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**CREDIT NUMBER 4075 AZ**

# **Development Credit Agreement**

**(Rural Environment Project)**

**between**

**REPUBLIC OF AZERBAIJAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 17, 2006**

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**CREDIT NUMBER 4075 AZ**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated January 17, 2006, between REPUBLIC OF AZERBAIJAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) by an agreement of even date herewith between Republic of Azerbaijan and the International Bank for Reconstruction and Development (the Bank) (the GEF Trust Fund Grant Agreement), the Bank, acting as the implementing agency of the Global Environment Facility (GEF) has agreed to make a grant (the GEF Trust Fund Grant) to the Borrower in the amount of five million Dollars (\$5,000,000) to assist in financing part of the Project on the terms and conditions set forth in the GEF Trust Fund Grant Agreement; and

(C) by an agreement of even date herewith between Republic of Azerbaijan and the Association (the Japanese Grant Agreement), the Association, acting as administrator of the grant funds provided by Japan, has agreed to make a grant (the Japanese Grant) to the Borrower in the amount of two million seven hundred twenty thousand Dollars (\$2,720,000) to assist in financing part of the Project on the terms and conditions set forth in the Japanese Grant Agreement.

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

- (b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “Access Restriction Process Framework” means the framework document, prepared by the Borrower and submitted to the Association on February 21, 2005, setting forth measures to minimize and mitigate the negative social and economic impacts of the Project on potential affected individuals, which is an integral part of the Project Implementation Manual.

(b) “Beneficiary under Part B of the Project” means any non-commercial legal entity eligible for assistance under Part B of the Project, meeting criteria referred to in the Project Implementation Manual and Part A of Schedule 6 to this Agreement.

(c) “Beneficiary under Part C of the Project” means any legal person eligible for assistance under Part C of the Project, meeting criteria referred to in the Project Implementation Manual and paragraph B of Schedule 6 to this Agreement.

(d) “Community Investment Grant” means the grant approved by the Village Cluster Investment Plan Approval Committee for the purpose of Part B of the Project.

(e) “EMP” means the Environmental Management Plan, satisfactory to the Association, adopted by the Borrower and submitted to the Association on

February 21, 2005, setting forth measures to mitigate any adverse impacts to the environment, which is an integral part of the Project Implementation Manual.

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

(g) “Grant Administrator” means a contractor engaged by the PIU to administer the Matching Grant funds under Part C of the Project.

(h) “Grant Awarding Committee” means the committee chaired by the PIU, consisting of the representatives of Ministry of Ecology and Natural Resources, Ministry of Agriculture, Ministry of Finance, Ministry of Economic Development and Ministry of Youth, Sports and Tourism of the Borrower, for the selection and approval of the Matching Grants under Part C of the Project.

(i) “Investment Plan Approval Committee” means the committee headed by the PIU, consisting of representatives of executive committees of the raion governments, local representatives of relevant ministries of the Borrower as well as representatives of municipalities, if the municipalities are not represented on the Village Cluster Committee, for the selection and approval of the Community Investment Grant under Part B of the Project.

(j) “Manat” means the national currency of the Borrower.

(k) “Matching Grant” means the matching grant approved by the Grant Awarding Committee for the purpose of Part C of the Project.

(l) “PIU” means the Project Implementation Unit, established on October 23, 1998 by the Chief of the Azerbaijan State Committee on Ecology and Control of Natural Resources Utilization of the Borrower, through its Decree No. 280 for the purposes of Project management.

(m) “Procurement Plan” means the Borrower’s procurement plan, dated March 4, 2005 covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation.

(n) “Project Account” means the account referred to in Sections 3.01 (c) and 6.01 (b) of this Agreement, maintained in Manat and to be used for financing the Borrower’s contribution to Project expenditures.

(o) “Project Implementation Manual” means the manual, satisfactory to the Association, setting forth the implementation rules and procedures for the Project, including selection criteria and provision of Community Investment Grants and Matching

Grants under Parts B and C of the Project, as the same may be amended from time to time by agreement between the Association and the Borrower.

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

(q) “Village Clusters” means the fifteen (15) groups of villages identified in the Project Implementation Manual for the purpose of proposing and implementing Village Cluster Implementation Plans under Part B of the Project.

(r) “Village Clusters Committee(s)” means the committee(s) established by the community members of the Village Cluster(s), meeting the criteria indicated in the Project Implementation Manual, for the purpose of formulating and overseeing implementation of Village Cluster Investment Plan(s) under Part B of the Project.

(s) “Village Cluster Investment Plan(s)” means the set of activities, meeting the criteria set forth in the Project Implementation Manual, and approved by the Village Cluster Investment Plan Approval Committee under Part B of the Project.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to five million four hundred thousand Special Drawing Rights (SDR 5,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and works required for Parts A and D of the Project and to be financed out of the proceeds of the Credit; and
- (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the PIU on account of withdrawals made to meet the costs of goods, works and services required for Parts B and C of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or

attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1, commencing December 1, 2015 and ending June 1, 2040. Each installment to and including the installment payable on June 1, 2025 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for

Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

### **ARTICLE III**

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

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the PIU with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Project Implementation Manual, the Implementation Program set forth in Schedule 4 and the Procedure and Selection Criteria set forth in Schedule 6 to this Agreement.

(c) Without limitation upon the provisions in paragraph (a) of this Section, the Borrower shall maintain, until the completion of the Project, a Project Account on terms and conditions acceptable to the Association, to finance its counterpart contribution to the expenditures of the Project and ensure that the funds deposited into the Project Account shall be used exclusively to finance the Borrower's counterpart contributions to the Project.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

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

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

## **ARTICLE IV**

### **Financial Covenants**

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

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
  - (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 (a) of Schedule 4 to this Agreement, the Borrower shall cause the PIU to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

(b) The first FMR shall be furnished to the Association not later than forty-five (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 forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

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

(a) The Project Implementation Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

- (b) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of GEF Trust Fund Grant and/or Japanese Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement and/or Japanese Grant Agreement; or
  - (B) the GEF Trust Fund Grant and/or Japanese Grant shall have become due and payable prior to the agreed maturity thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and

- (b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

## **ARTICLE VI**

### **Effective Date; Termination**

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

- (a) the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

- (b) the Japanese Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

- (c) the Project Implementation Manual, satisfactory to the Association, has been finalized and submitted to the Association;

- (d) the Borrower has opened a Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in Manat equivalent to \$50,000; and

- (e) a legal instrument to establish the Shah Dag National Park of the Borrower has been issued.

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

## ARTICLE VII

### Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance  
83 Samed Vurgun Street  
Baku AZ1022  
Republic of Azerbaijan

Telex:

142116 BNKSL

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF AZERBAIJAN

By /s/ Huseyngulu Seyid oglu Bagirov  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Saida R. Bagirli  
Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and works		81%
(a) for rehabilitation and construction of buildings, office equipment and furnishings and vehicles and equipment under Part A of the Project	1,050,000	
(b) for others	1,100,000	
(2) Training and incremental operating costs	400,000	100%
(3) Grants		100%
(a) under Part B of the Project	2,000,000	
(b) under Part C of the Project	500,000	
(4) Unallocated	<u>350,000</u>	
TOTAL	<u>5,400,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” means expenditures incurred for the training activities, including costs of workshops, tuition, domestic and international travel and per diem of trainees;

(b) the term “incremental operating costs” means operating costs incurred by the PIU on account of Project implementation for fuel, vehicle operating costs,

maintenance and insurance, per diems and local travel costs, costs of consultative meetings or workshops, communications costs, office rental, maintenance supplies and utilities, salary of support staff, excluding those who are civil servants, and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association; and

(c) the term “grants” means financing of Community Investment Grants and Matching Grants under Parts B and C of the Project, in accordance with the Project Implementation Manual and Schedule 6 to this Agreement.

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

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

(b) payments made for expenditures under Category (1) (a) for works and goods for rehabilitation and construction of buildings, office equipment and furnishings and vehicles and equipment under Part A of the Project, unless the Borrower has approved the charter of Shah Dag National Park, acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) training; (d) grants; and (e) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.



## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Borrower to improve biodiversity conservation and introduce more sustainable natural resource management and economic activities in two mountainous areas, in order to restore the ecological health and productivity of their natural forests and pastures.

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

#### Part A: Establishment and Management of Protected Areas

Establishment of the Shah Dag National Park of the Borrower and expansion of the Ordubad National Park of the borrower, including the creation and strengthening of park management institutions and systems, through provision of goods, works and services.

#### Part B: Community-level Investment in Sustainable Agriculture and Natural Resource Management

Provision of the Community Investment Grants in order to assist the communities living inside and immediately adjacent to the national parks referred to in Part A of the Project for their smooth transition from unsustainable aspects of traditional agricultural and natural resource use towards more modern and efficient use of natural resources, in accordance with the Project Implementation Manual and Part A of Schedule 6 to this Agreement.

#### Part C: Rural Enterprise Development

Provision of the Matching Grants for the start and expansion of environmentally sustainable small- and medium-sized commercial enterprises in order to stimulate and diversify the local economy, in accordance with the Project Implementation Manual and Part B of Schedule 6 to this Agreement.

#### Part D: Project Management

Support to the PIU and its branch offices for the effective implementation of the Project.

\* \* \*

The Project is expected to be completed by June 30, 2009.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

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

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

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

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

##### B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) There shall be no eligibility restrictions based on nationality of bidder and/or origin of goods.

(b) Pre-qualification shall not be used for simple goods and works procurement and shall be conducted only for large works projects.

(c) Entities in which the State or a State official owns a shareholding of whatever size shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law.

(d) No national preferences may be applied on the basis of the origin of products or labor.

(e) Joint venture partners shall be jointly and severally liable for their obligations.

(f) No "participation fee" shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) and mailing the bidding documents.

(g) In the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget.

(h) Rebidding shall not be carried out without prior approval of the Association.

(i) Works contracts of more than eighteen (18) months duration shall include appropriate price adjustment provisions.

(j) Prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Commercial Practices. Items that are to be financed under Part C of the Project may be procured in accordance with commercial practices acceptable to the Association.

5. Community Participation. Goods, works and services required for Part B of the Project may be procured on the basis of community participation in accordance with the Project Implementation Manual.

### Section III. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

#### **SCHEDULE 4**

##### **Implementation Program**

1. The Borrower 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 Association, on or about February 29, 2008, 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 April 30, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.
2. The Borrower shall take or cause to be taken, all measures necessary for the carrying out of the EMP and Access Restriction Process Framework, as set out in the Project Implementation Manual, in a timely manner.
3. The Borrower, through the PIU, shall appoint, not later than three (3) months after the Effective Date, an auditor under terms of reference acceptable to the Association.
4. The Borrower shall hire, not later than three (3) months after the Effective Date, coordinators and assistants to the coordinators for the regional PIU offices, following the procedures and terms of reference acceptable to the Association.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$400,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

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

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

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

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

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

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

## SCHEDULE 6

### **Procedures and Selection Criteria under Parts B and C of the Project**

#### Part A: Procedures and Selection Criteria under Part B of the Project

1. Community Investment Grants shall be made available to any legally-registered entities selected by the Village Cluster Committees and meeting the criteria outlined in the Project Implementation Manual.
2. The Village Cluster Committee shall:
  - (a) develop its Village Cluster Investment Plan with the assistance and advice from the PIU, and in consultation with its community members, and submit the proposed Village Cluster Investment Plan to the Village Cluster Investment Plan Approval Committee; and
  - (b) select the implementing body of the plan, which shall become the Beneficiary under Part B of the Project in accordance with the eligibility criteria set out in paragraph 1 above.
3. The Investment Plan Approval Committee shall appraise and evaluate proposals based on the criteria and menu of options elaborated in the Project Implementation Manual.
4. Once the Village Cluster Investment Plan is approved by the Village Cluster Investment Plan Approval Committee, the Community Investment Grant Agreement between the PIU and the implementing entity under paragraph 2 (b) shall be concluded, and each such Agreement shall require the Beneficiary under Part B of the Project to, inter alia:
  - (a) ensure that the Community Investment Grant funds are used exclusively for the purposes specified for the proposed Village Cluster Investment Plan approved by the Investment Plan Approval Committee;
  - (b) maintain a financial management system, including records and separate accounts, in a format acceptable to the PIU, reflecting the operations, resources and expenditures related to the proposed Village Cluster Investment Plan;
  - (c) procure the works, goods and services to be financed out of the proceeds of the Community Investment Grant in accordance with the Project Implementation Manual, which is consistent with the Community Participation Procedure in paragraph 3.17 of the Procurement Guidelines and with the Manual for Conducting Very



Small Value Procurement under World Bank/IDA Small Grants, Loans and Credits (June 2004);

(d) allow the PIU staff members to inspect the sites, works and goods financed by the Community Investment Grant; and

(e) agree to have the Community Investment Grant suspended or terminated upon the Beneficiary's failure to perform the obligations set forth in the Community Investment Grant Agreement, and be legally obligated, upon termination to reimburse the PIU any Community Investment Grant received.

Part B: Procedures and Selection Criteria under Part C of the Project

1. (a) Matching Grants shall be made available to: (i) any person who has been registered as a resident in one of the 95 villages specified in the Project Implementation Manual prior to January 1, 2006 and is a resident when the Matching Grant proposal is submitted; or (ii) a legal entity owned fully or partly by such a person described in (i) above.

(b) Further eligibility criteria regarding 1 (a) (ii) above shall be elaborated in the Project Implementation Manual.

2. The PIU shall launch a promotion and outreach campaign, and issue requests for the Matching Grant proposals.

3. The potential applicants for the Matching Grant may receive technical assistance from the specialists under the PIU in preparing their business plans and Matching Grant applications.

4. All Matching Grant proposals shall be reviewed, evaluated and approved based on the criteria elaborated in the Project Implementation Manual, by the Grant Awarding Committee, which meets every three months.

5. The amount of individual Matching Grant shall be based upon the estimated cost of goods, works, services and operating costs that will be required for the full cost of indicated in the Matching Grant proposal, and shall not exceed sixty percent (60%) of such full costs. In exceptional cases, meeting criteria set forth in the Project Implementation Manual, and with the agreement of the Grant Awarding Committee and the Association, the Matching Grant may cover a higher percentage of the total cost of the Matching Grant proposal, up to hundred percent (100%).

6. No individual Matching Grant shall be disbursed unless a Matching Grant Agreement has been executed between the Beneficiary under Part C of the Project and the Grant Administrator.

7. Each Matching Grant Agreement shall require the Beneficiary under Part C of the Project to, inter alia:

(a) open a bank account for the purpose of the Matching Grant, into which the Matching Grant and the contribution from the Beneficiary under Part C of the Project are deposited;

(b) ensure that the Matching Grant funds are used exclusively for the purpose specified in the Matching Grant Agreement;

(c) provide no less than forty percent (40%) of the total investment cost in cash, except as specified in paragraph 5 above;

(d) maintain a financial management system, including records and separate accounts, in a format acceptable to the PIU, reflecting the operations, resources and expenditures related to the proposal;

(e) procure the works, goods and services to be financed out of the proceeds of the Matching Grant in accordance with the Project Implementation Manual, which is consistent with the commercial practices mentioned in paragraph 3.12 of the Procurement Guidelines;

(f) ensure that, whenever appropriate, the environmental assessment and/or environmental management plan acceptable to the PIU has been prepared and implemented in a timely manner;

(g) allow the PIU staff members or any other inspector representing the PIU to inspect the sites, works and goods financed by the Matching Grant; and

(h) agree to have the Matching Grant suspended or terminated upon its Beneficiary's failure to perform the obligations set forth in the Matching Grant Agreement, and be legally obligated, upon termination, to reimburse the PIU any Matching Grant received.