Development Grant Agreement

(Emergency Social Action Project)

between

DEMOCRATIC REPUBLIC OF CONGO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 26, 2004
DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated October 26, 2004, between DEMOCRATIC REPUBLIC OF CONGO (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, 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) the Project will be carried out by Le Fonds Social de la République Démocratique du Congo (FSRDC) with the Recipient’s assistance and, as part of such assistance, the Recipient will make available to FSRDC the proceeds of the grant provided for in this Agreement as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and FSRDC (the Project Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiary” means a community based organization, recognized under the laws of the Recipient, which has met the eligibility criteria set out in the MGM (as
hereinafter defined) and the requirements of Schedule 2 to this Agreement and as a result, has received, or is entitled to receive, a Micro-Grant (as hereinafter defined);

(b) “Board of Directors” means the board established in accordance with the FSRDC Decree (as hereinafter defined) to be maintained by Recipient to provide overall guidance and review and approve, inter alia, annual work plan for the implementation of the Project and referred to in paragraph 1 of Schedule 3 to this Agreement;

(c) “Coordination Unit” or “CU” means the unit within FSRDC (as hereinafter defined) in charge of overseeing the day-to-day implementation of the Project, as provided for in the FSRDC Decree (as hereinafter defined);

(d) “Displaced Persons” means persons who, on account of the execution of any Sub-project (as hereinafter defined), had or would have their: (i) standard of living adversely affected; or (ii) right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently;

(e) “Environmental and Social Management Framework” or “ESMF” means the document to be prepared by the FSRDC and adopted by the Recipient, consisting of a framework outlining the modalities for social and environmental screening of Subprojects (as hereinafter defined) and rules and procedures for the preparation and implementation of social and environmental assessments to be complied with, as the case may be, prior to carrying out a Subproject;

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

(g) “Le Fonds Social de la République Démocratique du Congo” or “FSRDC” means the Democratic Republic of Congo Social Fund, the social fund established pursuant to he Recipient’s decree number 009/2002 dated February 5, 2002 portant création et statuts d’un établissement public dénommé Fonds Social de la République Démocratique du Congo (the “FSDRC Decree”) to, among other things, improve the conditions of living of the population and of access to social services as well as to support income generation and employment to alleviate poverty and promote social and economical development;

(h) “Indigenous Peoples Development Plan” or “IPDP” means the document to be prepared by the FSRDC and adopted by the Recipient, defining specific measures to be implemented for pygmies in order to protect them and to ensure that members of said minorities be granted equal legal, financial and organizational opportunities under the Project;
(i) “Micro-Grants” means a grant to be made out of the proceeds of the Grant for a Beneficiary to finance a Sub-Project under Part A of the Project;

(j) “Micro-Grants Manual” or “MGM” means the manual setting forth eligibility criteria and procedure for Micro-Grants, as the same may be amended by agreement of the Parties from time to time, and such term includes any schedules to the MGM;

(k) “Procurement Plan” means the Recipient’s procurement plan, dated June 17, 2004, 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;

(l) “Project Financial and Accounting Manual” or “PFAM” means the manual outlining the financial and accounting arrangements for the implementation of the Project, as the same may be amended by agreement of the Parties from time to time, and such term includes any schedules to the PFAM;

(m) “Project Agreement” means the agreement of even date herewith between the Association and FSRDC, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement;

(n) “Project Operations Manual” or “POM” means the manual outlining, inter alia, responsibilities, procurement and contracting procedures for the implementation of the Project and including the MGM, as the same may be amended by agreement of the Parties from time to time, and such term includes any schedules to the POM;

(o) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on April 16, 2004 and on behalf of the Recipient on April 16, 2004;

(p) “Provincial Office” means each any FSRDC office established in provinces of the Recipient;

(q) “Resettlement Policy Framework” or “RPF” means the policy framework for land acquisition, compensation, resettlement and rehabilitation of Project Displaced Persons to be prepared by the FSRDC and adopted by the Recipient, as said policy framework may be amended from time to time with the prior concurrence of the Association;
(r) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(s) “Sub-Project” means a specific activity to be financed, or proposed to be financed through a Micro-Grant under Part A of the Project; and

(t) “Subsidiary Grant Agreement” means the agreement to be entered into between the Recipient and FSRDC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to forty one million one hundred thousand Special Drawing Rights (SDR 41,100,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Recipient on account of withdrawals made under a Micro-Grant to meet the reasonable cost of goods, works and services for a Sub-Project under Part A of the Project, in respect of which the withdrawal from the Grant Account is requested; and

(b) The Recipient 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 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.
Section 2.03. The Closing Date shall be March 31, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 of this Agreement.

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

Section 2.05. Commitment charges shall be payable semiannually on June 15 and December 15 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause FSRDC to perform in accordance with the provisions of the Project Agreement all the obligations of FSRDC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FSRDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Recipient shall make the proceeds of the Grant available to FSRDC under a subsidiary grant agreement to be entered into between the Recipient and FSRDC, under terms and conditions which shall have been approved by the Association.
(c) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. The Recipient and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by FSRDC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Within six months from the Date of Effectiveness, the Recipient shall have adopted the ESMF, RPF, and the IPDP satisfactory to the Association.

Section 3.05. Within six months from the Date of Effectiveness, the Recipient shall have appointed an accounting firm to assist in the fiduciary management of the Project with qualifications and experience satisfactory to the Association;
ARTICLE IV

Financial Covenants

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

(b) The Recipient shall, and shall cause FSRDC to:

(i) have the financial statements referred to in paragraph (a) of this Section for each semester (or other period agreed to by the Association) commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, 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 four months after the end of each such semester (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 semester (or such 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, 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 Grant Account were made on the basis of statements of expenditure, the Recipient shall:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least two years after the Association has received the audit report for, or covering, the semester in which the last withdrawal from the Grant Account was made;
enable the Association’s representatives to examine such records; and

ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient’s progress reporting obligations set out in paragraph 3 of Schedule 3 to this Agreement, the Recipient shall cause FSRDC 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 Grant, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

Section 4.03. The Recipient shall:

(a) have a technical audit, the conditions of which are defined in more details in the POM, carried out for each semester (or other period determined by the Association) to assess the performance of the Project and to review procurement, statements of expenditures, and immobilizations as well as verifying the physical existence of goods, equipments and services acquired throughout the Project, by independent technical auditors acceptable to the Association; and
(b) furnish to the Association as soon as available, but in any case not later than three months after the end of the semester (or other period determined by the Association) a report prepared by said technical auditors on said technical audit.

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) FSRDC shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that FSRDC will be able to perform its obligations under the Project Agreement.

(c) the FSRDC Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FSRDC to perform any of its obligations under the Project Agreement, or the implementation of the Project.

ARTICLE VI

Effectiveness; Termination

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

(a) the Subsidiary Grant Agreement has been executed on behalf of the Recipient and FSRDC;

(b) the Recipient has caused FSRDC to prepare and furnish to the Association the POM, including the MGM, and the PFAM in form and substance satisfactory to the Association;

(c) the Recipient has appointed independent auditors for the Project with qualifications and experience satisfactory to the Association;
(d) the Recipient has caused FSRDC to appoint fiduciary staff to the CU with qualifications and experience satisfactory to the Association including an Administrative and Finance Director, an Accountant, and an Assistant Accountant; and

(e) the FSRDC Decree has been amended in a manner satisfactory to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by FSRDC, and is legally binding upon FSRDC in accordance with its terms; and

(b) that the Subsidiary Grant Agreement has been duly authorized or ratified by the Recipient and FSRDC and is legally binding upon the Recipient and FSRDC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VII

Representative of the Recipient; Addresses

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

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

For the Recipient:

Minister of Finance
Ministry of Finance
Boulevard du 30 juin
BP 12997
Kinshasa I - Gombe
Democratic Republic of Congo

Facsimile:

243 880 23 81

For the Association:

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

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) (202) 477 6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF CONGO

By /s/ Mukendi Tambo a Kabila  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi  
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>410,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>1,090,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ Services</td>
<td>6,970,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>850,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Scholarships</td>
<td>2,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Micro-Grants</td>
<td>25,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Operating Costs</td>
<td>2,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(8) Refunding of Project Preparation Advance</td>
<td>410,000</td>
<td>Amount due pursuant to Section 2.02 (c) of this Agreement</td>
</tr>
<tr>
<td>(9) Unallocated</td>
<td>770,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>41,100,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

(a) the term “training” means the expenses incurred on *per diem*, travel, purchase of training materials and rental of facilities, and includes workshops and seminars for Beneficiaries and entities and organizations assisting in the carrying out of Sub-projects;
the term “scholarship” means expenses incurred to cover tuition, supplies, lodging expenses, and library fees for higher education; and

the term “operating costs” means the incremental operating costs arising under the Project on account of Project implementation, including vehicles operation and maintenance, communication, reasonable bank charges on the Special Account, rental expenses, office maintenance costs, equipment and office supplies, utilities, consumables, travel cost and *per diem* for Project staff, allowances, and accommodation and salaries of contractual staff of the Project, but excluding salaries of officials of the Recipient’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this Agreement; and (b) for a Micro-Grant under Category (6) unless the Micro-Grant has been made in accordance with the criteria and on terms and conditions set forth or referred to in the MGM and in the Project Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $150,000 equivalent per contract; (b) works costing less than $200,000 equivalent per contract; (c) services of individual consultants costing less than $50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $100,000 equivalent per contract; and (e) training and operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.
SCHEDULE 2

Description of the Project

The objectives of the Project are to improve access of social services to the poor and enhance management of development resources at the community level.

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

Part A: Infrastructure

1. Carrying out of community driven Sub-Projects in various sectors including education, health and nutrition, water, micro-irrigation, agricultural storage, rural transport, energy and environment through: (a) provision of Micro-Grants; (b) carrying out of information, education and communication campaign; (c) carrying out of workshops; and (d) provision of technical advisory services for Sub-Projects monitoring and evaluation.

2. Carrying out of community driven Sub-Projects to construct and rehabilitate infrastructure such as bridges and water systems in larger communities through provision of Micro-Grants.

3. Carrying out of socio-economic income generating activities in areas such as agriculture, fishing and petty trading through provision of Micro-Grants.

Part B: Capacity Building

Provision of support to entities and organizations that will assist in carrying out Sub-Projects strengthening their organizational, managerial and strategic skills through provision of technical advisory services and training.

Part C: Education

1. Provision of scholarships to top performing students based on state exams to cover tuition, supplies, and in some instances, first year of university level studies.

2. Promotion of low cost children and adults literacy activities and establishment of libraries through: (a) provision of book supplies; (b) facilitation of reading competition, book clubs and fairs and radio and television programs; (c) development of teachers
guide; (d) provision of training for teachers; and (e) construction of a central library and literacy center in Kinshasa.

**Part D: Project Coordination, Management and Outreach**

1. Facilitation of Project coordination and management at national and provincial levels including: (a) provision of operational support for existing Project implementation units at the national level and two provincial offices in Katanga and Equateur; (b) establishment of nine provincial offices; (c) strengthening capacity of FSRDC’s staff including techniques for working with communities, monitoring and evaluation and outreach and publicity campaign.

2. Carrying out of outreach and communication activities to inform beneficiaries, local government, and other stakeholders and disseminate information about Project objectives, components, opportunities and progress.

* * *

The Project is expected to be completed by September 30, 2008.
SCHEDULE 3

Implementation Program

1. The Recipient shall maintain at all times during the implementation of the Project, the FSRDC with a Board of Directors which shall be chaired by the Recipient’s President or his representative and include the Recipient’s Minister of Finance, FSRDC’s Coordinator and representatives from religious groups, nongovernmental organizations, private sector, beneficiaries and donors.

2. The Board of Directors shall be responsible for providing overall support, strategic guidance, approving annual work and budget for implementation of the Project.

3. The Recipient 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 as set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about July 15, 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 July 15, 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.
SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) through (7) 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 Grant 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 $6,000,000 to be withdrawn from the Grant 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 $3,000,000 until the aggregate amount of withdrawals from the Grant 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 15,000,000.

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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

   (b) (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

   (d) once the total unwithdrawn amount of the Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures, as the Association shall specify by notice to the Recipient. Such further withdrawals shall be
made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Recipient and the Association:

1. Increased number of poor with access to social and economic infrastructure.

2. 90% of Sub-Projects operational and maintained one year after completion.

3. By the end of the Project, 550 communities and local executing agencies with improved capacity for planning and implementing community development projects.
Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:
   (a) The term “Borrower” is modified to read “Recipient”.
   (b) The term “Credit” is modified to read “Grant”.
   (c) The term “Credit Account” is modified to read “Grant Account”.
   (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

   “Section 1.01. Application of General Conditions
   These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

   “3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:

   (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02 (a) is modified to read as follows:

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

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

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

(c) Section 4.03 is modified to read as follows:

“Section 4.03. Amount of the Grant

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

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

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

7. Section 6.02 is modified as follows:

(a) The words “development credit” in Section 6.02 (a) (ii) are deleted.

(b) The words “loan or guarantee” in Section 6.02 (a) (iii) are deleted.
(c) The words “development credit” and the word “loan”, wherever used in Section 6.02 (c), are deleted.

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

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

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

“Section 12.05. Termination of Development Grant Agreement.

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