

February 28, 2002

Mr. Mihaly Varga
Minister of Finance
Ministry of Finance
Budapest, Hungary

Re: Grant for Property Rights and Land Market Development Project for EU Candidate and Balkan Countries, IDF Grant No. TF050701

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make to the Republic of Hungary (the Recipient) a grant in an amount not exceeding three hundred and ninety one thousand United States Dollars (US\$391,000) (the Grant).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter-Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter-Agreement. Upon receipt by the Bank of the copy of this Letter-Agreement countersigned by you, this Letter-Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Roger W. Grawe
Country Director
Czech Republic, Hungary, Moldova, Slovak Republic, Slovenia
Europe and Central Asia

AGREED:

THE REPUBLIC OF HUNGARY

By /s/ Almos Kovacs
Title: Deputy State Secretary

Date: February 28, 2002

ANNEX

Purposes, Terms, and Conditions of the Grant

1. Purposes and Activities

1.1. The purpose of the Grant is to support a program toward improving the efficiency of land markets by strengthening the national institutional capacities of land administration systems and establishing links and networks among the land administration stakeholders in the EU candidate and Balkan countries. The activities (the Activities) for which the Grant is given are as follows:

(a) provision of technical assistance, training, and goods to enhance the institutional capacity of the Recipient's Ministry of Agriculture and Regional Development (MoARD) to act as a regional center for exchange of information, coordination, and networking on land administration systems for EU candidate and Balkan countries, including: (i) the establishment of a homogenous electronic database on subjects related to real property rights, and (ii) the creation of a systematic knowledge management network of all stakeholders dealing with land tenure regimes and real property rights in EU candidate and Balkan countries; and

(b) Provision of technical assistance and training to support the implementation of activities aiming at fostering knowledge sharing and coordination among land administration professionals in the region, as well as EU member and other countries which have well functioning land administration systems in place.

2. Implementation Generally

2.1. The Recipient, through MoARD, shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank's representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable the Bank's representatives to visit the territory of the Recipient for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Activities a report, in form and substance satisfactory to the Bank, on the results and impact of the Activities.

3. Procurement

3.1. Except as the Bank shall otherwise agree, procurement of the consultants' services and goods required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

Category	Amount of the Grant Allocated (in currency of the Grant)	% of Expenditures to be Financed
(1) Consultants' services	41,500	100%
(2) Training/Workshops	122,800	100%
(3) Goods expenditures	71,500	100% of foreign and 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4) Operating Cost	155,200	100%
TOTAL	<u>391,000</u>	

For the purposes of this paragraph, the term:

(a) "training/workshops" means expenditures such as cost of facilities, materials and supplies, travel costs, per-diem and translation services for study tours, seminars, workshops and other training activities which may be carried out through consultant service contract or with the agreement of the Bank by other means.

(b) "operating cost" means expenditures incurred by the unit in the MoARD in charge of the implementation of the activities under this Agreement on account of management of project implementation for non-governmental salaries for staff working for MoARD, communications, local travel, utilities, office supplies, office maintenance and independent audit,

(c) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(d) "local expenditures" means expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals from the Grant Account shall be made: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by the Bank; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) No withdrawals from the Grant Account shall be made after a date two years from the date of countersignature of this Letter Agreement by the Recipient, or such later date that the Bank shall establish by notice to the Recipient (the Closing Date). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in the Bank's opinion, an amount of the Grant allocated to any of the categories in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such category, the Bank may, by written notice to the Recipient, reallocate to such category an amount of the Grant then allocated to another category which, in the Bank's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services provided by consulting firms costing less than the equivalent of US\$25,000; (b) services provided by individual consultants costing less than the equivalent of US\$25,000; (c) contracts for goods under contracts costing less than \$25,000; (d) training/workshops; and (e) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the grant shall be made in U.S. Dollars. However, the Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with US Dollars withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

5. Records and Accounts

5.1. The Recipient shall:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the resources and expenditures related to the Activities, including records and accounts for all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure.

(b) retain, until at least one year after the date on which the last withdrawal from the Grant Account was made, all records and accounts referred to in subparagraph (a) above, including records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure.

(c) enable the Bank's representatives to examine such records and accounts and furnish to the Bank such other information concerning said records and accounts as the Bank shall from time to time reasonably request.

6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient has failed to comply with any of the obligations herein specified; or (d) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account and shall cancel any amount of the Grant remaining unwithdrawn: (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, regarding the implementation of the Activities within six months of the date of this Letter-Agreement.

Attachment I

Procurement

Section I. Consultants' Services

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 this Section I.

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 US\$200,000 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. Selection Based on Consultants' Qualifications

Services for institutional capacity building estimated to cost less than US\$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2.. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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 Activities 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 each contract for the employment of consulting firms estimated to cost the equivalent of US\$25,000 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; and

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$25,000 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 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.

Section II. Procurement of Goods

Part A: General

Goods shall be procured: (a) 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 (b) the provisions of the following Parts of this Section II

Part B: Other Procurement Procedures

National Shopping

Goods estimated to cost less than US\$ 50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of para 3.5 and 3.6 of the Guidelines.

Part C: Review by the Bank of the Selection of Consultants

1 Procurement Planning

Prior to the issuance of any invitation for quotations, 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 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.

1. Prior Review

The first two contracts for goods procured in accordance with procedures referred to Part B above, the procedures set forth in paragraphs 2 and 3 Appendix 1 to the Guidelines shall apply.

2. Post review

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

