

CONFORMED COPY

CREDIT NUMBER 4599-PK

Project Agreement

(Third Pakistan Poverty Alleviation Fund Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PAKISTAN POVERTY ALLEVIATION FUND

Dated June 9, 2009

CREDIT NUMBER 4599-PK

PROJECT AGREEMENT

AGREEMENT dated June 9, 2009, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and PAKISTAN POVERTY ALLEVIATION FUND (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity’s Representative is its Chief Executive Officer.

4.02. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Pakistan Poverty Alleviation Fund
House No. 1, Street 20
F-7/2 Islamabad, Pakistan

Facsimile:
92-51-2652246

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Said N. Al Habsy
Authorized Representative

PAKISTAN POVERTY ALLEVIATION FUND

By

/s/ Kamal Hayat
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall enter into a Subsidiary Agreement with the Recipient in accordance with Section I.A of Schedule 2 to the Financing Agreement.
2. The Project Implementing Entity shall:
 - (a) at all times be governed in accordance with the Memorandum and Articles of Association;
 - (b) 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 the Project Implementing Entity's performance or the implementation of the Project;
 - (c) maintain a Board of Directors which shall have general oversight of the Project;
 - (d) maintain staff, to include a chief executive officer and unit heads for social sector development, human and institutional 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
 - (e) keep the Association promptly informed of changes in membership of its board of directors including the chairman, or management team referred to in sub-paragraph (d) above, and ensure that any such changes will be made in accordance with the procedures set forth in the Memorandum and Articles of Association.

B. Management and Operations

1. The Project Implementing Entity 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.

2. The Project Implementing Entity shall at all times operate and maintain its plant, machinery, 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, financial and economic practices.
3. The Project Implementing Entity 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.

C. Operations Manual

1. The Project Implementing Entity shall:
 - (a) carry out the Project in accordance with the procedures, principles and practices set forth in the Operations Manual;
 - (b) take all measures necessary to ensure that the activities under the Project that are carried out by Partner Organizations are done so in conformity with the Operations Manual; and
 - (c) not assign, amend, abrogate or waive the Operations Manual or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect the Project Implementing Entity's performance or the implementation of the Project.

D. Provisions of Financing to Partner Organizations for Social Mobilization; Recruitment of Individuals

1. The Project Implementing Entity shall ensure that, unless the Association shall otherwise agree, financing will be provided by it to Partner Organizations for social mobilization under Part 1 of the Project in accordance with the procedures and on the terms and conditions set forth or referred to in Annex 1 of the Schedule to this Agreement.
2. The Project Implementing Entity shall recruit or cause to be recruited individuals for the implementation of Part 1 of the Project in accordance with the procedures, criteria and terms of reference set out in the Operations Manual.

E. Provision of Financing to Partner Organizations for Livelihood Grants, Sub-Loans and Grants

1. The Project Implementing Entity shall ensure that, unless the Association shall otherwise agree, financing will be provided by it to Partner Organizations, and Livelihood Grants, Sub-loans and Grants will be financed by Partner Organizations under Parts 2.b, 3.a, 4.a and 4.b of the Project, in accordance in all cases with the procedures and on the terms and conditions set forth or referred to in Annex 2 of the Schedule to this Agreement.
2. The Project Implementing Entity shall ensure that Partner Organizations make Livelihood Grants available out of the funds of the Financing to the Community Livelihood Funds of Community Institutions in accordance with a Livelihood Plan approved by the relevant Partner Organization, and as Asset Transfers to individuals or households on terms and conditions approved by the Association, including those terms and conditions set forth in the Operations Manual.
3. The Project Implementing Entity shall exercise its rights in relation to financing provided by it to Partner Organizations and Livelihood Grants, Sub-loans or Grants financed by Partner Organizations, in such manner as to: (a) protect the interests of the Recipient, the Association and the Project Implementing Entity; (b) comply with its obligations under this Agreement and the Subsidiary Agreement; and (c) achieve the purposes of the Project.
4. The Project Implementing Entity shall ensure that:
 - (a) for purposes of financing Micro-Credit Projects under Part 3.a of the Project, the aggregate of the amount to be received by a single Partner Organization from the Credit proceeds and any other outstanding amount so received by such Partner Organization shall not exceed such limit established by the Project Implementing Entity in consultation with the Association and to be set forth in the Operations Manual by no later than the Effective Date;
 - (b) for purposes of financing Livelihood Grant interventions under Part 2.a of the Project, Small-Scale Community Infrastructure Projects under Part 4.a of the Project, and Social Sector Development Projects under Part 4.b of the Project, the amount agreed to be made available to any one Partner Organization out of the proceeds of the Credit at any one time for such purposes shall not exceed such limits established by the Project Implementing Entity in consultation with the Association and to be set forth in the Operations Manual by no later than the Effective Date.

5. Except as the Association shall otherwise agree:
 - (a) the level of financing to be made available to each Partner Organization 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 or recalled if, at any time, in the opinion of the Project Implementing Entity, such Partner Organization is no longer in full compliance with said criteria.

F. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

G. Safeguards.

The Project Implementing Entity shall:

- (a) ensure that all activities and Subprojects will be carried out in accordance with the provisions of the Environmental and Social Management Framework; and
- (b) not assign, amend, abrogate or waive the Environmental and Social 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 Sub-project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later forty-five (45) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
2. The Project Implementing Entity shall provide to the Association not later than forty-five (45) days after the Closing Date the report on the execution of the Project and related plan required pursuant to Section 4.08(c) of the General

Conditions, for incorporation in the report referred to in such Section and all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.

Section IV. Other Undertaking

By no later than June 30, 2012, the board of directors of the Project Implementing Entity shall have approved a framework to spin off its micro-finance operations.

ANNEX 1

Terms and Conditions of and Procedures for Financing Provided to Partner Organizations for Social Mobilization under Part 1 of the Project

- I. For purposes of carrying out Part 1 of the Project, except as the Association shall otherwise agree, the Project Implementing Entity shall select Partner Organizations which satisfy, and continue to satisfy, the eligibility criteria set forth for such Partner Organizations in the Operations Manual, which shall include the following:
- (A) the Partner Organizations shall be registered under the laws of the Recipient;
 - (B) the Partner Organizations shall have at least two (2) years in social sector development, including community mobilization experience;
 - (C) the Partner Organizations shall have established working relations with community organizations in the Union Councils;
 - (D) the Partner Organizations 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;
 - (E) the Partner Organizations shall have a proper and transparent accounting system;
 - (F) the Partner Organizations shall be willing and able to submit regular monitoring reports to the Project Implementing Entity and to submit to monitoring and evaluation by the Project Implementing Entity or by any outside agency appointed by the Project Implementing Entity for this purpose;
 - (G) the Partner Organizations shall be willing and able to maintain all relevant records, documents and information in respect of financing received from the Project Implementing Entity, and to furnish these to the Project Implementing Entity;
 - (H) the Partner Organizations shall have conducted audits in accordance with laws under which they are registered and audit scope acceptable to the Project Implementing Entity and be willing and able to accept mandatory external audits by an independent accounting firm, appointed by the Project Implementing Entity, which shall have satisfactory rating under

the Quality Control Review program managed by the Institute of Chartered Accountants of Pakistan;

- (I) the Partner Organizations 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 Partner Organizations shall not be political, discriminatory, ethnic, sectarian or exclusionary in nature; and
 - (K) the Partner Organizations shall manage the environmental aspects of their operations in compliance with the Environmental and Social Management Framework.
- II. Except as the Association shall otherwise agree, Partner Organizations shall receive financing from the Project Implementing Entity on a grant basis for purposes of carrying out Part 1 of the Project.
- III. (A) The Project Implementing Entity shall, through an advertisement to be published in national newspapers from time to time, invite potential Partner Organizations to submit written proposals for participating in the Project.
- (B) On the basis of such proposals, the Project Implementing Entity shall carry out a series of preliminary appraisals, desk appraisals and field appraisals of the proposed Partner Organizations in accordance with its Operations Manual, in order to establish, *inter alia*, proposed Partner Organizations can:
- (1) satisfy the relevant eligibility criteria; and
 - (2) demonstrate that they employ, or can employ, the operational policies, procedures and human resources, required in furtherance of the proposed partnership between themselves and the Project Implementing Entity.
- (C) In order to receive financing from the Project Implementing Entity, each eligible Partner Organization shall enter into a written agreement with the Project Implementing Entity, and, except as the Association shall otherwise agree, such agreement (PO Grant Agreement) shall provide, *inter alia*, for:
- (1) the Partner Organization 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 and with the Anti-Corruption Guidelines;

- (2) the Partner Organization to establish and maintain satisfactory procedures and operational policies for supervision and monitoring of the activities so as to ensure the achievement of the objectives of the Project;
- (3) the Partner Organization to duly perform all its obligations under the PO Grant Agreement, and not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the PO Grant Agreement or any provision thereof;
- (4) the Partner Organization, at the request of the Project Implementing Entity, to exchange views with the Project Implementing Entity with regard to the performance of its obligations under the PO Grant Agreement and other matters relating to the purposes of the Project;
- (5) the Partner Organization to promptly inform the Project Implementing Entity of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the grant or the performance by the Partner Organization of its obligations under the PO Grant Agreement;
- (6) the Partner Organization to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures of the Partner Organization in respect of the Project, to have such records and accounts audited in accordance with appropriate auditing principles consistently applied by an independent auditor acceptable to the Project Implementing Entity, and enable the Project Implementing Entity, the Recipient and the Association to examine such records;
- (7) the Project Implementing Entity to have the right to suspend or terminate the right of the Partner Organization to use the proceeds of the grant:
 - (a) upon failure by the Partner Organization to perform its obligations under the PO Grant Agreement, or upon notice by the Association to the Recipient that it intends to exercise any of its remedies under Sections 6.02 and 6.06 of the General Conditions;

- (b) upon notice by the Partner Organization that it intends to terminate the PO Grant Agreement or upon the actual termination of the PO Grant Agreement, whichever occurs first;
 - (c) upon the Association declaring the Partner Organization as ineligible under the Anti-Corruption Guidelines;
- (8) as a condition of the financing, the Partner Organization to agree to the Project Implementing Entity obtaining a legal opinion or opinions satisfactory to the Project Implementing Entity, stating that such PO Grant Agreement has been duly authorized or ratified by such PO and is legally binding upon such PO in accordance with its terms; and
- (9) the Project Implementing Entity to have a right of restitution with respect to the Partner Organization of any amount of the financing with respect to which fraud and corruption has occurred.

ANNEX 2

Terms and Conditions of and Procedures for Financing Provided to, and Livelihood Grants, Sub-loans and Grants made by, Partner Organizations under Parts 2 through 4 of the Project

I. Financing provided to Partner Organizations

A. Eligibility Criteria

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

1. the Partner Organizations shall be registered under the laws of the Recipient;
2. the Partner Organizations shall have at least two years of community mobilization experience, and, if proposing to make a Sub-loan, a proven track record of at least two years in micro-credit/micro-enterprise financing;
3. the Partner Organizations 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;
4. the Partner Organizations shall have a proper and transparent accounting system;
5. the Partner Organizations shall have micro-credit/micro-enterprise, small-scale community physical infrastructure development and/or capacity building or social sector development programs for women, as the case may be;
6. the Partner Organizations shall be willing and able to submit regular monitoring reports to the Project Implementing Entity and to submit to monitoring and evaluation by the Project Implementing Entity or by any outside agency appointed by the Project Implementing Entity for this purpose;
7. the Partner Organizations shall be willing and able to maintain all relevant records, documents and information in respect of financing received from the Project Implementing Entity, and to furnish these to the Project Implementing Entity;
8. the Partner Organizations shall have conducted audits in accordance with laws under which they are registered and audit scope acceptable to the Project Implementing Entity and be willing and able to accept mandatory external audits by firms of Chartered Accountants appointed by the Project Implementing Entity;

9. the Partner Organizations 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;
10. the Partner Organizations shall not be political, discriminatory, ethnic, sectarian or exclusionary in nature;
11. the Partner Organizations shall manage the environmental aspects of their operations in compliance with the Environmental and Social Management Framework; and
12. in addition, if proposing to make a Sub-loan through the Enterprise Development Facility, the Partner Organizations shall have a minimum of two (2) years working relationship with the Project Implementing Entity.

B. Terms and Conditions

Except as the Association shall otherwise agree, Partner Organizations shall receive financing from the Project Implementing Entity:

1. for the purposes of making Sub-loans, on such terms and conditions as the board of directors of the Project Implementing Entity 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 Partner Organizations; and
2. for the purposes of making Livelihood Grants and Grants, on a non-reimbursable basis.

C. Procedures

1. The Project Implementing Entity shall, through an advertisement to be published in national newspapers from time to time, invite potential Partner Organizations to submit written proposals for participating in the Project.
2. On the basis of such proposals, the Project Implementing Entity shall carry out a series of preliminary appraisals, desk appraisals and field appraisals of the proposed Partner Organizations in accordance with its Operations Manual, in order to establish, *inter alia*, proposed Partner Organizations can:
 - (a) satisfy the relevant eligibility criteria;
 - (b) accept the Project Implementing Entity's policies regarding the pricing of funds;

- (c) demonstrate a high degree of compatibility with the Project Implementing Entity's financing strategy; and
 - (d) demonstrate that they employ, or can employ, the operational policies, procedures and human resources, required in furtherance of the proposed partnership between themselves and the Project Implementing Entity.
3. Without limiting the generality of paragraphs A and B of this Part I:
- (a) in order to receive financing for the purpose of making Sub-loans, each eligible Partner Organization shall enter into a PO Financing Agreement with the Project Implementing Entity; and
 - (b) in order to receive financing for the purposes of making Livelihood Grants and Grants, each eligible Partner Organization shall enter into a PO Grant Agreement with the Project Implementing Entity.
4. Except as the Association shall otherwise agree, the PO Financing Agreement or the PO Grant Agreement, as the case may be, shall provide, *inter alia*, for:
- (a) the Partner Organization 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 and the Anti-Corruption Guidelines;
 - (b) the Partner Organization 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;
 - (c) the Partner Organization to ensure that the proceeds of Livelihood Grants, Sub-loans or Grants, as the case may be, shall be utilized to finance Subprojects in accordance with the procedures and on the terms and conditions set forth or referred to in Part II of this Annex 2;
 - (d) the Partner Organization to exercise its rights under each Subproject Financing Agreement in such manner as to:
 - (i) protect the interests of the Recipient, the Association, the Project Implementing Entity and the Partner Organization;
 - (ii) comply with its obligations under the Subproject Financing Agreement; and
 - (iii) achieve the purposes of the Project;

- (e) the Partner Organization to duly perform all its obligations under the PO Financing Agreement or PO Grant Agreement, as the case may be, and not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the PO Financing Agreement or PO Grant Agreement, as the case may be, or any provision thereof;
- (f) the Partner Organization, at the request of the Project Implementing Entity, to exchange views with the Project Implementing Entity with regard to the performance of its obligations under the PO Financing Agreement or PO Grant Agreement, as the case may be, and other matters relating to the purposes of the Project;
- (g) the Partner Organization to promptly inform the Project Implementing Entity of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Credit or the performance by the Partner Organization of its obligations under the PO Financing Agreement or PO Grant Agreement, as the case may be;
- (h) the Partner Organization to maintain procedures adequate to monitor and record the progress of Sub-projects for which Livelihood Grants, 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 Partner Organization in respect of the Project and said Subprojects, to have such records and accounts audited in accordance with appropriate auditing principles consistently applied by an independent auditor acceptable to the Project Implementing Entity, and enable the Project Implementing Entity, the Recipient and the Association to examine such records;
- (i) the Partner Organization to provide to the Project Implementing Entity all records, documents and information in respect of the Livelihood Grants, Sub-loans or Grants made through it, the Subprojects for which such Livelihood Grants, Sub-loans or Grants have been made, and other activities of the Partner Organization, as the Project Implementing Entity shall reasonably request;
- (j) the Partner Organization to provide to the Project Implementing Entity at regular intervals specified by the Project Implementing Entity reports indicating the aggregate amount of financing provided under its Livelihood Grant interventions, micro-credit, community infrastructure development and social sector programs during such intervals, the sources of such financing, and the amount of such financing provided as Livelihood Grants, Sub-loans or Grants;

- (k) the Partner Organization to provide to the Project Implementing Entity its medium term business plan within the framework of which Livelihood Grants, Sub-loans and Grants shall be made by it;
- (l) the Project Implementing Entity to have the right to suspend or terminate the right of the Partner Organization to use the proceeds of the Credit for making Livelihood Grants, Sub-loans or Grants:
 - (i) upon failure by the Partner Organization to perform its obligations under the PO Financing Agreement or PO Grant Agreement, or upon notice by the Association to the Recipient that it intends to exercise any of its remedies under Sections 6.02 and 6.06 of the General Conditions or Article IV of the Financing Agreement;
 - (ii) upon notice by the Partner Organization that it intends to terminate the PO Financing Agreement or PO Grant Agreement, or upon the actual termination of the PO Financing Agreement or PO Grant Agreement, whichever occurs first; or
 - (iii) upon the Association declaring the Partner Organization as ineligible under the Anti-Corruption Guidelines.
 - (iv) as a condition of the financing, the Partner Organization to agree to the Project Implementing Entity obtaining a legal opinion or opinions satisfactory to the Project Implementing Entity, stating that such PO Financing Agreement or PO Grant Agreement has been duly authorized or ratified by such Partner Organization and is legally binding upon such Partner Organization in accordance with its terms; and
 - (v) the Project Implementing Entity's right of restitution by the Partner Organization of any amount of the financing with respect to which fraud and corruption has occurred.

II. Livelihood Grants, Sub-loans and Grants made by Partner Organizations

A. Eligibility Criteria

Except as the Association shall otherwise agree:

- 1. Livelihood Grants shall be made only:
 - (a) to the Community Livelihood Funds:

- (i) of Community Institutions who satisfy the eligibility criteria set forth in the Operations Manual for such Community Institutions, which shall include the following:
 - (A) the Community Institution shall have demonstrated savings;
 - (B) the Community Institution shall have revolved the savings among the members of such Community Institution as loans with a rate of repayment of at least ninety-five percent (95%); and
 - (ii) on the basis of a Livelihood Plan approved by the relevant Partner Organization which shall be in compliance with the Environmental and Social Management Framework.
- (b) as Asset Transfers, to individual community members or households identified through a poverty score card or other objective measure determined by the Project Implementing Entity.
2. Sub-loans shall be made only:
- (a) to Beneficiaries who satisfy the eligibility criteria set forth in the Operations Manual for such Beneficiaries, which shall include the following:
 - (i) the Beneficiaries shall be considered poor under the definition of poverty adopted by the Partner Organization 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 the Project Implementing Entity;
 - (ii) the Beneficiaries shall be groups or members of groups, organized and/or monitored by the Partner Organization concerned;
 - (iii) the Beneficiaries shall operate a savings program;
 - (iv) 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 Partner Organization concerned all relevant records, documents and information in respect of the Subprojects for which Sub-loans have been made to them; and
- (v) the Beneficiaries, if they have previously availed of any Sub-loans, shall have serviced such Sub-loans efficiently and promptly.
- (b) To Micro-Credit Projects which satisfy the eligibility criteria set forth in the Operations Manual for such projects, which shall include the following:
- (i) the Micro-Credit Projects shall be in compliance with the Recipient's laws and regulations relating to health, safety and environmental protection, including the Environmental and Social Management Framework; and
 - (ii) the Micro-Credit Projects shall not be on the Project Implementing Entity's negative list set forth in the Operations Manual.
- (c) In the case of Sub-loans through the Enterprise Development Facility, to Beneficiaries who satisfy the eligibility criteria set forth in the Operations Manual for such Beneficiaries, which shall include those set forth in paragraph A.1.a of this Part II, as well as the following:
- (i) the Beneficiary shall have previously been granted a Sub-loan and other non-credit facilities by the Partner Organization and shall have a proven track record of at least two (2) years working with the Partner Organization;
 - (ii) the Beneficiary must have agreed to periodic monitoring and evaluation visits by the Project Implementing Entity and Partner Organization staff with respect to the Sub-loan;
 - (iii) the Beneficiary must be located in an area that is in close proximity to a local commerce center or a retail or wholesale hub; and

- (iv) the Beneficiary shall not have any previous Sub-loan under the Enterprise Development Facility outstanding in its name.

3. Grants shall be made only:

- (a) To Beneficiaries who satisfy the eligibility criteria set forth in the Operations Manual for such Beneficiaries, which shall include those set forth in paragraph A.2.a of this Part II.
- (b) For SSIPs and SSDPs which satisfy the eligibility criteria set forth in the Operations Manual for such projects, which shall include the following:
 - (i) the SSIPs and SSDPs shall be in compliance with the Recipient's laws and regulations relating to health, safety and environmental protection, including the Environmental and Social Management Framework;
 - (ii) the SSIPs and SSDPs shall be:
 - (A) equitable (with more than 50% of the Beneficiary community concerned benefiting in each case);
 - (B) cost effective (with at least 15 households in the Beneficiary community concerned benefiting in each case, and the cost per capita not exceeding Rs 5,000 in the case of an SSIP, or Rs 15,000 in the case of an SSDP);
 - (C) sustainable (being within the implementation and maintenance capacity of the Beneficiaries concerned);
 - (D) technically viable; and
 - (E) productivity enhancing or income generating in their objectives if SSIPs, or productivity enhancing in their objectives if SSDPs;
 - (iii) the SSIPs and SSDPs shall give preference to rehabilitation, modernization and/or extension of existing schemes rather than building new schemes where such an option exists;
 - (iv) the SSDPs, if supporting the provision of education, shall in addition:

- (A) be part of an education program to be implemented through community participation in decision-making, and in the provision of land or acceptable building structures and maintenance costs;
 - (B) support the establishment of schools in areas where the minimum number of enrollment is thirty (30);
 - (C) require the adoption of a curriculum that allows for the mainstreaming of children in public schools;
 - (D) require the local recruitment and adequate training of teachers, with emphasis on female teachers; and
 - (E) be based on comprehensive baseline data collected to identify areas that do not have educational infrastructure; and
- (v) the SSDPs, if supporting the provision of health services, shall in addition:
- (A) be part of a health program that focuses on children and women in particular, and on preventive and curative measures that support existing government programs;
 - (B) be implemented through community provision of acceptable building structures and maintenance costs;
 - (C) require the local recruitment of health staff;
 - (D) be based on comprehensive baseline data collected to identify the potential of primary and secondary health facilities to be supported; and
 - (E) be sponsored by Partner Organizations that have established linkages with philanthropists, NGOs and private sector organizations for the improvement of health facilities.

B. Terms and Conditions

Except as the Association shall otherwise agree:

1. Sub-loans shall be made on such financial terms and conditions as shall be determined by the Partner Organization 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 Partner Organization'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;

2. Livelihood Grants and Grants shall be made on a non-reimbursable basis, subject to the retention by the Partner Organization concerned of an amount not exceeding 15% of such Grants, to finance the Partner Organization's supervision costs;
3. Sub-loans shall not exceed Rs 75,000 each, or, if financed through the Enterprise Development Facility, Rs 150,000 each; and
4. Livelihood Grants, Sub-loans and Grants shall be denominated in Rupees.

C. Procedures

1. 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 Partner Organization and its contribution to the financing of the Subproject.
2. Partner Organizations shall pre-appraise the proposals for Subprojects received by them for financing in accordance with their own policies and procedures and the Operations Manual.
3. Partner Organizations shall appraise Subprojects in accordance with their own policies and procedures and the Operations Manual.
4. Partner Organizations 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 the Project Implementing Entity, and sufficient to cover the costs of all goods and works necessary to achieve the benefits expected to result from the Subprojects.
5. Partner Organizations shall approve Subprojects in accordance with their own policies and procedures and those set forth in the Operations Manual and shall submit to the Project Implementing Entity for review and approval, prior to entering into the relevant Subproject Financing Agreements:
 - (i) the first 10 Livelihood Plans;
 - (ii) the first 10 Micro-Credit Project Sub-loan proposals;

- (iii) the first 5 SSIP Grant proposals;
 - (iv) the first 10 SSDP Grant proposals; and
 - (v) Livelihood Plans and Sub-loan and Grant proposals for Subprojects not included in the eligible project list in the Operations Manual.
6. Partner Organizations shall evaluate the eligibility of Beneficiaries for participation in the Project in accordance with criteria satisfactory to the Project Implementing Entity, including those set forth in paragraphs A.1.a.i, A.2.a and A.3.a of this Part II.
7. Livelihood Grants to Community Livelihood Funds, Sub-loans and Grants shall be made on such terms as shall enable the Partner Organization concerned to obtain by written contract (Subproject Financing Agreement) with the Beneficiary concerned rights adequate to protect the interests of the Recipient, the Association, the Project Implementing Entity and the Partner Organization, including the right to:
- (i) require that the Subproject for which the Livelihood Grant, 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 the Anti-Corruption Guidelines and that adequate records to reflect the operations, resources and expenditures in respect of the Subproject be maintained;
 - (ii) require that:
 - (A) 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 2 to the Financing Agreement; and
 - (B) such goods, works and services be used exclusively in the carrying out of the Subproject for which the Livelihood Grant, Sub-loan or Grant is made;
 - (iii) inspect by itself, or jointly with the Project Implementing Entity and/or the Association, if the Project Implementing Entity and/or the Association shall so request, the goods, works, sites, plants and construction included in the Subproject for which the Livelihood Grant, Sub-loan or Grant is made, the operations thereof and any relevant records and documents;

- (iv) obtain all such information as the Partner Organization or the Project Implementing Entity or the Association shall reasonably request, regarding the administration, operation and financial condition of the Subproject for which the Livelihood Grant, Sub-loan or Grant is made;
 - (v) suspend or terminate the right of the Beneficiary to use the proceeds of the Credit for the Subproject for which the Livelihood Grant, Sub-loan, or Grant is made upon the failure by the Beneficiary to perform any of its obligations under the Subproject Financing Agreement or upon the Association declaring the Beneficiary as ineligible under the Anti-Corruption Guidelines; and
 - (vi) restitution by the Beneficiary of any amount of the proceeds of the Livelihood Grant, Sub-loan or Grant with respect to which fraud and corruption has occurred.
8. Livelihood Grants to Community Livelihood Funds and Grants shall be made on such additional terms as shall enable the Partner Organization concerned to obtain by written contract (Subproject Financing Agreement) with the Beneficiary concerned rights adequate to protect the interests of the Recipient, the Association, the Project Implementing Entity and the Partner Organization, including the right to require that:
- (i) the Beneficiary identify and approve the Livelihood Plan, SSIP or SSDP for which the Livelihood Grant or 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 Partner Organization clearly defined;
 - (iii) the Beneficiary contribute towards the capital cost of the SSIP and SSDP for which the Grant is made, such contribution varying according to the capacity to pay, but in any case not falling below 10% of such cost, provided, however, that, in case of a SSIP or SSDP financed in the aftermath of a natural disaster in the affected areas, the Beneficiary contribution can, at the Project Implementing Entity's discretion, be reduced or waived for a maximum period of two years from the occurrence of the disaster;
 - (iv) the Beneficiary collaborate with the Partner Organization in conducting a survey and costing of the Livelihood Plan, SSIP or SSDP for which the Livelihood Grant or Grant, as the case may be, is made;

- (v) the Beneficiary receive from the Partner Organization technical and other assistance during identification, planning and implementation of the Livelihood Plan, SSIP and SSDP for which the Livelihood Grant or Grant, as the case may be, is made, as well as operations and maintenance training on a need basis;
- (vi) the Beneficiary implement the Livelihood Plan, SSIP and SSDP for which the Livelihood Grant or Grant, as the case may be, 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 and SSDP for which the Grant is made;
- (viii) the Beneficiary implement the Livelihood Plan, SSIP and SSDP for which the Livelihood Grant or Grant is made, using its own human and material resources and not sub-contract the construction work to contractors, except works requiring skills not otherwise available to the Beneficiary;
- (ix) the Beneficiary submit its work to supervision and certification for quality and adherence to specifications by the Partner Organization, having the right to suspend payments under the Grant in respect of substandard 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 and SSDP for which Grant is made.