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**LOAN NUMBER 4672 HR**

## **Loan Agreement**

**(Pension System Investment Project)**

**between**

**REPUBLIC OF CROATIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 17, 2002**

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**LOAN NUMBER 4672 HR**

**LOAN AGREEMENT**

AGREEMENT, dated September 17, 2002, between REPUBLIC OF CROATIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

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) (the General Conditions) constitute an integral part of this Agreement:

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) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;
- (b) "FINA" means the Borrower's Financial Agency established under the Law on Financial Agency, (Official Gazette 177/2001);

- (c) “GZAOP” means the Borrower’s Zagreb City Central Computer Center established under the Decisions of the City of Zagreb, dated April 26, 1977, June 17, 1991, and June 18, 1997, respectively;
- (d) “HAGENA” means the Borrower’s Supervisory Agency for Pension Funds and Insurance established under the Law on Compulsory and Voluntary Pension Funds (Official Gazette 49/1999);
- (e) “Implementation Agreement” means the agreement to be adopted by the Steering Committee for PSIP pursuant to paragraph (3) of Schedule 5 to this Agreement, as the same may be amended from time to time;
- (f) “MOLSW” means the Borrower’s Ministry of Labor and Social Welfare;
- (g) “Operational Manual” means the manual adopted by the Borrower, through the Steering Committee for PSIP (as defined hereinafter), referred to in paragraph (4) of Schedule 5 to this Agreement;
- (h) “Pension Institute” means the Croatian Pension Institute established under the Law on Pension Insurance (Official Gazette 102/1998);
- (i) “PIU” means the Borrower’s project implementation unit established within HAGENA, subject to the approval of the Steering Committee for PSIP, or any legal successor thereto;
- (j) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on January 4, 1999 and on behalf of the Borrower on February 1, 1999;
- (k) “REGOS” means the Borrower’s Central Register of Affiliates established under the Law on Compulsory and Voluntary Pension Funds (Official Gazette 49/1999) and Law No. 114/2001 on Collection of Data by Insured Persons on Mandatory Contributions, Income Tax and Surtax on Income Tax dated December 7, 2001 and published in the Official Gazette 114/2001;

- (l) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (m) “Steering Committee for PSIP” means the committee established for the purposes of the Pension System Investment Project (PSIP) pursuant to the Decision of Government dated June 13, 2002 as referred to in paragraph 2 (c) of Schedule 4 to this Agreement; and
- (n) “Supplemental Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators referred to in paragraph (1) (a) of Schedule 5 to this Agreement.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty seven million, three hundred thousand Dollars (\$27,300,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services and operating costs required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that

include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The 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 November 15 and May 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 through the PIU with due diligence and efficiency and in conformity with appropriate administrative, technical and financial 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.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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 3.03. 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 after 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.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(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 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 paragraph 1 (a) 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 event is specified, namely, that:

(a) Law No. 114/2001 on Collection of Data by Insured Persons on Mandatory Contributions, Income Tax and Surtax on Income Tax dated December 7, 2001 and published in the Official Gazette 114/2001 of the Borrower shall have been amended, 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; and

(b) that the Operational Manual shall have been amended, suspended, abrogated or waived without the Bank's prior consent.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions; namely that the Borrower has provided evidence satisfactory to the Bank that it has issued the Operational Manual referred to in paragraph 4 of Schedule 5 to the Loan Agreement in a manner satisfactory to the Bank.

Section 6.02. The date of ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Minister of 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:

Minister of Finance  
Kanciceva 5  
Zagreb 10,000  
Croatia

Telex:

862-21215  
862-28133

Facsimile:

3851 492 2583

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 Zagreb, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By /s/ Mato Crkvenac

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director  
South Central Europe Country Unit  
Europe and Central Asia

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

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) Goods	4,665,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 78% of local expenditures for other items procured locally
(2) Consultants' services, including training and auditing services	7,537,000	100%
(3) Incremental Operating costs for FINA and GZAOP	11,085,000	95% of expenditures until June 30, 2003; 75% of expenditures until June 30, 2004; 50% expenditures between until June 30, 2005; 25% of expenditures thereafter
(4) Technical services	256,000	100%

(5)	Operating costs of the PIU	64,000	95% of expenditures until June 30, 2003; 75% of expenditures until June 30, 2004; 50% of expenditures until June 30, 2005; 25% of expenditures thereafter
(6)	Refunding of Project Preparation Advance	700,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Front-end fee	275,000	Amount due under Section 2.04 of this Agreement
(8)	Unallocated	<u>2,718,000</u>	
	TOTAL	<u>27,300,000</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/Guarantor;

(c) “Training” means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including: (i) fees of consultants, including educational or other institutions; and organizations providing training services; and (ii) cost of study tours, workshops, and related travel and per diem allowances of training participants;

(d) the term “technical services” means services related to internet links, stock market platform link, and server and software licenses;

(e) the term “incremental operating costs of FINA and GZAOP” means incremental operating expenditures incurred by, FINA, and GZAOP on account of Project implementation, including: non-governmental staff salaries, travel and translation expenses; telecommunications and information technology operating costs; office equipment and maintenance; office supplies; and vehicle maintenance; and

(f) the term “operating costs of PIU” means operating expenditures incurred by the PIU on account of Project implementation and management, including: non-governmental staff salaries, travel and translation expenses; telecommunications costs; office equipment and maintenance; office supplies; and vehicle maintenance.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,700,000, may be made on account of payments made for expenditures before that date but after January 1, 2002; and any expenditures incurred for the purposes of Part C of the Project in Schedule 2 to the Agreement unless the Bank has received satisfactory evidence that the Borrower’s government has adopted a reform program for the Pension Institute which is satisfactory to the Bank.

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 and technical services under contracts costing less than \$100,000 equivalent each; (b) for services provided by consulting firms under contracts costing less than \$200,000 equivalent each; (c) for services provided by individual consultants under contracts costing less than \$50,000 equivalent each, with the exception of the first such contract; and (d) training and operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to improve the effectiveness and transparency of the Borrower's system for reporting and enforcement of social contributions and personal income tax and strengthen management and regulation capacity in existing and new pension agencies.

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: Public revenue and funded pension reforms

Provision of technical assistance and financing of operating costs to support: (i) the database operation and maintenance for unified employer reporting on social contributions and personal taxes; (ii) the effective operation of second pillar pensions; and (iii) public revenue institutional reform and development of the public debt market.

#### Part B: Strengthening of HAGENA and REGOS

Provision of technical assistance, training, and goods to support institutional development and management and regulatory capacity strengthening within HAGENA and REGOS.

#### Part C: Pension Institute Reform

1. Provision of technical assistance, training, and goods to improve: (i) efficiency and effectiveness of the Pension Institute through strategic planning, reengineering internal business and recording processes, and effective management of personnel; and (ii) the functions of the Pension Institute's office network.

2. Provision of additional training to Pension Institute's management and staff; and training and other human resource services and incentives to Pension Institute staff made redundant as a result of the reform of the entity.

Part D: Project Management

Provision of technical assistance, training, goods and operating costs of the PIU for purposes of Project management and implementation and provision of financial services to cover for Project auditing services.

\* \* \*

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



**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each November 15 and May 15	1,365,000
beginning November 15, 2007 through May 15, 2017	_____
<b>TOTAL</b>	<b>27,300,000</b>

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

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods

##### Part A: General

Goods 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 shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Goods and technical services to cost less than \$80,000 equivalent per contract, up to an aggregate amount not to exceed \$122,000 equivalent, 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 \$916,000 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 \$295,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods and technical services which must be purchased from the original supplier to be compatible with existing equipment and are of a proprietary nature and costing \$204,700 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

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 each contract procured under Part B above estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract procured under Part C.4 above and the first two contracts procured under Part C.1, Part C.2 and Part C.3 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 direct contracting or 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.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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 audits 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 3.6 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 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 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 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 the contract for firms selected by Least Cost Selection 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.

(d) With respect to the first two contracts for firms selected by Consultant's Qualifications and estimated to cost less than the equivalent of \$100,000 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.

(e) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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**

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 set forth in the Supplemental Letter, 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 February 29, 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 May 30, 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:
  - (a) maintain during the execution of the Project, the PIU with staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project, including reporting on the implementation of the Project to the Project Steering Committee PSIP, in a manner satisfactory to the Bank;
  - (b) designate by not later than September 30, 2002 and maintain during the execution of the Project, liaison staff in the Pension Institute and REGOS with resources as shall be required to perform duties in respect of coordination and implementation of their respective Project components; and
  - (c) maintain during the execution of the Project the Steering Committee for PSIP, with membership, tasks, functions and responsibilities satisfactory to the Bank, including providing oversight and policy guidance for overall implementation of the Project.

3. The Borrower shall, through the MOLSW: (a) cause the Steering Committee for PSIP to carry out the Implementation Agreement under terms and conditions which shall have been agreed upon with the Bank and which shall include, *inter alia*, provisions whereby: (i) the responsibilities and tasks of each entity involved in the Project are described for the purposes of Project implementation; (ii) the commitment of each entity to coordinate and cooperate in their respective activities for the purposes of the implementation of the Project; and (iii) the entities shall be required to implement the Project in accordance with the Operational Manual and the relevant provisions of this Agreement; and

(b) exercise its rights under the Implementation 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, the Implementation Agreement or any provision thereof.

4. The Borrower shall ensure that the Project is carried out in accordance with the Operational Manual setting forth the work program for the implementation of the Project (PIP) and the key instruments for the execution, coordination of the Project, including procurement and financial management procedures and guidelines for the selection process and criteria for the provision of human resource services and incentives to staff made redundant as a result of structural reforms in the Pension Institute.

5. The Borrower has provided by not later than June 30, 2003 evidence satisfactory to the Bank that parallel employer tax reporting forms for pensions health and unemployment payroll taxes have been eliminated and are no longer used.



## **SCHEDULE 6**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4), and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, services, and operating costs required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of US\$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of US\$1,000,000 when 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 be equal to or exceed the equivalent of US\$3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.