

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4681-1 BUL

Loan Agreement

(Additional Loan for the Social Investment and Employment Promotion Project)

between

REPUBLIC OF BULGARIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 12, 2007

Public Disclosure Authorized

LOAN NUMBER 4681-1 BUL

LOAN AGREEMENT

Agreement dated June 12, 2007, between REPUBLIC OF BULGARIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for Part A of the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifteen million Euro (EUR 15,000,000) (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.

- 2.06. The Payment Dates are June 15 and December 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out Part A of the Project through SIF, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) The Operational Manual has been amended, abrogated or modified without the Bank's prior consent.
 - (b) The Law for the Social Investment Fund has 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.
- 4.02. The Additional Event of Acceleration consists of the following: any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: the Operational Manual dated January 2003, as amended to the date of this Agreement, has been modified and adopted by the Borrower in a manner satisfactory to the Bank.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Minister of Finance.

6.02. The Borrower's Address is:

Ministry of Finance
102 Rakovski Street
Sofia, 1040
Republic of Bulgaria

Cable address:	Telex:	Facsimile:
Ministry of Finance Sofia	22727	(359) 2-9806863

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Sofia, Republic of Bulgaria, as of the day and year first above written.

REPUBLIC OF BULGARIA

By: /s/ Plamen Oresharski
/s/ Emilia Maslarova

Authorized Representatives

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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By: /s/ Shigeo Katsu
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to strengthen the Borrower's existing social protection services and improve standards of living of poor unemployed people and selected disadvantaged communities.

The Project consists of the Original Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

1. SIF shall maintain during the execution of the Project qualified and sufficient staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project, in a manner satisfactory to the Bank.
2. SIF Steering Committee shall provide oversight and policy guidance for the overall implementation of the Project.
3. The Borrower, through SIF, shall implement Part A of the Project in accordance with the Operational Manual including:
 - (a) the guidelines, procedures and criteria for Small Grants under Part A of the Project;
 - (b) an implementation plan for the Project adopted by the Borrower;
 - (c) the environmental mitigation, monitoring, and institutional measures for the execution of the Project; and
 - (d) key instruments for the execution and coordination of the Project (including procurement and financial management procedures).
4.
 - (a) For the purposes of carrying out Part A of the Project: (i) Communities shall be eligible to present Sub-projects for an amount up to EUR 80,000 equivalent; and (ii) municipalities shall be eligible to present Sub-projects for an amount up to EUR 225,000 equivalent, all in accordance with the criteria and procedures set forth in the Operational Manual.
 - (b) Sub-projects shall be evaluated by SIF, approved by SIF Steering Committee, and implemented by the Beneficiaries in accordance with the criteria and procedures set forth in the Operational Manual, in a manner satisfactory to the Bank and in consultation with Sub-project representatives of interested communities.
 - (c) The Borrower shall, through SIF, make the proceeds of the Loan allocated under Category (1) of the table in Part A.2 of Section IV of this Schedule 2 available to Beneficiaries under Small Grant Agreements to be entered between the Borrower, represented by SIF, and such Beneficiaries, under standard terms and conditions which shall have been approved by the Bank and in accordance with the

Operational Manual. For purposes of each Sub-project, the Small Grant Agreement shall provide that the Beneficiary shall be awarded a Small Grant to carry out such Sub-project under the following respective obligations of the parties thereunder, including but not limited to:

- (i) a description of the Sub-project and an estimate of the cost thereof, disbursement schedules and procurement procedures, as they may apply, and the amount of the Beneficiary's contribution to the cost of the Sub-project;
- (ii) the obligation of the Beneficiary: (A) to carry out the Sub-project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to environmental factors, and to maintain adequate records; and (B) upon completion of the Sub-project, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;
- (iii) the obligation of the Beneficiary to provide all such information as the Bank or the Borrower shall reasonably request relating to the implementation of the Sub-project and the performance of the Beneficiary thereunder;
- (iv) the obligation of the Beneficiary not to use the proceeds of a Small Grant to finance taxes or duties levied on or in respect of Eligible Expenditures relating to a Sub-project, or land acquisition;
- (v) the obligation of the Beneficiary to procure works, goods and services under the Sub-project in accordance with the procedures set forth in the Operational Manual;
- (vi) the obligation of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Small Grant and to submit to the Borrower at regular intervals statements with respect to such records and accounts; and
- (vii) the right of the Borrower to suspend or terminate the right of the Beneficiary to the use of the proceeds of a Small Grant upon failure by such Beneficiary to perform its obligations under such agreement.

(d) The Borrower shall exercise its rights under any Small Grant Agreement in such a 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 shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Small Grant Agreement or any provision thereof.

5. For the purposes of Part A of the Project, the Borrower, through SIF, shall:

(a) ensure that the guidelines for environmental review of Sub-projects included in the Operational Manual are followed by interested communities and municipalities; and

(b) regularly assess, identify and mitigate, if necessary, any effects of aggregate investments on the environment in accordance with the Operational Manual.

6. (a) Except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through SIF, provide evidence satisfactory to the Bank, by no later than thirty (30) days after the State Budget Law of the relevant fiscal year has been published by the Borrower in the State Gazette, each year during Project implementation, starting as of 2008, that sufficient resources have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under this Project for the year in question.

(b) Without limitation upon the provisions of sub-paragraph (a) of this paragraph 6, the Borrower, through SIF shall: (i) maintain throughout the course of Project implementation the Project Account and ensure that sufficient funds are made available through this account to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; and (ii) use the funds in said Project Account for financing the Borrower's contribution to Project expenditures.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall prepare and furnish to the Bank, not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	National Competitive Bidding, subject to the following additional provisions: <ul style="list-style-type: none">• a point system evaluation shall not be used;• domestic preference shall not be applied;• international bidders shall not be excluded from bidding;• the draft NCB bidding documents shall be prepared and submitted to the Bank for review and no-objection before the first NCB tender is issued;• no bids shall be rejected at the bid opening. All bids submitted on or before the deadline for submission of bids shall be opened and read out at public bid opening;• local bidders shall demonstrate availability of obtaining securities and reasonable access to credit;• bid evaluation criteria shall be pre-disclosed to bidders in the bidding documents; and• technical specifications shall be clearly written to promote the broadest possible competition.
(b)	Shopping
(c)	Community participation procedures described in the Operational Manual

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Selection under a Fixed Budget
(b)	Least Cost Selection
(c)	Selection based on Consultants' Qualifications
(d)	Single-source Selection
(e)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed
(1) Small Grants under Part A of the Project	15,000,000	80% of the disbursed amount under the Sub-project Grant Agreements
(2) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>15,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2008.

SCHEDULE 3

Amortization Schedule

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro*)</u>
On each June 15 and December 15	
beginning December 15, 2012 through June 15, 2024	625,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 3.10 of the General Conditions.

APPENDIX

Definitions

1. “Active Labor Services” means labor and human resource services, including services for the unemployed that help them overcome frictional and structural unemployment and lack of demand for labor, including: employment and training services, small business technical assistance and incubator services, and local economic development planning services, provided to Unemployed Individuals (hereinafter defined) under Part B.2 of the Project.
2. “Beneficiary(ies)” means a Community (hereinafter defined) or a municipality eligible for a Small Grant (hereinafter defined) in accordance with the eligibility criteria specified in the Operational Manual (hereinafter defined), and for whose benefit a Small Grant (hereinafter defined) is provided or proposed to be provided for the purposes of implementing activities under Part A of the Project.
3. “Category” means a category set forth in the table in Part A.2 of Section IV of Schedule 2 to this Agreement.
4. “Community” means a group of people united geographically or by a common purpose, which works in partnership with demand-responsive support organizations and service providers to provide social and infrastructure services, to organize economic activity and resource management, to empower poor people, improve governance, and enhance security of the poorest.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
6. “EA” means the Borrower’s Employment Agency established under the Law for Encouragement of Employment, published in the State Gazette No. 112 of December 29, 2001.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
8. “Law for the Social Investment Fund” means the law adopted by the Borrower and published in the State Gazette No. 32 of April 3, 2001.
9. “Local Employment Bureaus” means the local extensions of the EA at the local level.
10. “MOLSP” means the Borrower’s Ministry of Labor and Social Policy.

11. “Operational Manual” means the manual referred to in Section I.3 of Schedule 2 to this Agreement and satisfactory to the Bank.
12. “Original Loan Agreement” means the loan agreement for the Social Investment and Employment Promotion Project between the Borrower and the Bank, dated January 29, 2003, as amended to the date of this Agreement (Loan No. 4681 BUL).
13. “Original Project” means the Project described in the Original Loan Agreement.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 13, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Project Account” means the separate payment code introduced in the budget account of MOLSP in the Bulgarian National Bank, for purposes of making available the counterpart funds for the financing of the Project, in accordance with the provisions of Section I. 6 (b) of Schedule 2 to this Agreement.
17. “SIF” means the Borrower’s Social Investment Fund established under the Law for the Social Investment Fund.
18. “SIF Steering Committee” means the committee established within SIF pursuant to the Law for the Social Investment Fund.
19. “Small Grant” means a grant made or proposed to be made by the Borrower, through SIF, to an eligible Beneficiary out of the proceeds of the Loan for the financing of a Sub-project (hereinafter defined).
20. “Small Grant Agreement” means an agreement between the Borrower, through SIF, and a Beneficiary.
21. “Sub-project” means an activity under Part A of the Project to be carried out by a Beneficiary and in respect of which a Small Grant is provided, or proposed to be provided, for the benefit of the Beneficiary
22. “Unemployed Individuals” means individuals who are registered as unemployed at Local Employment Bureaus or who have been served notice that they are going to be laid off from their work within three months.

