

CONFORMED COPY

CREDIT NUMBER 3395-MAI

Development Credit Agreement

(Privatization and Utility Reform Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 28, 2000

CREDIT NUMBER 3395-MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 28, 2000, between REPUBLIC OF MALAWI (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, has requested the Association to assist in the financing of the Project;

(B) Part C of the Project will be carried out by the Malawi Posts Corporation (MPC) with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement available to MPC, as set forth in this 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 and in the agreement of even date

herewith between the Association and MPC (the Project 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 October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "DSP" means the Borrower's Divestiture Sequence Plan of August 1997;

(b) "ESCOM" means the Electricity Supply Corporation of Malawi Limited, incorporated under the Borrower's Companies Act;

(c) "MPC" means the Malawi Posts Corporation, a body corporate established and operating pursuant to the Borrower's Communications Act, 1998;

(d) "MTL" means Malawi Telecommunications Limited, a company established under the Borrower's Companies Act, pursuant to the Borrower's Communications Act, 1998;

(e) "MOT" means the Borrower's Ministry of Transport and Public Works;

(f) "MOF" means the Borrower's Ministry of Finance and Economic

Planning;

(g) "MACRA" means the Malawi Communications Regulatory Authority, established and operating pursuant to the Communications Act, 1998;

(h) "EC" means the Electricity Council, established and operating pursuant to the Electricity Act, 1998;

(i) "MPC Business Plan" means the three-year business plan to be adopted by MPC and updated annually;

(j) "Point of Sale" means that the Borrower has taken the following steps; (i) invited firms to submit proposals; (ii) announced the results of the proposals submitted by bidders; and (iii) selected the winning bid;

(k) "Privatization Commission" means the Borrower's commission established and operating pursuant to the Public Enterprises (Privatization) Act, 1996;

(l) "Project Agreement" means the agreement between the Association and MPC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(m) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(n) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreements signed on behalf of the Association on April 12, 1999, and November 29, 1999, respectively and on behalf of the Borrower on May 6, 1999, and December 9, 1999, respectively;

(o) "Project Implementation Manual" means the Manual referred to in paragraph 1 of Schedule 4 to this Agreement containing, inter alia, work plans, training plans and procedures to be used for the purposes of the implementation of the Project, as they may be amended from time to time, in consultation with the Association, and such term includes any schedules to the Manual;

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

(q) "Subsidiary Grant Agreement" means the Agreement to be entered into between the Borrower and MPC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time.

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 the Development Credit Agreement, an amount in various currencies equivalent to twenty-one million eight hundred thousand Special Drawing Rights (SDR 21,800,000).

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 commercial 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.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2004, 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 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 April 15 and October 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 April 15 and October 15 commencing October 15, 2010 and ending April 15, 2040. Each installment to and including the installment payable on April 15, 2020 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 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 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 the 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:

(i) shall carry out Parts A, B and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, privatization practices, and with due regard to sound environmental practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project;

(ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause MPC to perform in accordance with the provisions of the Project Agreement all the obligations of MPC therein set forth, shall take or cause to be taken all action including the provision of funds, facilities, services and

other resources, necessary or appropriate to enable

MPC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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.

(c) The Borrower shall make the proceeds of the Credit for Part C of the Project available to MPC under a subsidiary grant agreement to be entered into between the Borrower and MPC, under terms and conditions which shall have been approved by the Association.

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

Section 3.02. The Borrower shall, until completion of the Project, provide to MPC a subvention in accordance with the MPC Business Plan up to a maximum amount equivalent to \$3,000,000.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04 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 continued achievement of the Project's objectives; and

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

Section 3.05. The Borrower shall: (a) carry out a study to determine whether or not to proceed with the creation of a multi-sectoral regulatory body; and (b) shall by December 31, 2001, furnish to the Association its decision.

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 a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower 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 Association, consistently applied, by independent auditors acceptable to the Association;

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

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, 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 Project Management Reports or statements of expenditure, 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 Association has received the audit report for 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;

(iii) enable the Association'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 Project Management Reports or statements of expenditure submitted during such 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 shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B)

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

(ii) (A) describes physical progress in Project _____ implementation, both cumulatively _____ and for the period covered by said report, and (B) explains variances between _____ the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under _____ contracts financed out of the proceeds of the Credit, as at the end of the _____ period covered by said report.

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that the Borrower's Public Enterprises (Privatization) Act, 1996 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Privatization Commission to perform any of its obligations under the Project.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has adopted the Project Implementation Manual in form and substance satisfactory to the Association.

Section 6.02. The date ninety (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 the Borrower at the time responsible for Finance 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
P. O. Box 30049
Capital City
Lilongwe 3
Malawi

Facsimile:

Cable address:

Telex:

789 173

FINANCE

44407 MI

(265)

Lilongwe

For the Association:

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

Facsimile:

Cable address:

Telex:

477-6391

INDEVAS

248423 (MCI) or

(202)

Washington, D.C.

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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MALAWI

By /s/ Tony Kandiero

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox

Acting Regional Vice President
Africa

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Consultants' services training and audit		100%
(a) Under Part A of the Project	10,050,000	
(b) Under Part B of the Project	1,730,000	
(c) Under Part C of the Project	1,200,000	
(d) Under Part D of the Project	770,000	
(2) Vehicles and equipment		100% of foreign expenditures and 90% of local expenditures
(a) Under Part A of the Project	70,000	
(b) Under Part B of the Project	2,065,000	
(c) Under Part C of the Project	3,460,000	
(d) Under Part D of the Project	265,000	
(3) Operating costs Under Part A of the Project	200,000	
(4) Refunding of Project Preparation of Advance	1,000,000	Amount due pursuant to Section 2.02 (c) this Agreement
(5) Unallocated	990,000	
TOTAL	21,800,000	

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 or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental expenses

incurred on account of Project implementation, management and monitoring, including office supplies, vehicles and equipment operation and supervision costs but excluding salaries of officials of the Borrower.

3. 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, except that withdrawals, in an aggregate amount not exceeding \$500,000, may be made in respect of Categories (1), (2) (a) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 1, 2000.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and services of consultant firms under contracts costing less than \$100,000 equivalent each; (b) services of individual consultants under contracts costing less than \$50,000 equivalent each; and (c) training and operating costs, 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 improve the quality of access to economic and physical infrastructure for private sector development.

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: Privatization

1. Telecommunications - Development of privatization options for Malawi Telecommunications Limited and bringing it to the Point of Sale, through the provision of technical advisory services.
2. Electricity - Divestiture of the generation and distribution businesses of ESCOM, through the provision of technical advisory services.
3. Urban Water Supply - Divestiture of the Lilongwe and Blantyre Water Boards based on private sector participation options developed by the Borrower.
4. Support for the Borrower's Divestiture Sequence Plan through the provision of technical advisory services, training and vehicles.

Part B: Regulatory Institutions

1. Malawi Communications Regulatory Authority - Strengthening the capacity of MACRA through the provision of technical advisory services, training and the acquisition of spectrum frequency monitoring equipment.
2. Electricity Council - Strengthening the capacity of the EC in economic regulation through the provision of technical advisory services and training for EC staff, and the acquisition of safety and standard monitoring equipment and vehicles.
3. Railways Regulation - Establishment of a work program and support for the railways regulator in MOT.
4. Cross-sectoral regulatory issues - Establishment of a policy framework and institutional arrangements for cross-sectoral regulatory

issues, through the provision of technical advisory services and training.

Part C: Postal Sector

Supporting the Malawi Posts Corporation in the area of financial sustainability and in carrying out investment and institutional improvements, through the provision of technical advisory services, training and the acquisition of postal and information technology equipment and vehicles.

Part D: Pre-Privatization Assistance

1. Year 2000 compliance assistance for MTL through the provision of technical advisory services and the acquisition of equipment.

2. Carrying out of a tariff rebalancing study, preparation of separate accounts for strategic business units in ESCOM, and the acquisition of high voltage metering equipment to separate the billing of generation, transmission and distribution.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 subject to the modifications set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and

Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

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

2. National and International Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment and costing \$250,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers"

published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines): and (b) the provisions of the following Parts of this Section II.

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

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for training under the Project may 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.

4. Single Source Selection

Services may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) 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 Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the Project Implementation Manual and shall not amend it or waive any provision thereof, which, in the opinion of the Association will materially or adversely affect the implementation of the Project.

2. The Borrower shall establish and maintain until completion of the Project a Project Steering Committee, chaired by a representative of the MOF, with representation from the Privatization Commission, EC, MACRA, MTL, MPC and ESCOM, as well as, the relevant sector ministry as needed.

3. The Privatization Commission shall coordinate the overall implementation of the Project, and shall be responsible for the accounting and disbursement of funds, for all components of the Project, the preparation of consolidated progress reports, Project Management Reports after June 30, 2001, and arranging for the auditing of the Project accounts in accordance with Section 4.01 (b) of this Agreement.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, 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 March 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph, 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 June 30, 2002, or such later date as the Association shall request, the report referred to in paragraph (b) of this paragraph, 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.

5. The Borrower shall take adequate steps, satisfactory to the Association, to bring to the Point of Sale, in accordance with the schedule and modalities specified in the Project Implementation Manual, twelve public enterprises for which technical advisory services are to be financed out of the proceeds of the Credit.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 \$2,000,000 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 \$1,000,000 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 2,600,000.

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 respective 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 for the respective Special Account, 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 paragraph 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.

SCHEDULE 6

Performance Indicators

Indicator	Start of Project	End of Project
December 31, 2004	October 1, 2000	
Working telephone lines	40,000	150,000
Percentage of population with access to grid-based electricity	4%	6%
Decision on the establishment of a multi-sectoral regulator	NA	By December 31, 2001
Mail posted from one city for delivery in another city is delivered by the third day of posting	65%	80%
Letters per staff per year	45,610	62,903



