

**CONFORMED COPY**

**LOAN NUMBER 4654 RO**

# **Loan Agreement**

**(Rural Development Project)**

**between**

**ROMANIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated April 3, 2002**

**LOAN NUMBER 4654 RO**

**LOAN AGREEMENT**

AGREEMENT, dated April 3, 2002, between ROMANIA (the Borrower) and  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated January 30, 2002, from the Borrower describing a two-phased program of policies and actions (the Program) designed to strengthen the ability of local governments and community groups to undertake rural investments in an efficient and accountable manner, and improve rural livelihoods and living standards of rural population in the selected regions of the Borrower through development and implementation of projects in those regions, including infrastructure projects;

(B) the Borrower has requested the Bank to support the execution of the two phases of the Program through extension to the Borrower of loans up to the equivalent of one hundred million Dollars (\$100,000,000) over a period of eight (8) years; and

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project, which constitutes the first phase of the Program.

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 amended through October 6, 1999) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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) "Beneficiary" means any local government or another organization at the commune level eligible to receive and administer a Sub-grant in accordance with the criteria set forth in the Project Operational Manual;

(b) "Community Based Organization", or "CBO" means an organization at the commune level which has a status of a legal entity in accordance with the applicable laws of the Borrower, and which is eligible to receive and administer a Sub-grant under Part B(2) of the Project in accordance with the eligibility criteria set forth in the RSDF Operational Manual;

(c) "Eligible Categories" means categories (1)(a), (2), (3)(a) and (c) and 4(a) as set forth in the table in Part A.1 of Schedule 1 to this Agreement – for Special Account A referred to in Part B.1 of Schedule 1 to this Agreement; and categories (1)(b), (3)(b) and (4)(b) as set forth in the table in Part A.1 of Schedule 1 to this Agreement – for Special Account B referred to in Part B.1 of Schedule 1 to this Agreement;

(d) "Eligible Expenditures" means the expenditures for goods, services, incremental operating costs and amounts paid on account of withdrawals made by a Beneficiary or CBO under a Sub-grant referred to in Section 2.02(a) of this Agreement;

(e) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(f) "Grant Agreement" means the agreement referred to in Part B.2 of Schedule 5 to this Agreement;

(g) "IAPSO" means the Inter-Agency Procurement Services Office of the United Nations Development Programme (UNDP);

(h) "MPA" means the Borrower's Ministry of Public Administration, or any legal successor thereto;

(i) "MOPF" means the Borrower's Ministry of Public Finance, or any legal successor thereto;

(j) "NSC" means the National Steering Committee established pursuant to the Government Decree No. 336 dated March 22, 2001, which consists of representatives of the

MPA, the Ministry of Public Finance, the Ministry of Health and Family, the Ministry of Agriculture, Food and Forestry, the Ministry of Public Works, Transport and Housing, the Ministry of Development and Prognosis; the Ministry of Water and Environmental Protection, the Ministry of Small and Medium-Size Enterprises, the RSDF, the Association of County Council Presidents and the Association of Communes; or any legal successor thereto;

(k) “PIU” means the Project Implementation Unit established in each of the Project Regions as a local branch of the PMU, or any legal successor thereto;

(l) “PMU” means the Project Management Unit established within the MPA pursuant to the Ministerial Ordinance No. 487 dated July 27, 2001; or any legal successor thereto;

(m) “Project Account” means the account referred to in Part A.5 of Schedule 5 to this Agreement;

(n) “Project Operational Manual” means the manual setting forth the operational and administrative procedures in respect of the preparation, approval, processing, financing, implementation and supervision of Sub-projects under Part B(1), as well as procedures for the implementation of the Project, as such manual may be amended from time to time upon agreement with the Bank;

(o) “Project Regions” mean collectively the following five counties of the Borrower: Salaj, Dolj, Calarasi, Tulcea and Botosani; and “Project Region” means each and any such region;

(p) “RSDF” means the Romanian Social Development Fund, established under the Law No. 129/1998 and amended by the Law No. 628/2001, as a public-interest, non-profit entity with legal personality and enjoying administrative autonomy, or any legal successor thereto;

(q) “RSDF Operational Manual” means the manual adopted by RSDF setting forth criteria and procedures for selection, financing and implementation of Sub-projects, as such manual may be amended from time to time upon the agreement with the Bank;

(r) “Special Accounts” means the accounts referred to in Part B of Schedule 1 to this Agreement; and “Special Account” means each and any such account.

(s) “Sub-grant” means a grant made or proposed to be made to a Beneficiary or CBO out of the proceeds of the Loan for the carrying out of a Sub-project;

(t) “Sub-project” means a specific infrastructure project under Part B(1) or B(2) of the Project, which is proposed to be carried out by a Beneficiary or CBO, respectively, utilizing a Sub-grant; and

(u) “Subsidiary Agreement” means the agreement to be entered into between the MOPF, MPA and RSDF pursuant to the provisions of Section 3.01(c) and (d).

## **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 forty million Dollars (\$40,000,000).

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) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Beneficiary or CBO under a Sub-grant to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which, the withdrawal from the Loan Account is requested; and (b) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, services and incremental operating costs required for the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be December 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 promptly after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $\frac{3}{4}$  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 U.S. 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 ( $\frac{3}{4}$  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 new 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 semiannually in arrears on March 15 and September 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, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, 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 carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall, through the MOPF, enter into a Subsidiary Agreement with the MPA and RSDF, whereby MPA shall be assigned the responsibility for utilizing the Loan proceeds allocated from time to time under Categories (1)(a), (2), (3)(a) and (c) and (4)(a) set forth in the table in Part A.1 of Schedule 1 to this Agreement, and the responsibility for the implementation of the Project except for Part B.2 thereof.

(d) The Borrower, shall make a portion of the proceeds of the Loan, allocated from time to time under Categories (1)(b), (3)(b) and (4)(b) set forth in the table in Part A.1 of Schedule 1 to this Agreement, available to RSDF under the Subsidiary Agreement and under terms and conditions which shall have been approved by the Bank, including those set forth in

Part A.2 of Schedule 5 to this Agreement.

(e) 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 provisions thereof.

Section 3.02. (a) the Borrower undertakes that, unless the Bank shall otherwise agree, Sub-grants will be made in accordance with the procedures and on the terms and conditions as set forth or referred to in Part B of Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Sub-project 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 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 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; 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 shall 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 and each Sub-project (including its cost and the benefits to be derived from it).

(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 Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank who shall be contracted not later than September 15, 2002;

(ii) furnish to the Bank 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 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 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 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 Financial Monitoring 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 Borrower's progress reporting obligations set out in Part B of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report (FMR), in form and substance satisfactory to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar



quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **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 Project Operational Manual or the RSDF Operational Manual shall have been amended, suspended, abrogated, repealed or waived without prior approval of the Bank;
- (b) a situation shall have arisen, which shall make it improbable that the Program or a significant part thereof will be carried out;
- (c) the Subsidiary Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PMU or RSDF to carry out the Project; and
- (d) RSDF shall have failed to perform any of its obligations under the Subsidiary 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 (d) 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
- (b) any event specified in paragraphs (a), (b), and (c) 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 duly executed between MOPF, MPA, and the RSDF; and
- (b) the PMU staff, including an engineer, a training specialist, a monitoring and evaluation specialist and an assistant has been appointed; and an engineer, an accountant and an assistant have been appointed for each PIU, all staff referred to above with qualifications, experiences and terms of reference acceptable to the Bank.

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/        M. Ziad Alahdad  
Authorized Representative

**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 Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)    Sub-grants		100%
(a) under Part B(1) of the Project	30,086,300	
(b) under Part B(2) of the Project	2,000,000	
(2)    Goods	337,290	100% of foreign expenditures, 100 % of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3)    Consultants' services		100% of foreign

and training		expenditures and 80% of local expenditures
(a) under Part B.1 of the Project	3,055,010	
(b) under Part B.2 of the Project	119,420	
(c) under Part C.1 of the Project	806,160	
(4) Incremental Operating Costs		75%
(a) for PMU and PIUs	482,060	
(b) for RSDF	22,700	
(5) Unallocated	<u>3,091,060</u>	
TOTAL	<u>40,000,000</u>	

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 “incremental operating costs” means incremental costs incurred by each PMU, PIUs and RSDF on account of implementing of their respective Parts of the Project, which shall include: salaries for RSDF staff (excluding Government employees), utilities, office supplies and maintenance of equipment and vehicles.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made under Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of this Schedule until the fee referred to in Section 2.04 of this Agreement has been paid; (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 to this Schedule in respect of a Subproject unless the Sub-grant has been provided pursuant to the Grant Agreement in accordance with the procedures, terms and conditions set forth in Part B of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) consultants’ services under contracts with consulting firms costing less than \$100,000 equivalent each; (c) consultants’ services under contracts with individual consultants costing less than \$25,000 each; (d) training; (e) incremental operating costs; and (f) Sub-grants in an amount equivalent to less than \$230,000 each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall open and maintain in Dollars separate special deposit accounts: (a) Special Account A – with respect to categories (1)(a), (2), (3)(a) and (c) and (4)(a) as set forth in the table in Part A.1 of this Schedule, which shall be administered by the PMU; and (b) Special Account B – with respect to categories (1)(b), (3)(b) and (4)(b) as set forth in the table in Part A.1 of this Schedule, which shall be administered by the RSDF; in a bank or banks acceptable to the 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 a Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into a Special Account shall be made in accordance with the provisions of the Annex to this Schedule 1.

3. Payments out of each 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 any Special Account:

(a) if the Bank determines at any time that any Financial Monitoring Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

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

(c) 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 a Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Financial Monitoring Reports.

5. The Bank shall not be required to make further deposits into any 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 Accounts 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 Accounts 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 respective 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

respective 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 respective 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 Accounts.

(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 Accounts**

1. For the purposes of this Annex:

(a) the term “Authorized Allocation” means an amount to be withdrawn from the Loan Account and deposited into Special Accounts pursuant to paragraph 2 of this Annex equivalent, in the case of Special Account A – up to the equivalent of \$3,600,000; in the case of Special Account B – up to the equivalent of \$200,000 provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for: (i) Special Account A shall be limited to an amount equivalent to \$1,800,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$12,500,000; (ii) for Special Account B shall be limited to an amount equivalent to \$100,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of \$500,000.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request for deposit into a Special Account of an amount which in the aggregate does 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 a Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Accounts, the Borrower shall furnish to the Bank requests for deposit into the respective 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 a 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 a 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 a 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 each Authorized Allocation for the respective Special Account. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said Category 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 each 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 first phase of the Borrower's Program, and the objectives of the Project are: (i) to improve local administration capacity for accountable and efficient investment decision making and implementation with a particular focus on infrastructure investments; and (ii) to increase the transport access of rural inhabitants in pilot areas to markets and social services, and access to improved water and sanitation services.

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 objectives:

#### **Part A: Local Government Capacity Building**

1. Development of training modules in the areas of local government facilitation, local infrastructure/engineering, and local budgeting and economic analysis, and training of training teams (training of trainers) in delivering those modules.
2. Provision of training and advisory services to local administrations to develop a capacity for accountable investment planning and infrastructure project development.
3. Provision of technical assistance to CBOs in selected villages.
4. Provision of equipment to Beneficiaries to support the implementation of the Sub-projects.

#### **Part B: Rural Infrastructure**

1. Provision of Sub-grants to finance Sub-projects to increase rural communities' access to improved water and sanitation services and to rehabilitate local roads.
2. Provision of Sub-Grants to CBOs to finance Sub-projects; including small-scale infrastructure and local income generating Sub-projects.
3. Development of programs to promote increased awareness of health related water and sanitation issues and of studies to improve the implementation of the Sub-projects in rural water and sanitation services and local roads rehabilitation.



Part C: Project Management and Technical Assistance on Public Awareness and Expansion Strategy

1. Support for implementation and monitoring of the Project, including support to the PMU and PIUs.
2. Provision of technical assistance and goods for carrying out: (a) workshops to increase the awareness of national stakeholders of the financial options under the Project; (b) a campaign to increase public awareness of the financial options under the Project; and (c) a study on expanding the lessons learned from this Project to the second phase of the Program.

\* \* \*

The Project is expected to be completed by April 30, 2006.

**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal</u>
September 15, 2006	1,275,000.000
March 15, 2007	1,295,000.000
September 15, 2007	1,315,000.000
March 15, 2008	1,335,000.000
September 15, 2008	1,355,000.000
March 15, 2009	1,370,000.000
September 15, 2009	1,390,000.000
March 15, 2010	1,415,000.000
September 15, 2010	1,435,000.000
March 15, 2011	1,455,000.000
September 15, 2011	1,475,000.000
March 15, 2012	1,495,000.000
September 15, 2012	1,520,000.000
March 15, 2013	1,540,000.000
September 15, 2013	1,565,000.000
March 15, 2014	1,585,000.000
September 15, 2014	1,610,000.000
March 15, 2015	1,630,000.000
September 15, 2015	1,655,000.000
March 15, 2016	1,680,000.000
September 15, 2016	1,705,000.000
March 15, 2017	1,730,000.000
September 15, 2017	1,755,000.000
March 15, 2018	1,780,000.000
September 15, 2018	1,805,000.000
March 15, 2019	<u>1,830,000.000</u>
<b>TOTAL</b>	<u><b>40,000,000.000</b></u>

## **SCHEDULE 4**

### **Procurement**

#### 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: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 the 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

Works under Sub-projects estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$121,000 equivalent, may 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 Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$149,000 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.

4. Procurement from UN Agencies

Goods to be procured in accordance with the provisions of Part C.2 of this Section may be procured through IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works under Sub-projects estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

6. Procurement of Works and Goods under Sub-projects

Works estimated to cost less than \$35,000 equivalent and goods under Sub-projects shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and the procedures set forth in the Project Operational Manual -- with respect to Sub-grants under Part B.1 of the Project, and the procedures set forth in the RSDF Operational Manual – with respect to Sub-grants under Part B.2 of the Project.

Part D: 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 and works 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

(a) With respect to: (i) each contract for goods and works procured in accordance with the provisions of Part B of this Section; and (ii) the first contract to be procured in accordance with the provisions of Part C.1. of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract to be procured in accordance with the procedures referred to in C.2. through C.5. above, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the 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

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 \$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. Least-cost Selection

Services for development of designs under Part B of the Project, and for carrying out

Project audit, 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 estimated to cost less than \$100,000 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.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, including services of the PMU and PIU staff, 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 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 \$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 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 5**

## **Implementation Program**

### **Part A: Project Management**

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by July 31, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall assign the responsibility for carrying out Part B.2 to RSDF under the Subsidiary Agreement to be entered into between the Borrower, represented by the MOPF, MPA, 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 a portion of the proceeds of the Loan, allocated from time to time under Categories (1)(b), (3)(b) and (4)(b) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, available to RSDF in the form of a grant;

(b) RSDF shall be required to implement Part B.2 of the Project in accordance with the RSDF Operational Manual and the provisions of this Agreement;

(c) RSDF shall furnish to the PMU not later than 25 days after the end of each calendar quarter reports on the implementation of Sub-projects, prepared in accordance with the guidelines specified in the Project Operational Manual, and working plans with estimates of a total number and aggregate amount of Sub-projects planned to be carried out for the subsequent calendar quarter; and

(d) RSDF shall be required to administer Special Account B in accordance with the provisions of Part B of Schedule 1 and Annex to Schedule 1 to this Agreement and to maintain financial management system for Part B.2 of the Project in accordance with the provisions of Section 4.01 of this Agreement.

3. The Borrower shall assign the responsibility for carrying out the Project, except for Part B.2 of the Project, to the MPA under the Subsidiary Agreement under terms and conditions satisfactory to the Bank.

4. During Project implementation, the Borrower shall:

(a) maintain: (i) the PMU within MPA, with staffing and resources which shall be adequate to enable the PMU to effectively implement the Project, except for Part B.2, and which shall be acceptable to the Bank, including but not limited to the following staff: a director, a financial management specialist, a procurement specialist, a monitoring and evaluation specialist, an engineer, a project assistant, a training specialist, and an accountant; and (ii) each PIU, with staffing and resources which shall be adequate to enable the PMU to effectively implement the Project, except for Part B.2, and which shall be acceptable to the Bank, including but not limited to the following staff: a director, a procurement specialist, an engineer, a project assistant, a training specialist, and an accountant;

(b) cause the PMU to prepare and furnish to the Bank not later than November 30 and May 31 of each year commencing from November 30, 2002, semi-annual working plans which shall set forth projected sources and utilization of funds for the Project for the upcoming calendar semester; and

(c) maintain the National Steering Committee, with a composition and terms of reference acceptable to the Bank, which shall provide oversight, coordination and policy guidance for Project implementation.

5. The Borrower shall ensure that adequate budgetary allocations shall be made to the Project Account each calendar quarter during Project implementation for financing Project expenditures.

#### Part B: Implementation of Sub-projects

For the purposes of carrying out Parts B.1 and B.2 of the Project, the Borrower through NSC shall ensure that:

1. (a) the PMU and RSDF shall select Sub-projects for financing from the proceeds of the Loan in accordance with the criteria and procedures set forth in the Project Operational Manual and RSDF Operational Manual, respectively, and said criteria shall exclude any water or wastewater Sub-projects involving construction of new or substantial alteration of existing water schemes which shall use or may cause potential pollution of international waterways; and

(b) for the purposes of this paragraph, the term “international waterways” means any tributary or other body of surface water that is a component of the Danube, Prut, Siret, and Somes.

2. PMU and RSDF shall provide financing, on a grant basis, for approved Sub-projects pursuant to a standard agreement agreed upon with the Borrower and the Bank (the Grant Agreement), to be entered into between PMU and a Beneficiary, and between RSDF and a CBO, respectively. The Grant Agreement shall include, inter alia:

(a) a description of the Sub-project, together with an estimate of the cost thereof;

(b) the amount to be provided to a Beneficiary or CBO under a Grant Agreement;

- (c) the implementation schedule for the Sub-project;
  - (d) the degree to which cost sharing shall be required to be made by the Beneficiary or CBO with respect to the financing of the Sub-project for the implementation of which assistance is provided to such Beneficiary or CBO under the Grant Agreement;
  - (e) the obligation of the Beneficiary or CBO to procure small works, goods and services to be financed under the Grant Agreement in accordance with the procedures set forth in the Project Operational Manual or in the RSDF Operational Manual, respectively;
  - (f) the obligation of the Beneficiary or CBO to report to PMU or RSDF, respectively, on the progress of Sub-project implementation and to enable representatives of PMU, 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 Beneficiary or CBO to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Loan made available to the Beneficiary or CBO under the Grant Agreement and to submit to PMU or RSDF, respectively, at regular intervals statements with respect to such records and accounts.
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