojects will be carried out in accordance with the provisions of the Environmental Management Framework; and

(b) not assign, amend, abrogate or waive the Environmental Management Framework or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation, or waiver will materially and adversely affect the implementation of the Project or any Subproject.

4. PPAF shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with 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 Borrower and the Association, on or about September 30, 2001, 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 Borrower and the Association, by December 31, 2001 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.

