Development Credit Agreement

(Local Government Support Project)

between

THE UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 19, 2005
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 19, 2005, between THE UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated October 15, 2004 (the Letter of Sector Policy) describing a program designed to strengthen fiscal decentralization and upgrade urban infrastructure (the Program) and declaring the Borrower’s commitment to the execution of such Program; and

(B) 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; 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 May 1, 2004), (the General Conditions), constitute an integral part of this Agreement.

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) “CBG” or “Capacity Building Grant” means a grant made or to be made to a Participating LGA under Part A.2 of the Project, for purposes of implementing its Capacity Building Plan;

(b) “Capacity Building Plan” means a plan to be prepared by each Participating LGA setting forth proposed measures to build its capacity;
(c) “CDG” or “Capital Development Grant” means a non-sectoral transfer made or to be made to Participating LGAs to finance a Subproject;

(d) “CEMP” means the Community Environment Management Plan dated July 2004, setting forth the measures that have been identified to be undertaken during the implementation of Part B.1 of the Project to mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts, as the same may be amended from time to time with the agreement of the Association, and such term includes schedules to the said plan;

(e) “DLAs” or “Dar es Salaam Local Government Authorities” means the Dar es Salaam City Council, and the Ilala, Kinondoni and Temeke Municipal Councils;

(f) “Dar Agreement” means the agreement to be entered into among the Borrower and the DLAs for purposes of implementation of Part B of the Project in their respective areas of jurisdiction, as the same may be amended from time to time, and such term includes all schedules to the said agreement;

(g) “Dar Steering Committee” means the committee referred to in paragraph 3 (d) of Schedule 4 to this Agreement;

(h) “Dar Support Team” means the team created to support the implementation of Part B of the Project, and referred to in paragraph 2 (a) ii of Schedule 4 to this Agreement;

(i) “District” means an administrative area established pursuant to Section 6 of the Regions and Districts (Establishment Procedures) Act No. 12 of 1994, representing a designated area and population within the territory of the Borrower;

(j) “District Council” means a District Council established under Section 5 of the Local Government (District Authorities) Act No. 7 of 1982, as amended;

(k) “Eligible Categories” means Categories 1 through 7 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(l) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(m) “ESMF” means the Environmental and Social Management Framework dated March 26, 2004, approved by the Association, setting forth an environmental and social screening process that will enable Subproject implementers to identify and assess potential impacts and to propose appropriate mitigation, monitoring, and institutional measures designed to mitigate potential adverse environmental and social impacts, offset them, reduce them to acceptable levels, or to enhance positive impacts, and in accordance with which environmental management plans will be prepared and submitted to the National Environmental Management Council, supported by the PO-RALG, for its
approval, as the same may be amended from time to time with the agreement of the Association;

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

(o) “Fiscal Year” or “FY” means the Borrower’s fiscal year which commences on July 1 of each calendar year and ends on June 30 of the following calendar year;

(p) “FMM” means the Financial Management Manual, acceptable to the Association, setting forth the accounting and financial management policies and procedures to be utilized for the Project, as the same may be amended from time to time with the approval of the Association;

(q) “LG Act” means the Borrower’s Local Government (District Authorities) Act No. 7 of 1982, as amended, or the Local Government (Urban Authorities) Act No. 8 of 1982, as amended, either individually or collectively, as the case may be;

(r) “LGA” or “Local Government Authority” means a District authority or an urban authority established pursuant to the respective LG Act;

(s) “Local Government Capital Development Grant Steering Committee” or “LGCDG Steering Committee” means the committee to be established by the Borrower for purposes of Parts A and C of the Project, and referred to in paragraph 3 (a) of Schedule 4 to this Agreement;

(t) “Local Government Capital Development Grant Technical Committee” or “LGCDG Technical Committee” means the committee to be established by the Borrower for purposes of Parts A and C of the Project, and referred to in paragraph 3 (b) of Schedule 4 to this Agreement;

(u) “Local Government Capacity Building Consultative Group” means the group to be established by the Borrower for purposes of Parts A and C of the Project, and referred to in paragraph 3 (c) of Schedule 4 to this Agreement;

(v) “LLG” or “Lower Local Government” means a LGA that is below the level of a town, municipality or city in the case of an urban area and below the level of a District in the case of a rural area;

(w) “LLG Planning Guide” means the planning guide to be prepared by the Borrower for use by LLGs;

(x) “NEMC” or “National Environmental Management Council” means the Council established by the Borrower pursuant to the National Environment Management
Act No. 19 of 1983, as amended, with responsibility for environmental management policies, coordination and related functions;

(y) “Participation Agreement” means the agreement to be entered into between the Borrower and a LGA for purposes of providing a CDG and/or a CBG for the financing of a Subproject, modified as necessary in the respective case, as the same may be amended from time to time, and such term includes all schedules to the said Agreement;

(z) “Participating LGA” means a LGA that meets the eligibility criteria for participation in the Project;

(aa) “PIP” means the Project Implementation Plan (including the Project operations manual) specifying inter alia the procedures, timetables, procurement, disbursement, environmental and social management, and other implementation arrangements agreed upon by the Borrower and the Association, as the same may be amended from time to time with the approval of the Association;

(bb) “PO-RALG” means President’s Office – Regional Administration and Local Government;

(cc) “PO-RALG Support Team” means the team created to support the implementation of Parts A and C of the Project, and referred to in paragraph 2 (a) ii of Schedule 4 to this Agreement;

(dd) “Procurement Plan” means the Borrower’s procurement plan, dated October 1, 2004, covering the initial eighteen (18) month period 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 eighteen (18) month periods of Project implementation;

(ee) “Project Account A” means the account opened by the Borrower pursuant to Section 3.04 (a) of this Agreement, for purposes of providing its counterpart contribution for Parts A and C of the Project;

(ff) “Project Account B” means the account opened by the Borrower pursuant to Section 3.04 (a) of this Agreement, for purposes of providing its counterpart contribution for Part B of the Project;

(gg) “Project Accounts” means Project Account A and B;

(hh) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;
(ii) “Resettlement Action Plan” or “RAP” means the plan dated July 2004, approved by the Association for Part B of the Project, setting forth principles and procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with the said plan, as the same may be amended from time to time with the agreement of the Association;

(jj) “Resettlement Policy Framework” or “RPF” means the framework dated November 2003, approved by the Association, setting forth the governing framework for land acquisition, resettlement and compensation under Part A of the Project, and in accordance with which resettlement action plans will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the agreement of the Association;

(kk) “Special Account A” means the special deposit account opened for withdrawals in respect of expenditures made under Parts A and C of the Project, and referred to in Part B.1 of Schedule 1 to this Agreement;

(ll) “Special Account B” means the special deposit account opened for withdrawals in respect of expenditures made under Part B of the Project, and referred to in Part B.1 of Schedule 1 to this Agreement;

(mm) “Special Accounts” means the Special Account A and B, referred to in Part B of Schedule 1 to this Agreement;

(nn) “Subproject” means: (i) an investment in infrastructure financed or proposed to be financed through the CDG under Part A.1 of the Project; and/or (ii) a capacity building activity financed or to be financed from a CBG under Part A.2 of the Project;

(oo) “Tanzania Shilling” or “Tshs” means the currency of the Borrower; and

(pp) “Unplanned Areas” means areas which are settled spontaneously without formal land use plans.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-five million six hundred thousand Special Drawing Rights (SDR 35,600,000).

Section 2.02. 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, works and services required for 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) under Part A of the Project to meet the reasonable costs of goods, works and services required for the Subprojects in respect of which withdrawal from the Credit Account is requested.

Section 2.03. The Closing Date shall be June 30, 2008, 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 May 15, 2015 and ending November 15, 2044. Each installment to and including the installment payable on November 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 United States Dollars 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 PO-RALG, the Participating LGAs, and the DLAs, with due
diligence and efficiency and in conformity with appropriate administrative, financial, environmental, social and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of 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 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 the said provisions may be further elaborated in the Procurement Plan.

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

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

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

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

Section 3.04. The Borrower shall for purposes of making the counterpart contribution to the financing of the Project:

(a) open, or cause to be opened, and thereafter maintain, until the completion of the Project, Project Account A and B in Tanzania Shillings in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) deposit, or cause to be deposited, into the Project Account A an initial contribution of the Tanzania Shilling equivalent of three hundred fifty thousand Dollars ($350,000) and into Project Account B an initial contribution of the Tanzania Shilling equivalent of one hundred thousand Dollars ($100,000) by the Effective Date, as provided in Section 6.01 (a) of this Agreement;
(c) deposit, or cause to be deposited not later than April 1, 2005, a further contribution into Project Account A of the Tanzania Shilling equivalent of three hundred fifty thousand Dollars ($350,000) and into Project Account B the Tanzania Shilling equivalent of one hundred thousand Dollars ($100,000);

(d) thereafter, during each subsequent Fiscal Year of Project implementation, deposit, or cause to be deposited, into the Project Accounts by July 1, October 1, January 1 and April 1, such amounts as shall have been agreed upon with the Association; and

(e) ensure that amounts deposited into the Project Accounts shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Credit.

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 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and 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.

(d) Without limitation to the generality of Section 4.01 (b), the Borrower shall carry out an additional audit of the Participating LGAs, during each Fiscal Year of Project implementation, in accordance with terms of reference agreed upon with the Association. The said audit shall be carried out in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in paragraphs 8 (c) and (d) of Schedule 4 to this Agreement, the Borrower shall 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 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.

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) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The LG Act shall have been amended, suspended, abrogated, or waived so as to materially and adversely affect the ability of the Borrower, the Participating LGAs or the DLAs to perform any of their obligations.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified, namely, that the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) The Borrower has opened or caused to be opened, the Project Accounts and deposited the respective initial contributions referred to in Section 3.04 (b) of this Agreement;

(b) The Borrower has created the PO-RALG Support Team under terms of reference acceptable to the Association, and appointed thereto in accordance with the provisions of Section III of Schedule 3 to this Agreement, the following key staff with qualifications and experience satisfactory to the Association: Project coordinator/manager, financial management specialist/accountant, human resource development/institutional development specialist and an engineer with procurement experience;
(c) The DLAs have created the Dar Support Team under terms of reference acceptable to the Association, and appointed thereto in accordance with the provisions of Section III of Schedule 3 to this Agreement, the following key staff with qualifications and experience satisfactory to the Association: Project coordinator/manager, a revenue enhancement/operations and maintenance coordinator, community infrastructure upgrading coordinator, an engineer with procurement experience and a financial management specialist/accountant;

(d) The DLAs have each appointed a revenue enhancement/operations and maintenance coordinator within their respective finance departments;

(e) The Borrower shall have entered into the Dar Agreement with the DLAs, in a form and substance that is acceptable to the Association;

(f) The Borrower has submitted a LLG Planning Guide in a form and substance that is acceptable to the Association;

(g) The Borrower has established or caused to be established the LGCDG Steering Committee, the LGCDG Technical Committee, the Local Government Capacity Building Consultative Group, and the Dar Steering Committee under terms of reference that are satisfactory to the Association; and

(h) The Borrower has furnished to the Association the PIP in a form and substance that is satisfactory 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:

Ministry of Finance:

P. O. Box 9111
Dar es Salaam
Tanzania

Cable address: TELEGRAPH
Telex: 41329
Facsimile: (255) 222 11 77 90

For the Association:

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

Cable address: TELEGRAPH
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By /s/ Andrew Daraja
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nils Tcheyan
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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 for Part B.1 of the Project</td>
<td>3,900,000</td>
<td>100% of foreign expenditures and 85% of local expenditures</td>
</tr>
<tr>
<td>(2) Goods</td>
<td></td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(a) Part B</td>
<td>450,000</td>
<td>85% of local expenditures</td>
</tr>
<tr>
<td>(b) Part C</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>(3) Consultants’ services (including audits)</td>
<td></td>
<td>93%</td>
</tr>
<tr>
<td>(a) Part B</td>
<td>4,200,000</td>
<td></td>
</tr>
<tr>
<td>(b) Part C</td>
<td>2,100,000</td>
<td></td>
</tr>
<tr>
<td>(4) Training &amp; Workshops</td>
<td></td>
<td>93%</td>
</tr>
<tr>
<td>(a) Part B</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>(b) Part C</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>(5) CDGs under Part A.1 of the Project</td>
<td>16,700,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(6) CBGs under Part A.2 of the Project</td>
<td>1,600,000</td>
<td>100% of amounts disbursed</td>
</tr>
</tbody>
</table>
Amount of the Credit Allocated (Expressed in SDR Equivalent)                  % of Expenditures to be Financed

<table>
<thead>
<tr>
<th>Category</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(7) Operating Costs</td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>(a) Part B</td>
<td>750,000</td>
<td></td>
</tr>
<tr>
<td>(b) Part C</td>
<td>610,000</td>
<td></td>
</tr>
<tr>
<td>(8) Unallocated</td>
<td>4,290,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>35,600,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

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

(c) the term “Operating Costs” means the incremental operating costs arising under Parts B and C of the Project on account of Project coordination, implementation, and monitoring support activities carried out by the PO-RALG Support Team and the Dar Support Team, including office rent, equipment and office supplies, utilities, maintenance and operation of Project motor vehicles, travel allowances for Project staff and salaries of support staff, excluding the salaries of the Borrower’s civil service; and

(d) the term “Training and Workshops” means costs arising under Parts B and C of the Project for training materials, rental costs of training facilities, training workshops and workshops associated with other Project activities such as, monitoring and evaluation and the mid-term review referred to in paragraph 8 (d) of Schedule 4 to this Agreement.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $200,000 equivalent per contract; (b) works costing less than $250,000 equivalent per contract; (c) services of individual consultants costing less than $50,000
equivalent per contract; and (d) services of consulting firms under contracts costing less than $100,000 equivalent per contract; (e) training and workshops; and (f) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. 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;

   (b) expenditures under Category 5 unless the Participating LGAs have complied with the criteria, procedures, terms and conditions set forth or referred to in paragraph 5(e) of Schedule 4 to this Agreement; and

   (c) expenditures under Category 6 unless the Participating LGAs have complied with the criteria, procedures, terms and conditions set forth or referred to in paragraph 5(e) of Schedule 4 to this Agreement.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the quarter following the date of such request.

B. Special Accounts

1. The Borrower may open and maintain, in Dollars, Special Account A and B in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Accounts shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the respective 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) 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: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Accounts in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any 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 determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures
during the six-month period following such determination, 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 Accounts.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Accounts
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means: (a) with respect to Special Account A, for Categories 2 (b), 3 (b), 4 (b), 5, 6 and 7 (b) the amount equivalent to $2,000,000 to be withdrawn from the Credit Account and deposited into Special Account A pursuant to paragraph 2 of this Annex; and (b) with respect to Special Account B, for Categories 1, 2 (a), 3 (a), 4 (a) and 7 (a), the amount equivalent to $3,000,000 to be withdrawn from the Credit Account and deposited into Special Account B pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 respective 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 respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B

to

SCHEDULE 1

Operation of Special Accounts
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the quarter following the date of such reports.
SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems; and (b) increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operation and maintenance.

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: Support for Local Government Capital Development Grants System

1. Strengthening the delivery of infrastructure and services by Participating LGAs, through the provision of CDGs to finance Subprojects.

2. Strengthening the capacity of Participating LGAs, through the provision of CBGs to finance Subprojects targeted at the implementation of Capacity Building Plans.

Part B Community Infrastructure Upgrading and Local Revenue Enhancement/Operations and Maintenance Programs

1. Strengthening access to infrastructure and services to approximately sixteen (16) local communities living within the jurisdiction of the DLAs, through: (a) the financing of investments in infrastructure including roads, footpaths, drains, street lighting, public toilets, roads, drains, bridges and culverts; (b) implementation of a household sanitation program; and (c) enhancing the capacity of DLA staff in the areas of infrastructure upgrading and service delivery by providing technical advisory services to assist in inter alia carrying out studies and monitoring and evaluation, training and equipment.

2. Strengthening the capacity of the DLAs to increase own-source revenues through: (a) the design of a revenue enhancement program and provision of support to implement the said program; (b) carrying out tax base data collection and verification, and registration of taxpayers; (c) design and implementation of property tax reforms and administration systems; (d) implementation of an appropriate tax administration system for taxes other than property tax; (e) provision of training to build local capacity in revenue enhancement mechanisms; (f) monitoring and evaluation; (g) dissemination of lessons learnt; (h) preparation of the preliminary design of a demand driven revenue enhancement program for roll out to other urban local government authorities; (i) provision of support to DLAs in upgrading their planning and budgeting functions, and implementing operations and maintenance systems; and (j) provision of operational
support to the Dar Support Team in the coordination, implementation, and monitoring and evaluation of its part of the Project, including contract management, monitoring of performance indicators and carrying out of impact assessments.

Part C: Support to PO-RALG

Strengthening the operational capacity of the PO-RALG Support Team to support the carrying out of the coordination, implementation and monitoring and evaluation of the Project including *inter alia*: (a) annual performance assessments of the Participating LGAs; (b) the administration and monitoring of CDGs and CBGs; (c) operations and maintenance budgeting for purposes of local revenue generation; (d) monitoring of service delivery and maintenance by Participating LGAs; (e) local government capacity building and management programs; (f) Project monitoring and evaluation, and progress reporting; and (g) information dissemination.

The Project is expected to be completed by December 31, 2007.
SCHEDULE 3

Procurement

Section I. General

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

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

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

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

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

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $200,000 equivalent per contract and works estimated to cost less than $500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than $50,000 equivalent per contract and works estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Procurement from UN Agencies. Goods estimated to cost less than $50,000 equivalent per contract may be procured directly from the Inter-Agency Procurement
Services Agency in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement 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-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. 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.

3. 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.

4. 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 Association’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of $200,000 or more; (b) each contract for works estimated to cost the equivalent of $250,000 or more; (c) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and (d) each contract for individual consultants estimated to cost the equivalent of $50,000 or more. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

Part A: Project Management

1. General:

The Borrower shall ensure that the Project is carried out in accordance with the PIP, the FMM, and the LLG Planning Guide, and except as the Association shall otherwise agree, shall not amend or waive any provisions of the PIP, the FMM or the LLG Planning Guide, if such amendment or waiver may in the opinion of the Association materially or adversely affect the implementation of the Project.

2. Project Implementation:

(a) Staffing

(i) The Director of Local Government Coordination and the Dar es Salaam City Director shall have the overall implementation responsibility for Parts A and C, and Part B of the Project, respectively, and shall be supported in this regard by the PO-RALG Support Team and the Dar Support Team, as the case may be; and

(ii) The Borrower shall maintain the PO-RALG Support Team and the Dar Support Team for such period as shall be agreed with the Association, for the primary objective of building the capacity of the PO-RALG and the Dar LGAs to implement the Project. To this end, the Borrower shall ensure that the positions set forth in Section 6.01 (b) and (c) of this Agreement are at all times staffed by persons with terms of reference, qualifications and experience that is satisfactory to the Association.

(b) Roles of PO-RALG and the Dar LGAs

PO-RALG:

The Borrower shall cause the Director of Local Government Coordination to carry out tasks that shall include the following: (i) coordination of the overall implementation of the Project and provision of support to PO-RALG for the implementation of Parts A and C of the Project; (ii) preparation and implementation of work plans; (iii) preparation of budgets and semi-annual progress reports for Parts A and C of the Project; (iv) disbursement of funds in a timely manner for Parts A and C of the
Project; (v) financial management including preparation of FMRs for Parts A and C of the Project; (vi) procurement; (vii) monitoring and evaluation of the Project; and (viii) management of environmental and social impacts, in coordination with NEMC.

Dar LGAs:

For purposes of Part B of the Project, the Borrower shall cause:

(i) the Dar es Salaam City Director to carry out tasks that relate to the overall coordination of the implementation of this component or cross-cutting activities that involve more than one Dar LGA. Such tasks shall include: (A) preparation and implementation of work plans; (B) preparation of budgets and semi-annual progress reports; (C) disbursement of funds in a timely manner; (D) financial management, including preparation of FMRs; (E) procurement; (F) monitoring and evaluation; and (G) management of environmental and social impacts in coordination with NEMC; and

(ii) each Municipal Director to implement activities specific to their respective municipality including the tasks set forth in paragraph (i) above.

3. Committees:

Parts A and C of the Project:

(a) LGCDG Steering Committee:

(i) Membership: The Borrower shall maintain the LGCDG Steering Committee under terms of reference and with a membership composition that is satisfactory to the Association which shall include the Permanent Secretary, Prime Minister’s Office as the chair, and Permanent Secretaries from the Ministries of Finance, Water and Livestock Development, Health, Works, Ministry of Education and Culture, Ministry of Agriculture and Food Security, Ministry of Lands and Human Settlements Development, President’s Office-Planning and Privatization, and PO-RALG.

(ii) Role: The LGCDG Steering Committee shall meet at least quarterly and shall inter alia; (A) ensure that: Participating LGAs meet the required eligibility criteria and approve the corresponding grant allocations; (B) approve changes to the PIP;
and (C) make final administrative decisions on appeals made by LGAs.

(b) **LGCDG Technical Committee:**

(i) **Membership:** The Borrower shall maintain the LGCDG Technical Committee under terms of reference and with a membership composition that is satisfactory to the Association which shall include the Deputy Permanent Secretary, PO-RALG as the chair, and heads of departments from the Ministries of Finance, Water and Livestock Development, Health, Works, Ministry of Education and Culture, Ministry of Agriculture and Food Security, Ministry of Lands and Human Settlements Development, PO-RALG, President’s Office-Planning and Privatization, and representatives of the Association of Local Authorities of Tanzania, NEMC, participating development partners and Participating LGAs.

(ii) **Role:** The LGCDG Technical Committee shall meet at least quarterly and shall *inter alia:* (A) review workplans, budgets and progress reports prepared by PO-RALG; (B) review the annual performance reports to be prepared by the Borrower and referred to in paragraph 9 (a) of this Schedule; and (C) make recommendations to the LGCDG Steering Committee, as appropriate.

(c) **Local Government Capacity Building Consultative Group:**

(i) **Membership:** The Borrower shall maintain the Local Government Capacity Building Consultative Group under terms of reference and with a membership composition that is satisfactory to the Association, as further described in the PIP.

(ii) **Role:** The Local Government Capacity Building Consultative Group shall be responsible for reviewing the management and coordination of capacity building activities including *inter alia:* (A) assessment of LGA capacity building needs; and (B) standardization of training materials and quality assurance.
Part B of the Project:

(d) Dar Steering Committee:

The Borrower shall:

(i) Membership:

maintain the Dar Steering Committee under terms of reference and with a membership composition that is satisfactory to the Association which shall include the four DLA Directors and the Dar es Salaam Regional Administrative Secretary.

(ii) Role: cause the Dar Steering Committee to oversee the activities undertaken under Part B of the Project.

Part B Environmental and Social Measures

4. (a) Part A of the Project:

The Borrower shall cause the Participating LGAs to implement Part A.1 of the Project in accordance with the ESMF and the RPF. Without limitation to the generality of the foregoing:

(i) the Borrower shall ensure that an environmental and social impact assessment in a form that is satisfactory to the Association is carried out prior to the implementation of Subprojects financed from the CDGs;

(ii) in the event that the environmental and social impact assessment carried out under sub-paragraph 4 (a) i above determines that a proposed Subproject would have a potential negative environmental or social impact, the Borrower shall ensure that a management plan that is satisfactory to the Association is prepared and implemented to mitigate against the potential negative impacts; and

(iii) without limitation to the generality of sub-paragraph 4 (a) ii above, if it is determined that a Subproject would involve involuntary resettlement of persons or involuntary acquisition of land, the Borrower shall ensure that resettlement action plans that are satisfactory to NEMC is prepared and implemented for the benefit of the affected persons.
(b) **Part B of the Project:**

The Borrower shall ensure that Part B.1 of the Project is implemented in accordance with the CEMP and the RAP.

**Part C Terms and Conditions for Financing of Subprojects under Part A of the Project**

5. (a) Participating LGAs must meet the eligibility criteria agreed with the Association and set out in the PIP, including *inter alia* the demonstrated ability to manage funds and keep proper accounts, and to manage and implement projects.

(b) The Borrower shall enter into a Participation Agreement with each Participating LGA which shall set forth terms and conditions that include the following, modified as necessary, in the respective case of Subprojects financed by CDGs or CBGs:

(i) funds shall be provided on a non-reimbursable grant basis;

(ii) procedures for the disbursement of funds to the Participating LGAs, that are consistent with the provisions of this Agreement;

(iii) the Participating LGA must provide at least five (5%) of the CDG as its contribution;

(iv) the Participating LGA must address all the environmental and social impacts of proposed Subprojects in accordance with the terms and conditions set forth in this Agreement;

(v) the Participating LGA must carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, social and environmental standards and practices, and maintain adequate records;

(vi) the right of the Borrower to obtain all such information, records or documents as the Association or Borrower shall reasonably request relating to the implementation of a Subproject or to inspect either by itself or jointly with the Association, if the Association shall so request, the Subprojects;

(vii) the Participating LGA shall maintain adequate records reflecting the operations, resources and expenditures incurred under the Subprojects in accordance with sound accounting practices that are acceptable to the Association;

(viii) the Participating LGA shall procure the goods, works and services financed from the proceeds of the Credit in accordance
with the procedures agreed with the Association, and use these exclusively in the implementation of the Subprojects;

(ix) the right of the Borrower to suspend or terminate the right of a Participating LGA to the proceeds of the Credit upon failure by such LGA to perform its obligations under the Participation Agreement; and

(x) the right of the Borrower to increase or decrease the CDG in accordance with the outcome of the annual performance assessment.

(c) The Participating LGAs shall identify in a participatory manner the Subprojects to be financed using the CDGs. The Subprojects can only be for capital investments in infrastructure, as further described in the PIP, and cannot be used for recurrent expenditures, micro-credit, loan or grant schemes, or for the purchase of land. The Participating LGAs may use up to fifteen per cent (15%) of the allocated CDG for Subproject related costs including planning, appraisal, supervision, and monitoring and evaluation.

(d) The Participating LGAs must, prior to approving the proposed LDCDG financed Subprojects, carry out a Subproject appraisal in accordance with the procedures and criteria set forth in the PIP including *inter alia* that:

(i) the proposed Subproject is economically and technically viable in accordance with the standards specified in the PIP;

(ii) an environmental and social impact assessment has been carried out in accordance with the provisions of the ESMF and the RPF, and an environmental management plan or resettlement action plan prepared, as the case may be, to address any environmental or social impacts so identified; and

(iii) the proposed Subproject is in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

(e) In accordance with its system of Report Based Disbursements, the Association shall make quarterly disbursements to Special Account A, only after the Borrower provides the Association with such evidence as shall have been agreed with the Association that the following conditions have been met, such evidence to be provided at the commencement of each year of Project implementation, as reflected below:
CDG financed Subprojects:

(i) **First year: Effective Date to June 30, 2005**

(A) Submission of the signed Participation Agreements for such year;

(B) Preparation of an audit strategy by the Borrower’s Controller and Auditor General for use by the Participating LGAs; and

(C) Cash flow forecasts for FY 2004/05 for the CDGs.

(ii) **Second year: FY2005/06**

(A) Submission of signed Participation Agreements between the Borrower and any additional Participating LGAs and of any amendments to existing Participation Agreements; and

(B) Cash flow forecasts for FY 2005/06 for the CDGs and CBGs for Participating LGAs.

(iii) **Third year: FY2006/07**

(A) Submission by the Borrower of an annual performance assessment report that is satisfactory to the Association, to be prepared by PO-RALG on the utilization of the CDG and CBG grants financed during the first year of Project implementation;

(B) Submission of a schedule setting forth the amounts of CDGs released to Participating LGAs during the preceding FY, and the amounts to be released to Participating LGAs in the next FY;

(C) Certification that no reallocations, deviations in usage, suspension or partial suspension of funds has occurred with respect to funds previously released as compared against the indicative planning figures of Participating LGAs;

(D) Submission of signed Participation Agreements between the Borrower and any additional Participating LGAs and of any amendments to existing Participation Agreements;
(E) Cash flow forecasts for FY2006/07 for CDGs and CBGs for Participating LGAs; and

(F) Submission of a progress report on the implementation of the audit strategy referred to in paragraph 4 (e) (i) B by Participating LGAs.

CBG financed Subprojects:

Disbursements of CBGs shall only be made after the Borrower provides the Association with such evidence as shall have been agreed with the Association that the following conditions have been met: (a) submission of a Capacity Building Plan by the Participating LGAs; (b) submission of signed Participation Agreements or amendments to existing Participation Agreements; and (c) for FY 2007, confirmation that CBGs disbursed in the preceding year have been utilized for their intended purposes.

Part D: Terms and Conditions of the Dar Agreement

6. The Borrower shall enter into a Dar Agreement with the DLAs as specified in Section 6.01 (d) of this Agreement which shall set forth the following:

(a) roles and relationships among the Borrower and the DLAs, and among the respective DLAs;

(b) arrangements for the coordination of the implementation of Part B of the Project, including the management of Special Account B and Project Account B, and the role of the Dar Steering Committee;

(c) funds shall be provided on a non-reimbursable grant basis;

(d) procedures for the disbursement of funds to the DLAs, that are consistent with the procedures set forth in this Agreement;

(e) the DLAs shall implement Part B.1 of the Project in accordance with the terms and conditions set forth in the CEMP and the RAP;

(f) the DLAs shall carry out Part B of the Project with due diligence and efficiency and in accordance with sound technical, financial, managerial, social and environmental standards and practices, and maintain adequate records;

(g) the right of the Borrower to obtain all such information, records or documents as the Association or Borrower shall reasonably request relating to the implementation of Part B of the Project or to inspect either by itself or jointly with the Association, if the Association shall so request the infrastructure investments;
(h) the DLAs shall maintain adequate records reflecting the operations, resources and expenditures incurred under Part B of the Project in accordance with sound accounting practices that are acceptable to the Association;

(i) the DLAs shall procure the goods, works and services financed from the proceeds of the Credit in accordance with the procedures set forth in Schedule 3 to this Agreement, and use these exclusively in the implementation of the Project; and

(j) the right of the Borrower to suspend or terminate the right of a DLA to the proceeds of the Credit upon failure by such DLA to perform its obligations under the Dar Agreement.

Part E Training Programs under Part A.2 of the Project

7. The Borrower shall ensure that standardized training materials courses, acceptable to the Association, to be used for the provision of training to LGA staff are completed by April 1, 2005.

Part F Progress Reporting, Monitoring and Evaluation

8. (a) Annual Performance Assessments:

The Borrower shall carry out, in September of each year of Project implementation, an annual performance assessment of the Participating LGAs’ utilization of CDGs and CBGs that is satisfactory to the Association, to be used as a basis of determining the level of continuing participation of Participating LGAs in the Project. The Borrower shall submit to the Association a copy of an assessment report that is satisfactory to the Association, by no later than November 15 of each year of Project implementation.

(b) Procurement Assessment:

The Borrower shall carry out an independent review of procurement carried out under the Project, under terms of reference that are acceptable to the Association, no later than two years after the Effective Date of the Project, and submit to the Association a copy of such review promptly upon its completion.

(c) Semi-annual progress reports:

The Borrower shall prepare, under terms of reference satisfactory to the Association, semi-annual progress reports, on or about January 31 and July 31 of each year of Project implementation, and furnish to the Association copies of such reports for its review and comments. The Borrower shall undertake any corrective actions deemed
by the Association to be necessary to remedy any shortcomings identified in the implementation of the Project.

(d) **Mid-term Review:**

The Borrower shall:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, as further described in the PIP, the carrying out of the Project and the achievement of the objectives thereof;

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 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

(iii) review with the Association by November 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.
SCHEDULE 5

Performance Monitoring Indicators

1. At least thirty (30) Participating LGAs receive LGCDGs by FY2007/08.

2. Number of Participating LGAs with “clean” audit performance records.

3. Transfers to Participating LGAs are effected within the first thirty days of each quarter of each FY by FY2007/08.

4. Access to services provided under Part B.1 of the Project is improved as measured by:
   
   (a) the reduction in travel time from home to work/school/market/closest motorable road.

   (b) the reduction in the incidence of flooding of household premises.

   (c) the increase in frequency of waste collection.

   (d) the reduction in the number of plots without sanitation facilities.

5. DLA own-source revenues increase by fifty per cent (50%) by FY2007/08 and adequate funds are disbursed for purposes of operations and maintenance.