

CONFORMED COPY

LOAN NUMBER 4645 RO

Loan Agreement

(Social Development Fund Project – Phase II)

between

ROMANIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 16, 2002

LOAN NUMBER 4645 RO

LOAN AGREEMENT

AGREEMENT, dated January 16, 2002, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated November 6, 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, declaring the Borrower's commitment to implementation of the Program and requesting 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;

(B) the first phase of the Program has been supported by the Bank through a loan in an amount equal to \$10,000,000 pursuant to a loan agreement (4434-RO) dated January 20, 1999, between the Borrower and the Bank;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project) which forms part of the second phase of the Program, has requested the Bank to assist in the financing of the Project through provision of the second loan in an amount equal to \$20,000,000 and extending the period of Program implementation up to seven (7) years;

(D) to assist in financing the Program, the Borrower has obtained a grant (the DFID Grant) in an amount of \$1,000,000 from the United Kingdom on the terms and conditions set forth in an agreement between the British Department for International Development (DFID) and the Borrower (the DFID Grant Agreement) dated July 30, 2001, out of which an amount equivalent to \$250,000 will be used for financing the Project; and

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 October 6, 1999 (the General Conditions), constitute an integral part of this Agreement.

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) “Eligible Categories” means categories (1) through (4), set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) “Eligible Expenditures” means the expenditures for goods, services and Subproject Grants under the Project referred to in Section 2.02 of this Agreement;

(c) “Grant Agreement” means an agreement entered or to be entered into between RSDF and a Recipient (as these terms are hereinafter defined) for the purposes of Part A.1 of the Project and referred to in Part B.2 of Schedule 5 to this Agreement;

(d) “Law No. 129” means the Borrower’s Law No. 129, dated June 30, 1998, as may be subsequently amended;

(e) “Operational Manual” means the manual adopted by RSDF setting forth criteria and procedures for selection of Recipients and Subprojects and defining terms and procedures applicable to assistance provided by RSDF under the Project, including a standard Grant Agreement referred to in Part B.2 of Schedule 5 to this Agreement; as such manual may be amended from time to time upon the agreement with the Borrower and the Bank;

(f) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement; and

(g) “Recipient” means any organization or agency eligible to receive and administer assistance in accordance with the Law No. 129 and the Operational Manual;

(h) “RSDF” means the Romanian Social Development Fund, established under the Law No. 129, as a public-interest, non-profit entity with legal personality and enjoying administrative autonomy, or any legal successor thereto;

(i) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(j) “Steering Committee” means the nine-member committee established and operating within RSDF pursuant to the Law No. 129 and provisions of the Operational Manual;

(k) “Subproject” means the activities to be carried out by a Recipient utilizing the funds (Subproject Grant) made available to such Recipient under a Grant Agreement;

(l) “Subproject Grant” means a grant made or proposed to be made by RSDF to a Recipient for the carrying out of a Subproject under Part A.1 of the Project; and

(m) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and RSDF pursuant to the provisions of Part A (1) of Schedule 5 to this Agreement.

Section 1.03. Each reference in the General Conditions to the “Project implementation entity” shall be deemed as a reference to the RSDF.

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 twenty million Dollars (\$20,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (a) expenditures made (or, if the Bank 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 Loan; and (b) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Recipient under a Subproject Grant to finance the reasonable cost of goods, works and services required for the Subproject in respect of which the withdrawal from the Loan Account is requested.

Section 2.03. The Closing Date shall be August 31, 2006, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan.

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 2.07 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 2.06, 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 May 15 and November 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 RSDF with due diligence and efficiency and in conformity with appropriate financial, engineering, administrative and poverty alleviation 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 Bank shall otherwise agree, the Borrower shall, through RSDF, 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 RSDF under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and RSDF, 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 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 Agreement or any provision thereof.

Section 3.02. (a) The Borrower undertakes that Subproject Grants will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement and in the Operational Manual.

(b) The Borrower shall exercise its rights in relation to any Subproject Grant in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank and the Borrower shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. 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 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 related to 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 which shall be contracted not later than November 30, 2002;

- (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; and
- (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.

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower through RSDF, shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower through RSDF, not later than May 15, 2002, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by

said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) 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;
- (b) the Law No. 129 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;
- (c) a situation shall have arisen, which shall make it improbable that the Program or a significant part thereof will be carried out;
- (d) the Subsidiary Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the RSDF to carry out the Project;
- (e) the RSDF shall have failed to perform any of its obligations under the Subsidiary Agreement;
- (f)
 - (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the DFID Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the DFID Grant Agreement.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension,

cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the DFID Grant 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.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower and RSDF; and

(b) any event specified in paragraphs (a), (b), (c) and (d) 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 Agreement has been executed on behalf of the Borrower and RSDF;

(b) the Operational Manual has been modified in a manner satisfactory to the Bank; and

(c) the Steering Committee has selected a region and a host institution, satisfactory to the Bank, for the establishment of an RSDF regional branch referred to in Part A.6 of Schedule 5 to this Agreement.

Section 6.02. The date one hundred and twenty (120) 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 Public 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 Public Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

Facsimile:

401 312 6792

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)

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 Bucharest, Romania, as of the day and year first above written.

ROMANIA

By /s/ Mihai Nicolae Tanasescu
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink
Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Subproject Grants	18,880,000	84%
(2) Goods	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 84% of local expen- ditures for other items

			procured locally
(3)	Consultants' services		
	(a) for Part A.2 of the Project	500,000	55%
	(b) for Parts B.1 and C.2 of the Project	300,000	84%
(4)	Training		
	(a) for Part A.2 of the Project	138,000	84%
	(b) for Part B.2 of the Project	42,000	84%
	(c) for Part C.1 of the Project	40,000	100% of foreign expenditures
	TOTAL	<u>20,000,000</u>	

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 "training" means (i) fees of consultants, including educational or other institutions and organizations, that provide training services; and (ii) cost of study tours, cost of workshops, and related travel expenditures, and boarding, lodging and per diem allowances of training participants.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) 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 to the Bank;

(b) payments made for expenditures prior to the date of this Agreement; and

(c) payments under Category (1) set forth in the table in paragraph 1 of this Schedule in respect of a Subproject Grant unless the Subproject Grant has been provided pursuant to the Grant Agreement and in accordance with the procedures, terms and conditions set forth or referred to in the Operational Manual and in the relevant provisions of Schedule 5 to this Agreement.

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

B. Special Account

1. The Borrower, through RSDF, shall 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.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made in accordance with the provisions of the Annex to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

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

(a) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(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 (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of statements of expenditures.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the 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 sub-paragraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex
to
SCHEDULE 1**

Operation of Special Account

1. For the purposes of this Annex:

The term “Authorized Allocation” means the amount of \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Special Account’s Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account’s 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 in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

SCHEDULE 2

Description of the Project

The Project constitutes the second 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: Subprojects

1. Carrying out of Subprojects by Recipients in the following areas: (a) development and rehabilitation of small rural infrastructure; (b) delivery of community-based social services; (c) carrying out of income generating activities; and (d) carrying out of follow-up activities for Subprojects financed by RSDF during the first phase of the Program.
2. Assistance in capacity building at community level through preparation, facilitation, appraisal and supervision of Subprojects and provision of training.

Part B: Knowledge Sharing and Partnership Building

1. Assistance with collection, analysis and dissemination of information about Subproject benefits, carrying out information, education and communication campaigns, promotional initiatives and establishing networks between communities, local authorities, non-governmental organizations and community-based organizations.
2. Carrying out workshops and other training activities with governmental agencies on the lessons learned from RSDF operations.

Part C: Institutional Strengthening

1. Implementation of measures to strengthen the capacity of RSDF and establishment of decentralized regional units, through provision of training, equipment and technical assistance.
2. Provision of assistance to RSDF for monitoring and evaluation of Subprojects through: (a) strengthening of the management information system, establishment of a specialized monitoring unit within RSDF and financial audits; and (b) carrying out of impact evaluations with a special emphasis on building linkages with other Romanian institutions engaged in poverty reduction activities.

* * *

The Project is expected to be completed by February 28, 2006.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Date</u>	<u>Payment of Principal (US Dollars) *</u>
May 15, 2006	600,000
November 15, 2006	610,000
May 15, 2007	620,000
November 15, 2007	635,000
May 15, 2008	645,000
November 15, 2008	660,000
May 15, 2009	670,000
November 15, 2009	685,000
May 15, 2010	700,000
November 15, 2010	710,000
May 15, 2011	725,000
November 15, 2011	740,000
May 15, 2012	755,000
November 15, 2012	770,000
May 15, 2013	785,000
November 15, 2013	800,000
May 15, 2014	815,000
November 15, 2014	830,000
May 15, 2015	845,000
November 15, 2015	865,000
May 15, 2016	880,000
November 15, 2016	895,000
May 15, 2017	915,000
November 15, 2017	930,000
May 15, 2018	950,000
November 15, 2018	965,000

* The figures in this column represent the amount in US Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. International Shopping

Goods under Part C of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, shall 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. National Shopping

Goods under Part C of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 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, Goods and Services under Subprojects

Works, goods and services under Subprojects shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and procedures set forth in the Operational Manual.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (a) contracts for goods estimated to cost the equivalent of more than \$50,000 and to be procured in accordance with the provisions of Part B.1 and Part B.2 of this Section; (b) contracts for works estimated to cost the equivalent of more than \$100,000 to be procured under Subprojects, and (c) contracts for goods estimated to cost the equivalent of more than \$5,000 and to be procured under Subprojects through direct contracting, 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, as said procedures are set forth in the Operational Manual, 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 shopping and direct contracting procedures, as said procedures are set forth in the Operational Manual, 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.

3. Post Review

With respect to each contract under Part A of the Project not governed by paragraph 1 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 and January 1999 (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

Services for carrying out audit for 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. Selection Based on Consultants Qualification

Services and training estimated to cost less than \$100,000 equivalent per contract, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. 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.

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 RSDF under a Subsidiary Agreement to be entered into between the Borrower and RSDF under terms and conditions which shall have been agreed upon with the Bank and which shall include, inter alia, provisions whereby:

(a) the Borrower shall make the proceeds of the Loan available to RSDF in the form of a grant;

(b) RSDF shall be required to implement the Project in accordance with the Law No. 129, the Operational Manual and the provisions of this Loan Agreement; and

(c) RSDF 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, and prepare and submit Project Management Reports; (iii) to prepare applications for withdrawal of the proceeds of the Loan; (iv) to assist the Recipients in the preparation of bidding and contract documents for activities to be financed under the Grant Agreements; (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, not later than forty-five (45) days after the end of each second and fourth calendar quarter,

commencing on August 15, 2002, semi-annual reports on the progress of Project implementation, based on the indicators satisfactory to the Bank.

2. During Project implementation, the Borrower shall: (a) maintain RSDF with an organizational and management structure, staffing and resources which shall be adequate to enable RSDF to effectively implement the Project and which shall be acceptable to the Bank; and (b) obtain the Bank's prior approval for any changes in the personnel appointed for the positions of the RSDF executive director, financial manager, accountant, and procurement and management information system specialist, or the terms of their employment.
3. The Borrower shall maintain the Steering Committee during Project implementation, with a composition and terms of reference acceptable to the Bank, which shall provide oversight and policy guidance for Project implementation.
4. The Borrower, through RSDF, shall ensure that Subprojects shall be selected, approved, carried out and evaluated in accordance with the criteria and procedures set forth in the Operational Manual.
5. Not later than September 1, 2002, the Borrower shall cause RSDF to establish a monitoring and evaluation unit within its structure with the resources, staff and terms of reference acceptable to the Bank.
6. Not later than September 1, 2002, the Borrower shall cause RSDF to establish a regional branch in the region selected upon the agreement with the Bank.

Part B: Funding of Subprojects

For the purposes of carrying out Part A of the Project, the Borrower shall ensure that:

1. RSDF shall select Subprojects for financing from the proceeds of the Loan in accordance with the criteria and procedures set forth in the Operational Manual.
2. RSDF shall provide financing on a grant basis for approved Subprojects on the basis of a standard agreement agreed upon with the Borrower and the Bank (the Grant Agreement), to be entered into between RSDF and each Recipient. 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 Recipient 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 Recipient with respect to the financing of the Subproject for the implementation of which assistance is provided to such Recipient under the Grant Agreement;
 - (e) the obligation of the Recipient 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 Recipient 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 Recipient to maintain records and accounts for expenditures incurred under the Subproject and financed from the proceeds of the Loan made available to the Recipient 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 Subprojects from a category defined as "Follow-up Activities" in the Operational Manual; and (b) include in the progress reports referred to in Part A (1) (vi) 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 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: Monitoring and Evaluation

1. The Borrower, through RSDF, shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, no later than February 28, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) 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

(c) review with the Bank, no later than April 30, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) 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.

2. Not later than April 30, 2002, the Borrower shall cause RSDF to submit evidence satisfactory to the Bank that an updated management information system has become operational and it has included a revised set of qualitative and quantitative indicators acceptable to the Bank.