

CREDIT NUMBER 3446 SE

Project Agreement

(Social Development Fund Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SOCIAL FUND MANAGEMENT ASSOCIATION

Dated February 22, 2001

CREDIT NUMBER 3446 SE

PROJECT AGREEMENT

AGREEMENT, dated _____, 2001, between INTERNATIONAL
DEVELOPMENT ASSOCIATION (the Association) and SOCIAL FUND
MANAGEMENT ASSOCIATION (SFMA).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Senegal (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty three million six hundred thousand Special Drawing Rights (SDR 23,600,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that SFMA agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary administration agreement to be entered into between the Borrower and SFMA, the proceeds of the credit provided for under the Development Credit Agreement will be made available to SFMA on the terms and conditions set forth in said Subsidiary Administration Agreement; and

WHEREAS SFMA, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) SFMA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, 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 Association and the Borrower shall otherwise agree, SFMA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Project Agreement.

Section 2.02. 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 1 to this Project Agreement.

Section 2.03. (a) SFMA shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement; and

(b) for the purposes of Section 9.06 of the General Conditions and without limitation thereto, SFMA shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Association and SFMA, a plan for the sustainability of the Project, and
- (ii) afford the Association a reasonable opportunity to exchange views with SFMA on said plan.

Section 2.04. SFMA shall duly perform all its obligations under the Subsidiary Administration Agreement. Except as the Association shall otherwise agree, SFMA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Administration Agreement or any provision thereof.

Section 2.05. (a) SFMA shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Administration Agreement and other matters relating to the purposes of the Credit.

(b) SFMA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by SFMA of its obligations under this Agreement and under the Subsidiary Administration Agreement.

ARTICLE III

Management and Operations of SFMA

Section 3.01. SFMA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management acceptable to the Association and assisted by competent staff in adequate numbers.

Section 3.02. SFMA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. SFMA shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) SFMA shall maintain records and account adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) SFMA shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing

principles consistently applied, 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: (A) certified copies of said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably requested.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, SFMA shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system for the Project in order to enable SFMA, not later than 18 months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon completion of the action plan referred to in paragraph (a) of this Section, SFMA shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of SFMA thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 15 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify SFMA of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

For Social Fund Management Association:

Director General SFMA
Building Administratif
6ème étage
Dakar
République du Sénégal

Tel: 221 - 0 - 223694

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed under this Agreement on behalf of SFMA, may be taken or executed by its Director General or such other person or persons as SFMA shall designate in writing, and SFMA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By */s/ Theodore Ahlers*
Acting Regional Vice President
Africa

SOCIAL FUND MANAGEMENT ASSOCIATION

By */s/ Mamedou Mansour Seck*
Authorized Representative

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Theodore Ahlers

Acting Regional Vice President
Africa

SOCIAL FUND MANAGEMENT ASSOCIATION

By

/s/ Mamedou Mansour Seck

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.
2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, contracts for goods and works estimated to cost \$100,000 equivalent or more each shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods and works estimated to cost \$30,000 equivalent or more each shall be grouped in bid packages.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.



Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$0.5 million equivalent, and works estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Goods and works required for Microprojects financed through Beneficiary Grants made under Part A of the Project shall be procured in accordance with the Procedures Manual and procedures acceptable to the Association.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such

procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for: (i) goods and works estimated to cost the equivalent of \$100,000 or more; (ii) the first three contracts procured under Parts C1 and C2 of this Section; (iii) the first 50 Beneficiary Grant Agreements and the first 50 IGA Grant Agreements under Part C3 of this Section estimated to cost less than \$5,000 equivalent; and (iv) the first 20 Beneficiary Grant Agreements and IGA Grant Agreements under Part C3 of this Section estimated to cost \$5,000 or more equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$30,000 or less, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, SFMA shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, SFMA shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for financial audits of a standard nature estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for: (i) tasks performed by the Director, the Administrative and Financial Officer, the Microfinance Officer, the Monitoring and Evaluation Officer, the 5 Procurement Officers and the Officer in charge of Community-Based Organizations; (ii) lectures and small scale studies; and (iii) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3 Single Source Selection

Services for distance learning (teleconference) which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract estimated to cost the equivalent of \$75,000 or more; (ii) each contract under Part C2 of this Section estimated to cost the equivalent of \$30,000 or more; (iii) the first five contracts under Part C2 of this Section estimated to cost less than \$30,000 each; (iv) the first 5 contracts for consulting firms estimated to cost \$75,000 or less; and (v) contracts for audits, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

A: General

Reviews

1. SFMA shall:

(a) 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 3 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare and furnish to the Association a Project Implementation Plan and shall not amend such Project Implementation Plan or waive any provision thereof which, in the opinion of the Association will materially and adversely affect the implementation of the Project or the objectives thereof;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 1, 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;

(d) review with the Association, by December 1, or such later date as the Association shall request, the report referred to in paragraph (c) 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;

(e) carry out jointly with the Association on March 1 and on September 1 each year or as such later dates as shall be agreed by the Association, semiannual reviews of the procurement activities during the implementation of the Project;

(f) carry out jointly with the Association no later than 18 months after the Effective Date, a midterm review which shall: (i) assess the overall progress in the implementation of the Project; (ii) review the performance of the PFIs, the Beneficiary Communities and the CBOs; (iii) review the progress of performance monitoring indicators and trigger indicators for the second phase of the Project; and (iv) review compliance with the covenants set forth in this Agreement; and

(g) based on the reviews referred to in paragraphs (e) and (f) of this Schedule, prepare a revised action plan, satisfactory to the Association, for the further implementation of the Project and thereafter implement such action plan.

Institutional arrangements

2. SFMA shall maintain:

(a) (i) its internal structure consisting of the General Assembly, SFMU, RSFU, Community Development Support Unit (CDSU), Microfinance Support Unit (MSU) and the departmental level Technical Committees, which shall together be responsible for the implementation of the Project; and (ii) all its units with personnel having qualifications, technical expertise and experience satisfactory to the Association, including a Director; an Administrative and Financial Officer, a Microfinance Officer, a Monitoring and Evaluation Officer, 5 Procurement Officers and an Officer in charge of Community-Based Organizations;

(b) the General Assembly to oversee the activities of the SFMU. Unless the Association shall otherwise agree, the General Assembly shall be: (i) chaired by the Minister in charge of Family Affairs and National Solidarity; and (ii) comprise representatives of the following ministries and entities: Ministry of Finance and Economy, Ministry of Planning, Ministry of Youth, Association of Presidents of the Local Governments, Association of Women Groups and Association of Youth Groups; and

(c) (i) the Procedures Manual for the implementation of all components of the Project; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Procedures Manual; and (iii) not amend or waive any provision thereof which in the opinion of the Association will materially and adversely affect the implementation of the Project.

Execution covenants

3. SFMA shall :

(a) carry out a Participatory Poverty Assessment in each selected community prior to the appraisal of any MicroProject and Subproject;

(b) prepare and furnish to the Association, by September 30, 2001, required development plans regarding each Beneficiary Community and CBO for the implementation of the Program;

(c) furnish to the Association by September 30, 2001 the first beneficiary assessment report;

(d) furnish to the Association, by May 31, 2001, the result of the household budget survey and the associated poverty profile and a map of the Borrower's territory; and

(e) prepare and furnish to the Association by October 30 each FY or such later date as the Association shall request, an annual work program and budget for the following FY.

B: MicroProjects

Eligibility criteria for Microprojects

1. Without limitation to the provisions of paragraph 2 (c) of part A of this Schedule, no Subproject shall be eligible for financing out of the proceeds of the Credit unless the Technical Committees shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Procedures Manual that the Microproject satisfies the eligibility criteria specified in the Procedures Manual, which shall include the following:

(a) the Microproject shall be for social and economic services and infrastructure;

(b) the Microproject shall be technically appraised by the departmental Technical Committees and approved by SFMA;

(c) except as the Association shall otherwise agree, the Beneficiary Community shall provide:

(i) not more than 10% of the estimated costs of the Microproject for social services of which 5% mandatorily in the form of cash, and the rest in the form of materials, labor or other services; and

(ii) 5% of the estimated costs of the Microproject for infrastructure in the form of cash, materials, labor and other services; and

(d) the Microproject shall be in compliance with the standards set forth in the laws of the Borrower relating to health, safety and environmental protection.

Terms and conditions of the Beneficiary Grants

2. In financing Microprojects, SFMA shall enter into a Financing Agreement with the Beneficiary Community concerned under terms and conditions which shall include the following:

(a) financing shall be on a grant basis, not to exceed \$30,000 equivalent per Grant for Microprojects for social services and not to exceed \$35,000 for Microprojects for infrastructure;

(b) the requirement that the goods, works and services to be financed out of the proceeds of the Beneficiary Grant be procured in conformity with the provisions relating to community participation set forth in the Procedures Manual and that such goods works and services shall be used exclusively in the carrying out of the Microproject;

(c) the right of SFMA to inspect by itself or jointly with the Association the goods, works, sites, plants and constructions included in the Microproject, the operation thereof and any record or relevant document; and

(d) the right of SFMA to suspend or terminate the right of the Beneficiary Community to use the proceeds of the Credit upon failure by the Beneficiary Community to perform any of its obligations under the Financing Agreement.

C: Subprojects for Income Generating Activity

Eligibility criteria

1 Without limitation to the provisions of paragraph 2 (c) of part A of this Schedule, no Subproject for an IGA shall be eligible for financing out of the proceeds of the Credit unless SFMA shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Procedures Manual that the Subproject for an IGA satisfies the eligibility criteria specified in the Procedures Manual, which shall include the following:

(a) the Subproject for an IGA shall be for investment, development and economic projects;

(b) the Subproject for an IGA shall be technically appraised by the Technical Committees and approved by SFMA;

(c) except as the Association shall otherwise agree, the CBO shall provide no less than 10% of the estimated costs of the Subproject, of which 5% in the form of cash, and the rest in the form of materials, labor or other services; and

(d) the Subproject for an IGA shall be in compliance with the standards set forth in the laws of the Borrower relating to health, safety and environmental protection.

Terms and conditions of the IGA Grants

2 In financing Subprojects for an IGA, SFMA shall enter into an IGA Grant Agreement with the CBO concerned under terms and conditions which shall include the following:

- (a) financing shall be on a grant basis, not to exceed \$5,000 equivalent per Grant;
- (b) the requirement that the goods, works and services to be financed out of the proceeds of the IGA Grant, be procured in conformity with the provisions relating to community participation set forth in the Procedures Manual and that such goods works and services shall be used exclusively in the carrying out of the Subproject for an IGA;
- (c) the right of SFMA to inspect by itself or jointly with the Association the goods, works, sites, plants and constructions included in the subproject for an IGA, the operation thereof and any record or relevant document; and
- (d) the right of SFMA to suspend or terminate the right of the CBO to use the proceeds of the Credit upon failure by the CBO to perform any of its obligations under the IGA Grant Agreement.

D: PFIs and the Participation Agreements

Eligibility criteria and application procedures for PFIs

1 PFIs shall be eligible for financing out of the proceeds of the credit on a grant basis under a Participation Agreement, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Operating Manual indicating that the PFI satisfies the eligibility criteria specified in detail in the Procedures Manual, which shall include the following:

- (a) SFMA, with the assistance of external auditors and in consultation with the Association, shall be responsible for qualifying PFIs on the basis of an evaluation of the solvency, financial position, savings mobilization plan, prior record, intermediation capacity and reputation of each applicant.
- (b) Participation in the Project shall be open to all PFI licensed in the territory of the Borrower as a provider of microfinance services as well as such other institutions or organizations meeting the criteria of solvency, sound financial position and intermediation capacity as SFMA, in consultation with the Association, shall allow to participate in the Project.
- (c) PFIs shall be certified for initial participation in the Project and re-certified every 3 years for continued participation in the Project. For certification purposes the PFI applicant shall furnish, together with an application, all pertinent information described in the Procedures Manual and outlined in paragraph 2 hereafter.
- (d) SFMA shall have the right to revoke the certification to participate in the Project of any PFI found not to be in full compliance with the Project eligibility criteria or which shall have lost its registration with the authorities in the territory of the Borrower.

2. PFIs applying to participate in the Project shall be required to furnish to the auditors, SFMA and the Association the following written information:

(a) annual audited financial statements prepared in accordance with generally accepted accounting principles; provided that, with regard to new institutions, detailed financial projections satisfactory to SFMA may be accepted;

(b) unqualified opinion from external auditors, or if qualified, satisfactory explanation and action plan from the PFI for remedying the situation;

(c) a special eligibility assessment conducted by SFMA with the assistance of external auditors according to the criteria set forth in paragraph 3 hereafter; and

(d) such other information as SFMA, the auditors or the Association shall reasonably request.

3. (a) The Project eligibility criteria to be applied by SFMA and the external auditors in the evaluation of the performance of PFIs shall be, *inter alia*, as follows:

(i) review of the financial management of the institution including its credit controls, planning mechanisms, staffing and information systems;

(ii) assessment of capital adequacy compared to lending operations; and

(iii) intermediation capacity: the auditors shall review the capacity of the prospective PFI to effectively initiate, appraise, process, monitor and supervise future loans to Micro-Enterprises.

(b) The eligibility criteria set out in subparagraph (a) of this paragraph shall be subject to such changes as SFMA in consultation with the Association may determine.

Terms and conditions of Participation Agreements

1. Participation Agreements shall be made on terms: (i) whereby SFMA, acting through SFMA shall obtain, by written contract with the PFI or by other appropriate legal means, rights adequate to protect the interests of the Association and SFMA; (ii) and conditions which shall include the following:

(a) financing shall be on a grant basis, not to exceed \$35,000 equivalent per Grant;

(b) except as the Association shall otherwise agree, the PFI shall provide no less than 10% of the estimated costs of the Participation Agreement, of which at least 5% in the form of cash and the rest in the form of materials, or other services;

(c) the requirement that the goods (software), installation works and training services to be financed out of the proceeds of the grant be procured in conformity with the provisions set forth in this Schedule and detailed in the Procedures Manual and that such goods, installation works and training services shall be used exclusively in the implementation of the Participation Agreement;

(d) the right of SFMA to inspect by itself or jointly with the Association the goods, works, sites, plants and constructions included in the implementation of the Participation Agreement, and any record or relevant document; and

(e) the right of SFMA to suspend or terminate the right of the PFI to use the proceeds of the Credit upon failure by the PFI to perform any of its obligations under the Participation Agreement.

SCHEDULE 3

Performance Indicators

For the purpose of this Agreement, the performance indicators to be used for Project implementation are as follows:

<u>Output from each component :</u>	<u>Output indicators :</u>
1. Basic social services and infrastructure financed by the Social Fund, are demanded by tested communities.	<p>1.1 300 communities requesting Microprojects complying with SDF criteria.</p> <p>1.2 at least 75% of Microprojects funded and completed.</p> <p>1.3 at least 1/3 of Microprojects funded are in social service and in at least 75% of the funded Microprojects IEC modules on HIV/AIDS and STDs are delivered.</p>
2. The ability of the poor and vulnerable within the target communities to access credit and to seize income generating opportunities is increased.	<p>2.1 50% of vulnerable groups (CBOs) receiving technical and financial assistance (TA) under the project and having developed an AGR: (i) meet the PFIs credit criteria, (ii) have established a SCA which has collected the equivalent of at least 15% in average of the grant awarded.</p> <p>2.2 PFIs have met at least 75% of their objectives of expanding their customer portfolio in the VG as stated in their respective Participation Agreements.</p>
3. the capacity of CBOs to manage their own economic development and satisfy their socio-economic needs is improved.	<p>3.1 at least 75% of test community members (in VG) are aware of information flow between communities and 50% among them find it useful.</p> <p>3.2 75% of communities having received Grassroots Management Training methodology have established a structured and active management committee which is able to mobilize additional resources (human, financial, and technical).</p> <p>3.3 90% of CBOs/ Bcs follow transparent procedures.</p>

<p>4.A) VG and tested BCs are efficiently reached and serviced by a demand made to Social Development Fund (SDF).</p>	<p>4A.1 90% of VG within test communities satisfied with the services of the SDF and feel it is equitable and transparent.</p> <p>4A.2 the incidence of poverty for Beneficiary Communities and CBOs is reduced as shown from a decreasing index used in the baseline scenario. The determination of that index and the objective set for its regression will be agreed between the borrower and the Association.</p>
<p>4.B) the poverty analysis and monitoring system at the national level is operational.</p>	<p>4B.1 three annual poverty alleviation reports published.</p> <p>4B.2 database on poverty conditions.</p>