

CREDIT NUMBER 4082-MD

Development Credit Agreement

(Public Financial Management Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 7, 2005



CREDIT NUMBER 4082-MD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 7, 2005, between REPUBLIC OF MOLDOVA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;

(B) the Government of Sweden, through the Swedish International Development Agency (SIDA), has agreed to provide a grant in an amount not exceeding fourteen million two hundred seventy nine thousand nine hundred fifty Swedish Kronor (SEK 14,279,950) (the SIDA Grant) to assist in the financing of Part C of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Association as the administrator of grant funds provided by the Government of Sweden (the SIDA Grant Agreement);

(C) the Government of Netherlands has agreed to provide a grant in an amount not exceeding three million one hundred fourteen thousand three hundred ninety three Euro (Euro 3,114,393) (the Dutch Grant) to assist in the financing of Parts A, B and D of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Association as the administrator of grant funds provided by the Government of Netherlands (the Dutch Grant Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

- (b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

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

- (b) “Lei” means the lawful currency of the Borrower;

- (c) “MoF” means the Ministry of Finance of the Borrower or any successor thereto;

- (d) “Operational Manual” means the manual, satisfactory to the Association, setting forth the operational and administrative procedures for the implementation of the Project and referred to in Section 6.01 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Association;

- (e) “Procurement Plan” means the Borrower’s procurement plan, dated May 4, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

- (f) “PEO” means the project executive officer referred to in Section 6.01 (b) and paragraph 6 of Schedule 4 to this Agreement;

(g) “PO” means the project office, responsible for coordination and technical implementation of the Project, to be established by the Borrower and referred to in Section 6.01 (c) of this Agreement;

(h) “PSC” means the project steering committee to be established pursuant to paragraph 3 of Schedule 4 to this Agreement;

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

(j) “Task Force” means the team to be established by the Borrower under the Project and referred to in paragraph 4 of Schedule 4 of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to five million seven hundred thousand Special Drawing Rights (SDR 5,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set

by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2015 and ending May 15, 2045. Each installment to and including the installment payable on May 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01 (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the MoF with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall

carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

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

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
 - (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:
- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (ii) enable the Association's representatives to examine such records; and
 - (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 9 (b) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, (i) subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) the Operational Manual, satisfactory to the Association, has been adopted by the Borrower;

(b) the PEO has been appointed with terms of reference acceptable to the Association;

(c) the PO has been established by the Borrower and is fully operational, with structure, functions and staffing necessary to start implementation of the Project;

(d) the SIDA Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the Borrower to make withdrawals thereunder except only the effectiveness of the Development Credit Agreement have been fulfilled; and

(e) the Dutch Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the Borrower to make withdrawals thereunder except only the effectiveness of the Development Credit Agreement have been fulfilled.

Section 6.02. The date one hundred eighty (180) 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
7, Cosmonautilor Street
Chisinau 2005
Republic of Moldova

Telephone:

(37322) 238844

Facsimile:

(37322) 213508

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

REPUBLIC OF MOLDOVA

By /s/ Mihail Manoli

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Bermingham

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and equipment	5,500,000	100%
(2) Consultants' Services, including audit and training	<u>200,000</u>	100%
TOTAL	<u>5,700,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the effective and transparent management of public finances.

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

Part A: Budget Planning and Execution System

1. Improving budget formulation methodology by: (a) enhancing the Government's capacity to develop and analyze the medium-term macroeconomic and fiscal forecasts; (b) building capacity in program-based sectoral budget and sector program for developing a medium term expenditure framework; (c) developing an annual budget formulation methodology; (d) revising the Organic Law on Budget System and Budget Process; and (e) reorganizing the budget formulation function across the central Government.
2. Improving budget execution methodology by: (a) revising the budget classification system and the chart of accounts; (b) developing policy and associated legal requirements for operating the warrant system within the financial management information system (FMIS); and (c) developing and adopting accounting rules, policies and procedures based on international best practice and international public sector accounting standards, including financial monitoring and reporting.
3. Developing a new FMIS including: (a) streamlining operational and decision making procedures and structures; (b) training government financial managers and operational staff in new procedures, control features, and information capability associated with the new system; (c) conducting communication and coordination activities (seminars, events study tours) to foster system acceptance during FMIS implementation; (d) providing advice on technological, technical project management, and commercial aspects of contract management; (e) providing information to various stakeholders on FMIS design and implementation; (f) developing an integrated web-based software application, including analysis of functional requirements, software parameterization and customization; and (g) establishing an inter-ministerial public finance intranet, developing application software and establishing a central data warehouse.

Part B: Internal Control and Audit

1. Strengthening the normative and legal framework for internal control and audit by: (a) establishing national internal audit standards (NIAS) compatible with the international standards on professional practice of internal auditing and a Code of Ethics for internal auditors; (b) developing a normative and methodological framework on internal control environment in public agencies; (c) developing a methodology and a handbook on internal audit (including templates for internal audit plans, charter of internal audit units, report templates) to guide the work of internal auditors; (d) drafting a Law on Internal Audit and a package of secondary legislation; and (e) disseminating framework of internal control environment and training of managers.

2. Support in transformation of financial control into internal audit by: (a) developing a set of job descriptions and core competencies (skills) for the assistant auditor, auditor, and senior auditor or head of internal audit; (b) defining the civil service rank (qualification rank) for the head of internal audit corresponding to ranks of positions immediately below the highest organizational manager (e.g., director of department); (c) adopting a regulation on pay levels for internal auditors; (d) adopting a core syllabus of the theoretical knowledge and practical skills for the internal auditors, including: (i) an introduction to internal audit, risk and control; (ii) ethics, propriety, fraud and corruption; (iii) systems audit; (iv) audit management; and (v) general management; (e) assessing the training needs in the Department of Financial Control; (f) delivering a program of training courses and on the job training on the basis of the training needs; and (g) supporting the implementation of internal audit practices, including risk assessment, internal audit strategic and annual planning, conducting internal audits in ministries based on NIAS, and preparing the internal audit reports.

3. Support in expanding the internal audit to line ministries and sub-national entities by: (a) conducting an awareness-raising program on the internal audit function for senior officials of line ministries and local authorities and training on general management and internal controls; (b) selecting trainees for internal audit positions in line ministries based on the requirements set in the job description; (c) introducing legislative amendments in the structure and functions of line ministries to include the department/unit of internal audit; (d) conducting training and certification program for selected local trainers from the central Internal Audit Department through the train-the-trainer program; (e) delivering the training program to internal auditors from the line ministries and local authorities through the local certified trainers; (f) establishing a network of heads of internal audit under the coordination from the Central Internal Audit Department (CIAD); (g) amending the regulation on the CIAD to reflect their new role; (h) supporting the CIAD in its role and mentoring newly established internal audit units in the line ministries in planning and applying internal audit methodology; (j) conducting a certification program to confer the qualification of internal auditor; (i) establishing a Council of Internal Audit; and (k) developing and implementing specialized training for

selected auditors on information technology systems audits and introducing peer-reviews of internal auditors.

Part C: Training Capacity and Training

1. Developing a training curriculum on financial management, training of local trainers, and publishing of training materials and delivering of pilot training courses for public servants.

2. Establishing a Center for Civil Service Training at the Academy of Public Administration and strengthening its capacity in providing a high quality management, including financial management related skill-oriented training to civil servants, and implementing government-financed training programs.

Part D: Project Management, Monitoring and Evaluation

Provision of technical assistance, including auditing services, for the operation of the PO for purposes of the Project management, monitoring and evaluation.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement

Section I. General

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

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

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

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

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

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

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

B. Other Procedures

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

2. Selection based on the Consultants' Qualifications. Services for assignments which the Association agrees meet the requirements of paragraph 3.7 of the Consultant Guidelines may be procured under contracts awarded on the basis of Selection based on the Consultants' Qualifications in accordance with the provisions of paragraph 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for Goods estimated to cost the equivalent of \$100,000 or more procured on the basis of International Competitive Bidding or each contract for Goods, irrespective of cost, procured on the basis of Direct Contracting; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In

addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual and this Agreement.
2. The Borrower shall maintain the PO until completion of the Project with staff, resources and terms of reference satisfactory to the Association, and shall assign to it responsibility for overall Project coordination, including:
 - (a) financial management and disbursement, including preparation of withdrawal applications under the Credit;
 - (b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;
 - (c) maintenance of records and accounts related to the Project and arranging for the audit thereof;
 - (d) participation in administration of bidding procedures and of contracts under the Project;
 - (e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than forty-five (45) days after the end of each quarter, the first such report to be furnished to the Association not later than May 16, 2006; and
 - (f) preparation of FMRs for the Project as referred to in Section 4.02 of this Agreement.
3. The Borrower shall, not later than January 30, 2006 establish, and thereafter maintain until completion of the Project, with composition and under terms of reference satisfactory to the Association, the PSC, consisting of high level representatives from the key ministries, heads of central agencies involved in the Project, Rector of Academy of Public Administration, and other representatives as determined by the MoF. The PSC shall be responsible for reviewing the progress of the Project activities and advising on any policy issues related to the implementation of the Project.
4. The Borrower shall, not later than July 15, 2005 establish, and thereafter maintain until completion of the Project, with composition and under terms of reference satisfactory to the Association, the Task Force, consisting of heads of departments of the MoF, and the representatives of the Ministry of Economy and Commerce and Academy of Public Administration. The Task Force shall be responsible for timely and coordinated

implementation of the Project activities according to the Project implementation plan satisfactory to the Association.

5. The Borrower shall, not later than May 1, 2006 contract, and thereafter maintain until completion of the Project, under terms of reference satisfactory to the Association, a Senior Contract Management Consultant who shall be responsible for advising the PEO on issues related to the FMIS contract implementation.

6. The Borrower shall maintain the PEO until completion of the Project in a manner and under terms of reference satisfactory to the Association. The PEO shall be responsible for managing the activity of the PO and Task Force under the Project.

7. The Borrower shall take all necessary measures to implement the Project in accordance with the Operational Manual and it shall not assign, amend, abrogate or waive any provision of the Operational Manual without prior approval of the Association.

8. The Borrower, through PO: (a) shall provide to the Association by August 30 of each year, throughout the execution of the Project, a semiannual Project monitoring report to assess the efficiency of the Project; and (b) shall provide to the Association, by May 1 of each year, throughout the execution of the Project, an annual evaluation report based on a survey carried out each year, except for the first year, on the Project implementation, in such scope and such detail as the Association shall reasonably request, including a draft annual Project plan for the following year.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 30, 2008 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement:
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

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

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

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

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

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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