

CONFORMED COPY

LOAN NUMBER 4434 RO

Loan Agreement

(Social Development Fund Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated January 20, 1999

LOAN NUMBERR 4434 RO

LOAN AGREEMENT

AGREEMENT, dated January 20, 1999, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated November 6, July 29, 1998, from the Borrower describing a phased program (the Program) to alleviate poverty through measures to enhance the development of rural communities and disadvantaged groups, and declaring the Borrower's commitment to implementation of the Program;

(B) the Borrower has requested the Bank to support the execution of the Program through extension to the Borrower of loans up to the equivalent of \$20,000,000 over a period of four (4) years;

(C) to assist in financing the Program, the Borrower intends to obtain from the Council of Europe Social Development Fund (CESDF) a loan (the CESDF loan) in an amount equivalent to about \$10,000,000 under an agreement (the CESDF Loan Agreement) to be entered into between the Borrower Borrowerer and the CESDF; and

(D) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; which constitutes the first phase of the

Program;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as modified through December 2, 1997, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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

(a) "Beneficiary" means a recipient of assistance under the Project from SDF (as such term is hereinafter defined);

(b) "Grant Agreement" means the agreement to be concluded between RSDF and a Recipient (as these terms are hereinafter defined) and a Beneficiary in accordance with the provisions of Part B of Schedule 5 to this Agreement;

(c) "Operational Manual" means the Operational Manual to be adopted by RSDF to govern the selection of Recipients and Subprojects and to determine the terms applicable to assistance provided by RSDF under the Project;

(d) "Recipient" means any organization or agency eligible to receive and administer assistance in accordance with the RSDF law referred to in paragraph (ed) of this Section;

(e) "RSDF" means the Romanian Social Development Fund, established under the Borrower's Law Number 129 for the year 1998, as an autonomous public-interest agency, created by the Borrower to contribute to poverty alleviation in rural communities and among disadvantaged groups;

(f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(g) "Subproject" means the activities to be carried out by a Recipient in utilization of assistance made available to such Recipient under a Grant Agreement; and

(h) "GSG" means the General Secretariat of Government of the Borrower;

(i) "Subsidiary Implementation Agreement" means the agreement to be entered into between the Borrower, GSG and RSDF pursuant to the provisions of Part A (1) of Schedule 5 to this Agreement.;

(j) "Operational Manual" means the Operational Manual to be adopted by SDF to

govern the selection of Beneficiaries and Subprojects and to determine the terms applicable to assistance provided by SDF under the Project;

(k) "SDF" means the Social Development Fund of Romania, established under the Borrower's Law Number 129 for the year 1998, as an autonomous public-interest agency, created by the Borrower to contribute to poverty alleviation in rural communities and among disadvantaged groups;

(l) "Steering Committee" means the Steering Committee established for the management of SDF pursuant to SDF's Law Number 129 of the year 1998; and

(m) "Subproject" means the activities to be carried out by a Beneficiary in utilization of assistance made available to such Beneficiary under a Grant Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to ten million dollars (\$10,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of: (i) the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan; and (ii) withdrawals made on account of subproject under Part B of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 June 30, 2002, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. On or promptly after the Effective Date, the Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the borrower, withdraw from the Loan account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.067 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring

on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.056, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

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 SDFRSDF with due diligence and efficiency and in conformity with appropriate financial, engineering, administrative and poverty alleviation and social capital strengthening practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall cause SDFRSDF to carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall make the proceeds of the Loan available to SDFRSDF under a subsidiary implementation agreement (the Subsidiary Implementation Agreement) to be entered into between the Borrower, GSG and SDFRSDF, under terms and conditions which shall have been approved by the Bank, including those set forth in Part A (1) of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank and the Borrower shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive, the Subsidiary Implementation Agreement or any provision thereof.

Section 3.02. Except as the Bank and the Borrower shall otherwise agree, procurement of the goods, works and consultants' services required under the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower, acting through RSDF, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project and the Program; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, acting through RSDF, shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower, acting through RSDF, shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;

(iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request; and

(iv) (A) have the funds' flow system for the Project evaluated by an appropriate auditing firm acceptable to the Bank body not later than three months after the first disbursement from the Loan by March 31, 1999; (B) furnish to the Bank a report on such evaluation by said auditing body firm within one month after its completion; and by April 30, 1999; and (C) review with the Bank said report within one month of said report's submission to the Bank, and, thereafter, take all measures necessary to ensure the efficient flow of funds for the Project taking into account the Bank's views on the matter.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the

report of such audit as to whether the statements of year, together with the procedures their preparation, can be relied upon to withdrawals. contains a separate opinion by said auditors expenditure submitted during each fiscal and internal controls involved in support the related

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the Operational Manual shall have been amended, suspended, abrogated or waived without the Bank's prior consent; and

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

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

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Implementation Agreement has been executed on behalf of the Borrower, GSG and RSDFSDF; and

(b) the Borrower has furnished to the Bank a shortlist of auditors consultants and terms of reference satisfactory to the Bank for the performance of audit services in accordance with Section 4.01 (b) of this Agreement. the fee amount referred to in Section 2.04 of this Agreement has been paid by the Borrower to the Bank.

Section 6.02. The date one hundred and twenty (120) (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
17, Apolodor Street
Bucharest Romania

Telex:

11239

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Bucharest, Romania, the District of Columbia, United States of America, as of the day and year first above written.

ROMANIA

By /s/ Decebal Traian Remes

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Regional Vice President
Country Director Bulgaria and Romania Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Subprojects	8,000,000	82% of amounts disbursed under Grant Agreements
(2) Goods under Part A of the Project	200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 82% of local expen- ditures for other items procured locally
(3) Consultants' services including audits and training under	800,000	100%
(4) Operating costs under Part AB.2 of	100,000	100%

	the Project	
(5)	Unallocated	900,000
	TOTAL	10,000,000

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, works or services supplied from the territory of the Borrower; and

(c) the term "Operating costs" means expenditures incurred by RSDF on account of Part B(2) of the Project implementation including communications, local travel, per diem and accommodations, and such other expenditures as may be agreed upon by the Bank, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) any expenditures to be financed from the proceeds of the loan payments made for expenditures under Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of this Schedule until the fee amount referred to in Section 2.04 of this Agreement has been paid by the Borrower and to the Bank; (b) payments made for expenditures prior to the date of this Agreement; and and (cb) payments on account of any Grant Agreements under Part B of the Project unless such Grant Agreement has been approved in accordance with the provisions of the Operational Manual and the relevant provisions of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for the carrying out of subprojects costing less than \$300,000 equivalent each; (b) services of consulting firms under contracts costing less than \$100,000 equivalent each; and (c) services of individual consultants under contracts costing less than \$50,000; and (d) goods, and training and audits under Part A of the Project, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project constitutes the first phase of the Program which has the objective of alleviating poverty through measures and investments to improve living conditions in poor rural communities and among disadvantaged groups and to increase local capacity for organization and self-help.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: SDFRSDF Institutional Support

1. Implementation of measures to strengthen the capacity of SDFRSDF, including training, technical assistance and the financing of SDFRSDF's administration and operation costs.

2. Provision of technical and financial support to SDFRSDF for purposes of management of Project implementation.

Part B: Subprojects

1. The carrying out promotion, selection, implementation and supervision and carrying out in accordance with the criteria and principles set forth in the Operational Manual of Subprojects prepared by Recipient Beneficiaries.

2. Local Training and technical assistance to Recipients to promote, facilitate, appraise and supervise Subprojects Beneficiaries.

* * *

The Project is expected to be completed by September December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Date	Payment of Principal (US Dollars) *
June 15, 2004	210,000
December 15, 2004	215,000
June 15, 2005	225,000
December 15, 2005	230,000
June 15, 2006	235,000
December 15, 2006	245,000
June 15, 2007	250,000
December 15, 2007	260,000
June 15, 2008	265,000
December 15, 2008	275,000
June 15, 2009	285,000
December 15, 2009	290,000
June 15, 2010	300,000
December 15, 2010	310,000
June 15, 2011	320,000
December 15, 2011	325,000
June 15, 2012	335,000
December 15, 2012	345,000
June 15, 2013	360,000
December 15, 2013	370,000
June 15, 2014	380,000
December 15, 2014	390,000
June 15, 2015	405,000
December 15, 2015	415,000
June 15, 2016	425,000
December 15, 2016	440,000
June 15, 2017	455,000
December 15, 2017	465,000
June 15, 2018	480,000
December 15, 2018	495,000

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods shall be procured in accordance with 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 and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

International or National Shopping

1. Goods under Part A of the Project, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent,

may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines.

2. Goods under Part A of the Project, estimated to cost less than \$75,000 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. Works and Goods under Subprojects

Goods Minor and works required for the carrying out of subprojects under Part B.1 of the Project shall be procured by Recipients Beneficiaries (a) under national shopping procedures in the case of goods, and (b) on the basis of a comparison of prices obtained from at least three qualified domestic contractors in the case of works; all in accordance with the Procurement procedures set forth in the Operational Manual. Goods required for carrying out of subprojects under Part B.1 of the Project shall be procured by Recipients under National Shopping procedures. In exceptional cases, such as remoteness of the subproject site or unavailability of more than one source of goods, goods, goods up to an aggregate amount not to exceed five percent (5%) of the amount allocated to Category (1) of the table in paragraph 1 of Schedule 1 to this Agreement may, with the Bank's prior agreement, be procured through direct contracting procedures in accordance with the Procurement procedures set forth in the Operational Manual.

Part C: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to: (a) the first contract to be procured in accordance with each of the procedures referred to in Part B (1) and Part B (2) of this Schedule; (b) all contracts to be procured under direct contracting procedures; and (c) with respect to contracts to be procured, the procedures set forth in paragraphs 2 and 3 of appendix 1 to the Guidelines shall apply.

under subprojects: (i) the first three contracts for minor works and all contracts for works estimated to cost the equivalent of more than \$100,000 or more; and (ii) the first three contracts for goods and all contracts for goods estimated to cost the equivalent of more than \$75,000 or more, the following procedures shall apply: (A) prior to the selection of any supplier or the execution of any contract under shopping procedures or small works procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; (B) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (C) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

With respect to each contract under Part A of the Project not governed by paragraph 12 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Least-Cost Selection

Audit services, follow-up evaluations of Subprojects and services under Part B (2) of the Project, may be procured under contracts awarded on the basis of the procedures for least-cost selection of consultants, referred to in paragraph 3.6 of the Consultants' Guidelines.

2. Individual Consultants

Services for 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. Selection Under a Fixed Budget

Services for carrying out subprojects under Part B.1 of the Project may be procured by Recipients under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

Part D: Review by the Bank 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 Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) contracts for audit services, the procedures set forth in paragraphs 1, 2 and (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 \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) With respect to the first three contracts for services under subprojects, the procedures set forth in subparagraph (a) above and the procedures set forth in subparagraph (b) above shall apply to contracts for the employment of consulting firms and contracts for the employment of individual consultants respectively.

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 5

Implementation Program

Part A: Project Management

1. The Borrower shall assign the general responsibility for Project implementation to SDFRSDF under an Subsidiary Implementation Agreement to be entered into between the Borrower, and GSG and SDFRSDF under terms and conditions which shall have been agreed upon with the Bank and which shall include, inter alia, provisions whereby: (a) the Borrower, acting through GSG, shall make the proceeds of the Loan available to SDFRSDF in the form of a grant budgetary allocation; (b) SDFRSDF shall be required to implement the Project in accordance with the SDFRSDF Law, the Operational Manual and the provisions of this Loan Agreement; and (c) SDFRSDF shall be required as part of its responsibility for Project implementation: (i) to prepare and furnish to the Bank, by March 31 in each year, for its review and concurrence, an annual work program for the Project; (ii) to maintain the Project financial records and accounts and to arrange for the audit thereof; (iii) to prepare applications for withdrawal of the proceeds of the Loan; (iv) to assist the RecipientBeneficiaries in the preparation of bidding and contract documents for activities to be financed under the Grant Agreement; (v) to supervise the implementation of the Project, including supervising the progress of each Subproject; and (vi) to prepare and furnish to the Borrower and the Bank, starting in June 1999, semi-annual reports on the progress of Project implementation, based on the indicators set forth in the Program.

2. The Borrower shall ensure the adoption by the Steering Committee, on the basis of the SDFRSDF's Law, of an Operational Manual satisfactory to the Bank to govern SDFRSDF's activities under the Project. The Operational Manual shall cover such matters as: (a) eligibility criteria for RecipientsBeneficiaries; (b) the principles and procedures to be followed for the approval of Subprojects; (c) the terms and conditions to be included in the Grant Agreements; (d) the indicators to be utilized by SDFRSDF in monitoring the progress of the Project; and (e) the financial management system to be adopted by SDFRSDF to control the use of funds made available to it for purposes of the Project.

3. The Borrower shall cause SDFRSDF to ensure participation by RecipientsBeneficiaries, in accordance with the principles set forth in the Operational Manual, in the preparation of the Subprojects.

4. Tthe Borrower shall: (a) take all necessary measures to ensure conclusion of the CESDF Loan Agreement not later than Mayrch 31, 1999; or (b) formulate, by such date, alternative arrangements satisfactory to the Bank to ensure that all project funding requirements shall be adequately and timely met.

Part B: Funding of Subprojects

1. RSDF shall select Subprojects for financing from the proceeds of the Loan on the basis of an order of priority established in accordance with the criteria and procedures set forth in the Operational Manual.

2. RSDF shall provide financing for approved Subprojects on the basis of a standard agreement agreed upon with the Bank (the Grant Agreement), to be entered into between RSDF and each Recipient Beneficiary. The Grant Agreement shall include, inter alia:

(a) a description of the Subproject, together with an estimate of the cost thereof;

(b) the amount to be provided by RSDF to the RecipientBeneficiary to assist in the carrying out of the Subproject;

(c) the implementation schedule for the Subproject;

(d) the degree to which cost sharing, in accordance with the principles set forth in the Operational Manual, shall be required to be made by the RecipientBeneficiary with respect to the financing of the Subproject for the implementation of which assistance is provided to such RecipientBeneficiary under the Grant Agreement;

(e) the obligation of the RecipientBeneficiary to procure small works, goods and services to be financed under the Grant Agreement in accordance with the procedures set forth in the Operational Manual;

(f) the obligation of the RecipientBeneficiary to report to RSDF on the progress of Subproject implementation and to enable representatives of RSDF and of the Bank, if the Bank shall so request, to visit the facilities, construction sites or other activities to be financed under the Grant Agreement; and

(g) the obligation of the RecipientBeneficiary to maintain records and accounts for expenditures incurred under the Subproject and financed from the proceeds of the Loan made available to the RecipientBeneficiary under the Grant Agreement and to submit to RSDF at regular intervals statements with respect to such records and accounts.

3. RSDF shall: (a) obtain the Bank's prior approval of the first three Grant Agreements proposed by it in each of the Subprojects categories of infrastructure, income generation and social services Ssubprojects; and (b) include in the progress reports referred to in Ppartagraph A (12) (vif) above, based on externally contracted annual reviews of sample of completed Subprojects, information and analysis adequate to support the conclusion that the selection of Subprojects and of Recipients Beneficiaries and the determination of the terms and conditions of Grant Agreements are all made in accordance with the principles set forth in the Operational Manual.

Part C: Institutional Support

RSDF shall: (a) prepare and furnish to the Bank, for its review and concurrence, an action plan to increase the capacity of RSDF to perform the functions assigned to it under the RSDF's Law, including an estimate of RSDF's needs for technical assistance, training and operating equipment and facilities; (b) adopt such plan under a decision of the Steering Committee, taking into account the Bank's comments thereon; (c) thereafter implement such plan in accordance with a time-schedule satisfactory to the Bank.

Part D: Monitoring and Evaluation

The Borrower shall:

(1) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Program, the carrying out of the Project and of measures included in the Program;

(2) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about no later than September 15, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Part C, on the progress achieved in the carrying out of the Project and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(3) review with the Bank, by no later than November 15, 2000, or such later date as the Bank shall request, the report referred to in paragraph (2) of this Part, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (43) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount up to the equivalent of to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

