Development Credit Agreement

(Rural Investment Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 23, 2004
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 23, 2004, between AZERBAIJAN REPUBLIC (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) the Borrower intends to contract from Japan a grant in an amount of $3,300,000 (the Japanese Grant) to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and Japan (the Japanese Grant Agreement); and

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 October 6, 1999) (the General Conditions), constitute an integral part of this Agreement: the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

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) “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Borrower and submitted to the Association on March 19, 2004, setting forth measures to mitigate any adverse impacts to the environment.

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

(c) “Manat” means the national currency of the Borrower;

(d) “Micro-project” means a specific development project or activity to be carried out by a Recipient, utilizing the proceeds of a grant under Part A of the Project;

(e) “Micro-project Committees” means the committees established in rural villages, assisting the villages to identify their priorities in formulating proposals for grants under Part A of the Project, consisting of approximately five to eleven voluntary members elected by the people in rural village(s).

(f) “Operational Manual” means the manual, satisfactory to the Association, setting forth the policies and guidelines as well as comprehensive operating procedures for the Project, including selection criteria and procedures for Part A of the Project and the functioning of the PMU, as the same may be amended from time to time by agreement between the Association and the Borrower;

(g) “PMU” means the Project Management Unit, to be established pursuant to the Order of the Agency for the Support of the Development of the Agricultural Private Sector of the Borrower and referred to in Section 6.01(a) of this Agreement, or any successor thereto acceptable to the Association;

(h) “Procurement Plan” means the Borrower’s procurement plan, dated March 31, 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;

(i) “Recipient” means a recipient of a grant under Part A of the Project, meeting the criteria referred to in paragraph 1 of Schedule 6 to this Agreement;

(j) “Regional Grant Approval Committees” means the committees which review the processing of all registered proposals and approve appraised proposals for the
respective region under Part A of the Project, consisting of representatives from local
government, local representatives of central government and civil society;

(k) “ROOs” means the Regional Operational Offices of the PMU;

(l) “Special Account” means the account referred to in Section 2.02(b) of
this Agreement; and

(m) “Working Group” means the committee established by the Agency for
the Support of the Development of the Agricultural Private Sector of the Borrower,
pursuant to Section 6.01(c) of this Agreement, and shall include representatives from the
central government, parliament and civil society, providing guidance on operational
procedures under 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 the Development Credit Agreement, an amount in
various currencies equivalent to ten million two hundred thousand Special Drawing
Rights (SDR 10,200,000).

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 services
required for the Project (except Part A 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 Borrower on account of withdrawals made
respectively by Recipients under a grant to meet the reasonable
cost of goods, works and services required for Part A of the
Project in respect of which the withdrawal from the Credit
Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in
Dollars a special deposit account in a 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 March 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 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 May 15 and November 15 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 May 15 and November 15 commencing November 15, 2014, and ending May 15, 2039. Each installment to and including the installment payable on May 15, 2024, 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 PMU 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 Operational Manual, the Procedure and Selection Criteria set forth in Schedule 6 and the Implementation Program set forth in Schedule 4 to this Agreement.

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 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 terms of reference 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;
enable the Association’s representatives to examine such records; and

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 of Schedule 4 to this Agreement, the Borrower shall cause PMU 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 event is specified:
(a) the Operational 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) The Japanese Grant Agreement shall have failed to become effective by September 30, 2004, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any 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 agreement providing therefor.

(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 event is specified, namely, that an event specified in paragraph (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions:
(a) The PMU has been established and its key staff, including operational specialists for community development, capacity building and management information system, have been appointed, satisfactory to the Association;

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

(c) the Working Group with broad stakeholder representation satisfactory to the Association has been established; and

(d) the Operational Manual satisfactory to the Association has been finalized and submitted to the Association.

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

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
Azerbaijan Republic

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 248423 (MCI) or (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 Baku, Azerbaijan Republic as of the day and year first above written.

AZERBAIJAN REPUBLIC

By: /s/ Abbas Aydin oglu Abbasov
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Donna Dowsett-Coirolo
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>13,600</td>
<td>90%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>231,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Consultants’ services including auditing services</td>
<td>129,000</td>
<td>75% of local expenditures for services of individual consultants domiciled within the territory of the Borrower, 95% of local expenditures for services of consulting firms within the territory of the Borrower and 85% of foreign expenditures for services of other individual consultants and consulting firms</td>
</tr>
<tr>
<td>(4) Training</td>
<td>35,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Grants</td>
<td>8,024,000</td>
<td>100% of amounts disbursed</td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule, the term:

(a) “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

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

(d) “grants” means financing of Micro-projects under Part A of the Project in accordance with the Operational Manual;

(e) “incremental operating costs” means operating costs incurred by the PMU and ROOs on account of Project implementation for communications, utilities, office supplies and maintenance, fuel and vehicle operation and its maintenance, salaries of support staff, excluding those who are civil servants, eligible social charges and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association; and

(f) “eligible social charges” means the contribution of the PMU to social charges assessed by the Borrower on the employment contracts with the PMU and ROOs.
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 (5), unless the management information system satisfactory to the Association has been installed in the PMU.

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 and works costing less than $100,000 equivalent per contract, except the first two contracts procured under shopping; (b) for services of individual consultants costing less than $50,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, except all the contracts procured under single source selection; (d) training; (e) grants; and (f) 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 objectives of the Project is to reduce poverty, improve living standards and increase use of infrastructure services in rural communities of the Borrower.

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: Infrastructure

Provision of grants to Recipients for improving living standards and increasing use of infrastructure services in accordance with the Operational Manual.

Part B: Capacity Enhancement

1. Provision of training and consultants’ services to assist selected communities, including Recipients, to build their capacity to implement Part A of the Project.

2. Provision of training and consultants’ services to assist the PMU and its ROOs to appraise and supervise Part A of the Project.

Part C: Project Management

Provision of consultants’ services, works, auditing services and goods to assist the PMU and its ROOs for the purposes of effective implementation of Project activities.

* * *

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

Procurement

Section I. General

A. All goods and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004, (the Procurement Guidelines), and with the provisions of this Schedule. If the Borrower employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants’ services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004, (the Consultant Guidelines), and with the provisions of this Schedule.

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 in accordance with the provisions of Section II of the Procurement Guidelines, and the following additional procedures:

   Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedure

   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 procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis
of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines and the following provision: for purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of quality in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a fixed budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for audits may be procured under contracts awarded on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association.
Section IV. Review by the Association of Procurement Decisions

A. Prior Review. Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants’ Services)
   (a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods and services (other than consultants’ services) procured on the basis of international competitive bidding.
   (b) The following prior review procedures shall apply to the first two contracts to be procured on the basis of shopping contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Association’s approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants’ Services Provided by Firms
   (a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract: (a) for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and (b) procured under single source selection.
   (b) Terms of reference for all consulting assignments for consultants’ services provided by firms shall be subject to the Association’s prior review.

3. Consultants’ Services Provided by Individual Consultants
   (a) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis): (A) estimated to cost the equivalent of $50,000 or more; and (B) selected for the key staff positions of the PMU: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association’s approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.
(b) The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association’s approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(c) Terms of reference for all consulting assignments for individual consultants shall be subject to the Association’s prior review.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants’ services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants’ services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.
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 September 30, 2006, 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 October 30, 2006, 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 in a timely manner.

3. By December 31, 2004, the Borrower shall have appointed an auditor satisfactory to the Association.

4. The Borrower shall cause the PMU to furnish to the Association, for its prior review and concurrence, the first four Micro-projects recommended for approval by each Regional Grant Approval Committee and any Micro-projects for $50,000 or above that is recommended for approval.
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) through (6) 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 $1,000,000 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 $500,000 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 5,000,000.

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

Procedure and Selection Criteria under Part A of the Project

1. Micro-projects under Part A of the Project shall be made available to:

   (a) municipalities;

   (b) community-based organizations registered as legal entities, which consist of representative of rural communities with populations of more than 1,000 and less than 10,000 (including clusters of smaller communities that add up to 1,000), eligible under the Operational Manual; or

   (c) any other associations and organizations as the Borrower and the Association may agree.

2. ROOs shall launch a promotion and outreach campaign, issue requests for Micro-project proposals and assist in preparation of Micro-project proposals.

3. Microproject Committees formed as part of community mobilization as defined in the Operational Manual shall submit proposals of Micro-projects to ROOs on behalf of their respective community.

4. ROOs shall appraise and evaluate Micro-project proposals based on the following: (a) impact on the community; (b) institutional capacity to implement the service intended by the Micro-project; (c) financing viability; and (d) technical and environmental safety.

5. Any Micro-projects involving land expropriation shall not be eligible for consideration.

6. ROOs shall register the results and forward the summary evaluation of proposals to the respective Regional Grant Approval Committee for their approval or rejection. Any members of the Regional Grant Approval Committees who may have a potential conflict of interest in a particular proposal shall recuse themselves from making a decision on that particular proposal.

7. The amount of individual grants shall be based upon the estimated cost of goods, works, services and operating costs that will be required for the Micro-project, and shall not exceed 90% of the overall costs of Micro-projects.
8. The Borrower shall take necessary actions, satisfactory to the Association, to ensure that, where proposals approved by the Regional Grant Approval Committees call for implementation of Micro-projects by community-based organizations that are not already registered as legal entities, the charters of such organizations shall be registered in accordance with the laws of the Borrower in a timely manner.

9. No expenditures referred to under paragraph 2 above shall be eligible for financing out of the proceeds of the Credit unless a grant agreement has been executed between the Recipient and the PMU.

10. Each grant agreement shall require the Recipient to, inter alia:

   (a) ensure that the grant funds are used exclusively for the purposes specified for the Micro-project approved by the Regional Grant Approval Committee;

   (b) provide no less than 10% of the total cost of the Micro-project, in cash or in kind;

   (c) maintain a financial management system, including records and separate accounts, in a format acceptable to the PMU, reflecting the operations, resources and expenditures related to the Micro-project;

   (d) procure the works, goods and services to be financed out of the proceeds of the grant in accordance with the Operational Manual, which is consistent with the Manual for Conducting Very Small Value Procurements under World Bank/IDA Small Grants, Loans and Credits (September 22, 2003);

   (e) allow the PMU or the ROO staff to inspect the sites, works and goods financed by the grant; and

   (f) agree to have the grant suspended or terminated upon the Recipient’s failure to perform the obligations set forth in the grant agreement, and be legally obligated, upon termination, to reimburse the PMU any grant received.