

CONFORMED COPY

CREDIT NUMBER 3191 BOS

Project Agreement

(Local Development Pilot Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated as of June 3, 1999

CREDIT NUMBER 3191 BOS

PROJECT AGREEMENT

AGREEMENT, dated as of June 3, 1999 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the FEDERATION (the Federation).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Bosnia and Herzegovina (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eleven million one hundred thousand Special Drawing Rights (SDR 11,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Federation agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary financing and project implementation agreement to be entered into among the Borrower, the Federation and the Federation LDF (the Subsidiary Financing and Project Implementation Agreement), the Borrower will make available to the Federation a portion of the proceeds of the Credit provided for under the Development Credit Agreement and the Federation will make available said portion of the proceeds of the Credit to the Federation LDF on terms and conditions set forth in said Subsidiary Financing and Project Implementation Agreement; and

WHEREAS the Federation in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part A of the Project

Section 2.01. (a) The Federation declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall cause the Federation LDF to carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, environmental and technical practices; and shall provide, or cause to be provided, 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 Association and the Federation shall otherwise agree, the Federation shall cause the Federation LDF to carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. The Federation shall exercise its rights under the Federation Subsidiary Financing and Project Implementation Agreement in such manner as to protect the interests of the Federation, the Association and the Federation LDF and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the Federation Subsidiary Financing and Project Implementation Agreement or any provision thereof.

Section 2.04. (a) The Federation shall and shall cause the Federation LDF, at the request of the Association, to exchange views with the Association with regard to the progress of Part A of the Project, the performance of its obligations under this Agreement and under the Subsidiary Financing and Project Implementation Agreement, and other matters relating to the purposes of the Credit.

(b) The Federation shall and shall cause the Federation LDF to promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the Federation of its obligations under this Agreement and under the Subsidiary Financing and Project Implementation Agreement.

Section 2.05. (a) The Federation shall cause the Federation LDF to carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part A of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Federation LDF shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association, the Federation and the Federation LDF a plan for the future operation of Part A of the Project;
- (ii) afford the Association a reasonable opportunity to exchange views with the Federation and the Federation LDF on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Federation shall cause the Federation LDF to establish and maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Association adequate to reflect the operations, resources and expenditures in connection with the carrying out of the Project.

- (b) The Federation shall cause the Federation LDF to:
- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnish to the Association such other information concerning said records and accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Federation shall cause the Federation LDF to carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 3.01 in order to enable the Federation LDF, not later than December 31, 1999, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of

the Federation thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Federation of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
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)

For the Federation:

Federation Ministry of Finance
Mehmeda Spahe 5
71000 Sarajevo
Bosnia and Herzegovina

Facsimile address:

Federation Ministry
of Finance

Facsimile number:

387 71 203 152

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of the Federation or by the Federation on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Minister of Finance, or by such other person or persons as the Federation shall designate in writing, and the Federation shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rory O'Sullivan

Authorized Representative

FEDERATION OF BOSNIA AND HERZEGOVINA

By /s/ Ivo Andric Luzanski
/s/ Ejup Ganic

Authorized Representative

SCHEDULE 1

Implementation Schedule

1. The Federation LDF shall maintain the Subsidiary Financing and Project Implementation Agreement and the Operational Guidelines in form and content satisfactory to the Association and the Federation, shall duly perform all its obligations under the Subsidiary Financing and Project Implementation Agreement and the Operational Guidelines and shall not assign, amend, abrogate or waive the Subsidiary Financing and Project Implementation Agreement or the Operational Guidelines without obtaining the prior approval of the Association.

2. The Federation LDF shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on February 28 of each year, commencing on February 28, 2000, 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 Part A of the Project during the twelve-month period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31 of each year during the execution of the Project, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part A of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

3. For the purposes of carrying out Part A.3 of the Project, the Federation LDF shall:

(a) relend to the PFIs the equivalent of the proceeds of the Credit allocated from time to time to Category (A) (1) of the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement under Subsidiary Loan Agreements to be entered into between the Federation LDF and each such PFI, under terms and conditions which shall have been approved by the Association, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of Part A.3 of the Project and the carrying out by the PFIs of their obligations under their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Association;

(c) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(d) in respect of payment of interest or other charges on, or repayment of principal, made to it by PFIs, under the Sub-loans:

- (i) open and thereafter maintain a separate account on its books in accordance with its financial procedures and on terms and conditions satisfactory to the Association;
- (ii) upon receipt of each such payment or repayment, credit the same to the said separate account;
- (iii) utilize all amounts so credited to the said separate account, to the extent they are not yet required to meet Federation LDF's repayment obligations to the Federation under the Subsidiary Financing and Project Implementation Agreement, exclusively to finance its operating costs acceptable to the Association and other Sub-projects in accordance with the terms and conditions of this Schedule 1 and the Operational Guidelines; and
- (iv) prepare and furnish to the Association at regular intervals all such information, in form and substance satisfactory to the Association, on the status of said separate account and on the utilization of the amounts credited thereto.

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

ANNEX TO SCHEDULE 1

Principal Terms and Conditions of the Subsidiary Loan Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 4 (a) of Schedule 1 to this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Credit to a PFI under its respective Subsidiary Loan Agreement shall be denominated in DEM and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. (a) The Subsidiary Loan shall: (i) be charged quarterly, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the annual London interbank offered rate for three months deposits in Euro in effect the first day of each calendar quarter, plus one percent (1%); not to exceed an interest rate of four percent (4%); such interest rate shall be reviewed by the parties annually; (ii) have a maturity of not more than ten (10) years; and (iii) be repaid in respect of interest and principal amount quarterly.

(b) For the purposes of paragraph (a) above, "Euro" means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

3. The right of a PFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty (60) days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a PFI, which the Federation LDF shall have determined, and the Association shall have agreed, that such PFI:

- (a) is duly established and licensed to operate in the Federation;

(b) has a managerial capacity acceptable to the Association;

(c) has a sound and balanced credit risk management program acceptable to the Association;

(d) is operating pursuant to investment and lending policies and procedures acceptable to the Association, and has undertaken to maintain said policies and procedures; and

(e) is in compliance with applicable banking agency regulations and prudential regulations of the Federation.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

(a) carry out activities under Part A.3 of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (c) hereof, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Sub-borrowers on the terms and conditions set forth in the Operational Guidelines including, without limitation, the terms and conditions set forth in the Attachment to this Annex;

(ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower, the Federation and the Association, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part A.3 of the Project;

(iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Federation; and

(iv) appraise Sub-projects and supervise, monitor and report on the carrying out by the Sub-borrowers of Sub-projects, in accordance with the Operational Guidelines;

(c) maintain, with staff and other resources and under terms of reference, satisfactory to the Association and the Federation LDF:

(i) a credit committee to be responsible for the evaluation and approval of Sub-loan applications; and

(ii) a technical staff to be responsible for the appraisal and supervision of the carrying out of Sub-projects;

(d) (i) exchange views with, and furnish all such information to the Association or the Federation LDF, as may be reasonably requested by the Association, the Federation or the Federation LDF, with regard to the progress of its activities under Part A.3 of the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of Part A.3 of the Project;

(ii) prepare and submit to the Federation LDF quarterly reports on Sub-loan disbursements and repayments, and on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-loan applications; and

(iii) promptly inform the Association and the Federation LDF of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;

(e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and

- (ii) furnish to the Association such information concerning said records and accounts as the Association shall from time to time reasonably request; and
- (f) assume the credit risk of each Sub-loan.

ATTACHMENT TO THE ANNEX TO SCHEDULE 1

Terms and Conditions of the Sub-loans

The provisions of this Attachment shall be for the purposes of paragraph 2 (b) (i) of Part B of the Annex to this Schedule 1.

1. The principal amount of each Sub-loan made out of the proceeds of the Credit allocated from time to time to Category (A) (1) of the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement shall:

(a) be denominated in KM, and be the equivalent in KM (determined as of the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and works financed out of such proceeds for Sub-loans under Part A.3 of the Project; and

(b) not exceed the equivalent of KM 2,000,000 and 90% of the investment cost related to the Sub-project.

2. Each Sub-loan shall be:

(a) charged monthly, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate determined by the PFI which shall not exceed a rate to be agreed between the Federation LDF and the Association;

(b) repaid, in respect of interest on the outstanding principal balance of the Sub-loan, monthly, as determined by the PFI in accordance with its investment and lending policies; and

(c) repaid, in respect of the principal balance of the Sub-loan disbursed and outstanding, within a period of ten (10) years or less.

3. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of a Sub-loan unless:

(a) the first Sub-loan made by each PFI shall have been approved by the Association and such expenditures shall have been made not earlier than 180 days prior to the date on which the Association shall have received the application and information required under paragraph (4) of this Attachment in respect of such Sub-loan; or

(b) except as provided under paragraph (a) above, the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Association shall have authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Association shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by each respective PFI in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum determined from time to time by the Association and notified to the Federation LDF and each such respective PFI.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Association for approval, the PFI shall furnish to the Association, through the Federation LDF, an application, in a form satisfactory to the Association, together with:

- (i) a description of the Sub-borrower, including the municipal or city budget, a capital spending plan and balance sheet and income statement information;
- (ii) a municipal or city development plan, as appropriate;
- (iii) the appraisal of the Sub-project, including a financial plan and cost recovery scheme in respect of the investment necessary for

the Sub-project and a description of the expenditures proposed to be financed out of the proceeds of the Credit;

- (iv) the economic justification of the Sub-project;
- (v) in the case of an entity operating a public service, a business plan, including a cost recovery plan and recent and projected financial statements of the Sub-borrower;
- (vi) a project implementation plan, including the schedule for the implementation of works;
- (vii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and
- (viii) any such other information as the Association shall reasonably request.

(b) Each request for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain:

- (i) a summary description of the Sub-borrower and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and
- (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

5. Sub-loans shall be made to Sub-borrower each shall have established, to the satisfaction of the PFI making the Sub-loan, on the basis of the Operational Guidelines that:

(a) it is creditworthy based on an analysis, undertaken in accordance with criteria set forth in the Operational Guidelines;

(b) it has a satisfactory financial structure and the organization, management, staff and financial and other sources required for the efficient carrying out of their operations, including the carrying out of the Sub-project.

(c) it utilizes the proceeds of the Sub-loan in the carrying out of a Sub-project determined by the Federation LDF (in accordance with appraisal principles satisfactory to the Association) to be technically, financially and environmentally feasible;

(d) it maintains a debt service coverage ratio, calculated in accordance with the Operational Guidelines; and

(e) its projected financial resources shall be sufficient to enable it to meet the estimated expenditures required for the carrying out of the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with the Operational Guidelines, to be:

(a) technically feasible and economically and financially viable, based on criteria set forth in the Operational Guidelines;

(b) for revenue generating Sub-projects, able to generate revenues adequate to cover the operating and maintenance costs thereof as they are incurred and to recover in progressive steps over an appropriate period of time a reasonable portion of the capital costs thereof, all as shall be determined and calculated by the PFI in accordance with the Operational Guidelines; and

(c) in compliance with environmental standards satisfactory to the Association and in compliance with all applicable laws and regulations of the Federation relating to health, safety and environmental protection.

7. Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Federation LDF, the Federation and the Association, including the right to:

- (a) require the Sub-borrower to carry out the Sub-project with due diligence

and efficiency and in conformity with appropriate technical, economic, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that: (i) the works, goods and consultants' services to be financed out of the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 2 to this Agreement; and (ii) such goods and services be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Association or the Federation LDF, if the Association, the Federation or the Federation LDF shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Sub-borrower shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(e) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Association;

(f) obtain all such information as the Association, the Federation or the Federation LDF shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Credit upon failure by such Sub-borrower to perform its obligations under its contract with the PFI.

SCHEDULE 2

Procurement and Consultants' Services

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 this Part A.

(a) Preference for domestically manufactured goods and domestic contractors

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.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 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 \$200,000 equivalent per contract, 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, 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.

4. Procurement of Small Works

Works estimated to cost less than \$100,000 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 Association, 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (i) each contract procured pursuant to Part B of this Section I; and (ii) the first contract procured by each Sub-borrower pursuant to Part C.1, C.2, and C.4 of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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. 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 under Part A.1 and 2 of the Project, 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 under Part A.4 of the Project may be procured under contracts awarded in accordance with provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services that meet the requirements set forth in paragraph 5.01 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 Association of the Selection of Consultants

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (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 individual consultants estimated to cost the equivalent of \$20,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

