

PROJECT AGREEMENT

between

The Lutheran World Federation/Department for Mission and Development
(referred to as "LWF/DMD" acting on behalf of the supporting churches/agencies)

and

fill in:

(Project holder, referred to as the "PARTNER")

concerning the following project or program in the defined period
(referred to as "the Project"):

Project Number and Title

fill in:

CONTENTS:	1. Purpose and Components of the Agreement
	2. Funding of the Project
	3. Utilization of Funds and Budgetary Control
	4. Transfer of LWF/DMD funds
	5. Books of Account
	6. Financial and Progress Reports
	7. Audit
	8. Project Assets
	9. Right of Withdrawal and Restrictions
	10. Miscellaneous Provisions

1. Purpose and Components of the Agreement

- 1.1 The PARTNER and LWF/DMD enter into this agreement with the common objective of bringing the Project to a successful completion. The PARTNER shall be responsible for the implementation; LWF/DMD shall give its full support within the terms of this Agreement and in the framework of mutual Partnership.
- 1.2 The Letter of Approval and the Budget (Plan of expenditure and income) as agreed between the PARTNER and LWF/DMD form part of this Agreement. If any of the provisions of this Agreement is contrary to the Letter of Approval, the latter shall take precedence over this Agreement.

2. Financing the Project

2.1 In accordance with the agreed Budget, a Project shall be financed from one or more of the following sources:

- a) LWF/DMD multilateral network
- b) the PARTNER
- c) any other parties.

The total of the funds available to the Project is referred to as Project Funds.

2.2 The Project shall be financed out of the sources mentioned in clause 2. 1. in the ratio as determined in the Budget. If total actual expenditure is less than the budgeted total, the same ratio shall be applied, i.e. the contribution through LWF/DMD shall be reduced proportionately.

2.3 If the contribution from the PARTNER or from any other parties is higher than determined in the Budget, LWF/DMD reserves the right to reduce its contribution by an equivalent amount, unless the additional funds are used for project expenditure exceeding the agreed Budget.

2.4 Notwithstanding the above the contribution through LWF/DMD shall not exceed the amount in US Dollars as stated in the Budget and Letter of Approval.

2.5 The PARTNER shall inform LWF/DMD immediately if the own contribution from the PARTNER or if contributions from any other parties cannot be provided in the ratio as determined in the Budget. In that case this Agreement may be renegotiated or revoked (see also clause 9).

3. Utilization of Funds and Budgetary Control

3.1 Project Funds shall only be used for the purposes of the Project as specified in the Letter of Approval and the Budget.

3.2 Within the scope of this Agreement -including the Letter of Approval and the Budget- the PARTNER is free to develop the Project to achieve the best possible result. In order to achieve this, the PARTNER may decide to exceed individual expenditure items of the Budget by up to 20%, decreasing the funds available for other expenditure items of the Budget by an equivalent amount, whereby the agreed Budget remains unchanged and binding.

3.3 The PARTNER shall consult LWF/DMD as soon as possible if any of the following changes are considered necessary:

- a) substantial alterations to the project objectives, and/or substantial alterations of drawings and specification in case of construction projects, or

- b) circumstances that may result in expenditure on any budget item exceeding the agreed Budget by more than 20%, or
- c) additional expenditure not included in the agreed Budget.

Such changes shall require the prior written approval of LWF/DMD or may lead to re-negotiation of this Agreement (see also clause 9. 1).

LWF/DMD shall respond promptly if such alterations are proposed.

- 3.4 The PARTNER shall utilize Project Funds efficiently and economically.
- 3.5 The PARTNER shall obtain goods and services from the most economical and reliable supplier. This shall normally be assured by comparing offers from different suppliers before placing the order and in case of building projects by calling for tenders before entering into a contract. Preference shall be given to equivalent offers made in the respective country of the PARTNER. Equivalent offers from developing countries shall have preference over those from industrialized countries. Payments in advance to suppliers prior to delivery of goods or services may only be made or agreed upon if this is common practice or justified due to exceptional circumstances.
- 3.6 The PARTNER shall ensure the existence of proper internal procedures for the authorization of payments and that documentation of each transaction conforms to generally accepted accounting practices. Payments shall be authorized normally by at least two persons and evidence of it will be documented. Cash payments shall be avoided as much as possible.

4. Transfer of LWF/DMD funds

- 4.1 The PARTNER shall normally keep a separate bank account for the Project. The bank account will be in the name of the Partner, indicating that it is held for the purpose of the Project. If the Project includes the setting up of a revolving fund, a further separate bank account should be opened for repayments and re-utilization of the fund.
- 4.2 The contribution through LWF/DMD shall be released in installments for a period of up to 3 months in advance, taking into account the progress of the Project. The PARTNER shall prepare a written request stating the amount needed for the next three-month period. The requested amount shall be calculated on the basis of a cash flow projection taking into consideration the balance of Project income and expenditure (see note to clause 6.3 b) from the beginning of the Project. The request shall be signed by at least one authorized representative (see clause 10.3).
- 4.3 Upon notification of the arrival of funds by the bank, the PARTNER shall send LWF/DMD:
 - a) an acknowledgment of receipt of the transferred amount stating the actual equivalent in national currency, the local bank charges and the net amount credited to the bank account. The acknowledgment shall be signed by at least one authorized representative (see clause 10.2);
 - b) a copy of the respective bank advice.
 - c) when DMD transfers are not immediately converted into local currency the

PARTNER has to register actual proceeds in local currency and compile total actual proceeds in local currency when conversion was done in different batches. When conversion took place in banks, supporting documents covering the full LWF contribution need to be supplied. When conversion took place on the informal market, adequate registration procedures need to be put in place.

- 4.4 LWF/DMD shall process the first request for transfer of funds only after a duly signed copy of this Agreement and of the Audit Agreement (which also needs to be signed by the Auditor, see clause 7) has been returned to LWF/DMD. Any further requests for transfer of funds shall be processed by LWF/DMD only after the PARTNER has acknowledged the receipt of previous remittances and if the reporting is done according to this Agreement (see clause 6).
- 4.5 LWF/DMD may settle invoices from third parties on behalf of the PARTNER directly. A request by the PARTNER to LWF/DMD for directly settling invoices to third parties shall be signed by at least one authorized representative (see clause 10.3). If those transactions take place, LWF/DMD shall send a Debit Note to the PARTNER, which shall be reflected in the Project's books of account, and in the Financial Reports.
- 4.6 If LWF/DMD funds transferred to the PARTNER cannot be utilized for Project purposes within 6 months after receipt, the PARTNER shall inform LWF/DMD and explain the reasons. The PARTNER and LWF/DMD shall seek an acceptable solution (see also clause 9.3.d).
- 4.7 To avoid transfer of funds in excess of the ratio as agreed in the Budget, LWF/DMD will withhold up to 5% of its contribution until the final Financial and Progress Reports have been received and accepted by LWF/DMD.
- 4.8 The PARTNER shall account for interest arising from the project funds held by the PARTNER in the Financial Report. The interest may be utilized for additional project expenditure exceeding the agreed Budget, provided there are valid reasons and that LWF/DMD have given approval in writing. Otherwise LWF/DMD may reduce the contribution accordingly.

5. Books of Account

- 5.1 The PARTNER shall ensure that the Project Funds are kept separately from any other funds. The PARTNER shall keep proper documentation for all project transactions (see also clause 3.6) and maintain suitable books of account for the Project Funds in accordance with generally accepted accounting practices. The PARTNER shall prepare the Financial Reports (see clause 6) from these books of account.
- 5.2 The PARTNER shall introduce in the books of account a separate account head for each budget item and ensure that each transaction is correctly recorded under its proper account head. This applies even if an item exceeds the amount budgeted for this purpose. The partner shall at all times represent the book of accounts in line with the approved budget and represent the full budget in all financial reports.
- 5.3 In case of direct settlements made to third parties through LWF/DMD upon the PARTNER's request (see clause 4.5) LWF/DMD shall send a Debit Note to the PARTNER which shall then be recorded promptly into the books of account under the respective account head.

5.4 The PARTNER shall keep the books of account and the corresponding documents and vouchers for a minimum of ten years after LWF/DMD has confirmed in writing that the files of the Project have been closed.

6. Financial and Progress Reports

6.1 After the start of the Project (see clause 6.2) the PARTNER shall prepare Financial and Progress Reports at six-month-intervals. A Final Financial and Progress Report shall be prepared on completion of the Project. The LWF-DMD Guidelines for Narrative Reporting and the LWF-DMD Guidelines for Financial Reporting shall be closely adhered to.

6.2 The start of the Project is the date of the Letter of Approval unless otherwise stated. Expenditure prior to the agreed date are not accepted by LWF/DMD as Project expenditure.

6.3 Each Financial Report shall be based on the Project's books of account and shall contain (*see paragraph 1 in the Guidelines: Financial Reporting Forms*):

- a) Project income and expenditure¹ (including capital items but excluding depreciation) structured parallel to and in accordance with the items of the Budget for the six months reporting period
- b) Project income and expenditure accumulated amounts from the start of the Project till inclusive the present period under review (*see paragraph 3 in the Guidelines for Financial Reporting*) .
- c) Debit notes (see clause 5.3) and interest arising from project funds (see clause 4.8) shall be included.
- d) The balance of project funds (income minus expenditure¹) at the end of each reporting period.
- e) A statement of cash status showing the cash held on the Project's bank account and the cash in hand for the Project. If the total cash available does not tally with the balance of project funds (see clause 6.3 d), the statement shall explain the reasons and give the details of the relevant items that make up the difference.
- f) A confirmation that the funds have exclusively been used for the purposes of the Project as specified in the Letter of Approval and the Budget.

It is recommended that the PARTNER prepares the Financial Report using the standardized forms (sheet 1, 2, 3) for a Financial Report as prepared by LWF/DMD.

6.4 The PARTNER shall arrange for an annual audit of the Financial Reports (see clause 7)

6.5 The Progress Report shall be prepared in conformity with the LWF-DMD Guidelines for Narrative Reporting. The Progress Report shall contain the following paragraphs:

¹ *The Financial Report shall include all project-related income and expenditure as indicated in the Letter of Approval and the Budget. Also utilization of project funds for capital items needs to be listed at the corresponding budget heading as 'capitalized'. Instead of "income and expenditure", the Financial Report may as well be based on "receipts and payments".*

- a) Reporting of activities implemented against the work schedule plus reasons for deviation.
- b) Reporting on the expenditures against the activities.
- c) Reporting on achievements per (each) specific objective.
- d) Reporting on the methodology and strategy
- e) Reporting on significant changes in people's lives
- f) Reporting on the involvement and/or response of the target group (*project ownership*).
- g) Reporting on (each of the) 'conducive conditions' (assumptions in the project planning stage)
- h) Reporting on (each of the) 'critical factors' (those identified in the planning stage, plus those encountered unexpectedly)
- i) Reporting on the Human Resources involved in the project (availability, performance, hardships, motivation, etc.).

Explanation on the above paragraphs is provided in the Guidelines: the Narrative Reporting Form.

- 6.6 For construction projects: Photographs of constructions that are part of the Project shall be provided at regular intervals, showing the progress and finally the completion. Upon completion a statement concerning conformity with the approved drawings shall be provided by recognized technicians, while deviations are being explained.
- 6.7 The PARTNER shall submit a work plan for the next reporting period: an outline of the activities planned for the next 6 months should be attached to the narrative report.
- 6.8 The Financial and the Progress Report shall be signed by at least one authorized signatory of the PARTNER (see clause 10.2) and shall be received by LWF/DMD within 3 months after the end of the reporting period. If the PARTNER is unable to do so, LWF/DMD shall be informed about the reasons.
- 6.9 If for any reasons LWF/DMD considers it necessary to receive further information on the finances or the progress of the Project or about the PARTNER's organization in general (e.g. statements on financial activities etc.) the PARTNER shall make them available to LWF/DMD on request.

7. Audit

- 7.1 The PARTNER shall appoint an independent local Auditor, who is either a Chartered Accountant or a Certified Public Accountant or equivalent, to audit the accounts, the utilization of funds and the adherence to the Agreement.
- 7.2 The PARTNER, the Auditor and LWF/DMD shall enter into a tri-partite written agreement (Audit Agreement). LWF/DMD prepares an Audit Agreement in three copies and shall send it together with this Project Agreement to the PARTNER. The PARTNER shall return the 3 copies of the Audit Agreement duly filled in and signed by the legal representatives of the PARTNER and the Auditor to LWF/DMD along with this Agreement. After approval by LWF/DMD, one signed copy of the Audit Agreement shall be returned to each the PARTNER and the AUDITOR.

7.3 If either the PARTNER or LWF/DMD consider it necessary to terminate the contract with the Auditor and appoint another one, the prior consent of the other party is required.

7.4 The audit costs shall be paid by the PARTNER out of Project Funds.

8. Project Assets

8.1 Assets acquired with Project Funds shall be and remain the property of the PARTNER (or the beneficiaries according to the purposes of the Project) and shall be utilized only for the purpose of the Project.

8.2 The PARTNER shall maintain a register of all fixed assets of the Project. Proper records shall be kept for all other Project Assets for example, stocks, debtors, revolving funds and cash accounts.

8.3 Contributions to Revolving Funds need to be registered as 'expensed' under the respective budget heading and subsequently taken up as a fund under current assets in the balance sheet. The state of affairs including the summary of movements during the period need to be reported in a transparent format (DMD provides reporting sheet 4 for this purpose). The reporting should be geared to monitor especially 'receivability' of outstanding loans.

8.4 The PARTNER shall obtain adequate insurance cover for fixed assets according to the laws and common practice of the country concerned.

8.5 LWF/DMD's prior consent in writing is required if:

- a) the PARTNER wants to utilize Project Assets for any other purposes than those of the Project
- b) the PARTNER wishes to pledge or mortgage Project Assets
- c) the PARTNER wishes to wind up revolving funds and use such funds for other purposes.

If any of the above transactions results in proceeds being received by the PARTNER, these shall be accounted for separately as project income in the Financial Report.

8.6 If Project Funds or Project Assets are used for purposes other than those agreed in the Agreement, without LWF/DMD's prior consent, LWF/DMD shall be entitled to compensation from the PARTNER. The basis of calculation shall be the actual market value for assets, and the residual value for funds. LWF/DMD's share of the resulting total shall be in the same ratio in which LWF/DMD has provided funds to the Project.

8.7 If the PARTNER receives compensation in the case of dispossession or misappropriation of Project Assets, for instance expropriation or any other deprivation of use, LWF/DMD is entitled to receive a share of the compensation corresponding to the ratio in which LWF/DMD has provided funds to the Project.

9. Right of Withdrawal and Restrictions

- 9.1 The PARTNER and LWF/DMD shall inform each other, if circumstances beyond their control prevent a successful accomplishment of the Project. The PARTNER and LWF/DMD shall renegotiate the Project with the aim of pursuing it under changed objectives or with other activities or an adjusted budget (see also clause 3.3). If that is not feasible, the PARTNER and LWF/DMD may mutually agree to abandon the Project and a new arrangement shall be negotiated on the use of funds already transferred by LWF/DMD in consultation with the contributing churches/agencies.
- 9.2 If within one year from the date of the Letter of Approval project measures have not been started, this Agreement shall become null and void. Funding procedures shall have to be renegotiated should the PARTNER wish to commence the Project at a later date.
- 9.3 LWF/DMD may revoke funding of the Project, stop transfer of funds and reclaim funds already transferred or paid to third parties if:
- a) the information given by the PARTNER that formed the basis for funding, was incomplete or incorrect;
 - b) the funds are not used according to the terms of this Agreement;
 - c) the PARTNER does not provide the own contribution in the ratio of funding as determined in the agreed Budget;
 - d) the PARTNER does not use the funds transferred by LWF/DMD within the planned period;
 - e) the PARTNER does not submit the Financial Reports, Auditor's Reports, Progress Reports or any other relevant information to LWF/DMD within the stipulated time-schedule;
 - f) the PARTNER does not comply with any other stipulations of this Agreement without obtaining LWF/DMD's prior consent.
- 9.4 Furthermore, LWF/DMD may exercise an entitlement to interest of 6% per annum on the amount repayable to LWF/DMD under clause 9.3 from the date when entitlement to compensation starts to the date when compensation is paid.

10. Miscellaneous Provisions

- 10.1 In consultation with the PARTNER, LWF/DMD representatives as well as other persons authorized by LWF/DMD may visit the Project to see its progress and look at the books of account and records with prior notification in writing to the PARTNER. The PARTNER shall provide all necessary information and extend full cooperation for an evaluation of the project activities and financial transactions to date.
- 10.2 LWF/DMD may express the need for an evaluation exercise (internal, external,

participatory, etc.). The PARTNER normally prepares a first draft of Terms of Reference (ToR). LWF/DMD is entitled to contribute to the ToR and both parties shall agree on the final ToR. In all situations the PARTNER should send prior notification to LWF/DMD about evaluation exercises.

10.3 If any of the provisions of this Agreement is contrary to the law of the country concerned, the latter shall take precedence over this Agreement. The legal validity of the other provisions in this agreement shall not be affected.

10.4 The PARTNER shall inform LWF/DMD about the representatives who are authorized to cooperate with LWF/DMD on financial matters, particularly to request LWF/DMD for transfer of funds (see clause 4.2), to acknowledge receipt of the transferred amount (see clause 4.3) to request LWF/DMD for directly settling invoices to third parties (see clause 4.5) and to sign Financial Reports (see clause 6). The PARTNER shall inform LWF/DMD should any changes of authorizations take place during the implementation period.

10.5 The PARTNER and LWF/DMD shall inform each other about changes in the respective bylaws or if alterations in the office bearers of either of them take place.

10.6 This agreement can only be changed by mutual consent of the PARTNER and LWF/DMD evidenced in writing.

10.7 This Agreement becomes effective when signed and stamped by LWF/DMD and the PARTNER.

For LWF/DMD

For the PARTNER

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Drs. Jaap Schep, Secretary LWF-DMD/PIM

Geneva, January 30, 2006
(Date)

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(Place) (Date)