

CONFORMED COPY

LOAN NUMBER 4135 LT

Loan Agreement

(Social Policy and Community Social Services Development Project)

between

REPUBLIC OF LITHUANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 1, 1997

LOAN NUMBER 4135 LT

LOAN AGREEMENT

AGREEMENT, dated December 1, 1997, between Republic of Lithuania (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

(B) the Borrower intends to contract from other donor sources a grant or grants (the Additional Grants) in an amount equivalent to \$4.29 million to assist in financing part of the Project on the terms and conditions to be set forth in an agreement or agreements (the Additional Grant Agreements) to be entered into between the Borrower and additional donors.

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 of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) "Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty (30) days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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) "Implementation Agreement" means each agreement referred to in Section 3.01 (c) of this Agreement dated November 14, 1996, entered into by the Borrower, through MSSL (as defined below), and a Participating Municipality (as defined below) for the purposes of carrying out such part of Part B of the Project as shall be carried out in its municipality, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to such agreement and which are collectively referred to as "Implementation Agreements";

(b) "MOF" means the Borrower's Ministry of Finance;

(c) "MSSL" means the Borrower's Ministry of Social Security and Labor;

(d) "Operational Manual" means a manual setting out the organization and responsibilities for implementation of the Project referred to in Section 7.01 (e) of this Agreement;

(e) "Participating Municipality" means each of the municipalities of Vilnius, Svencionys, Siauliai, Anyksciai, Moletai and Utena and which are collectively referred to as "Participating Municipalities";

(f) "PEF" means the Policy Evaluation Fund referred to in paragraph 3 of Schedule 5 to this Agreement;

(g) "PCU" means the Project Coordination Unit to be established within MSSL and referred to in Section 7.01 (c) of this Agreement;

(h) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 18, 1996, and November 19, 1996, between the Borrower and the Bank; and

(i) "Special Account" means the account referred to in Section 2.02 (b) of 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, various currencies that shall have an aggregate value equivalent to the amount of three million seven hundred thousand dollars (\$3,700,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan and in respect of interest and other charges on the Loan.

(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 or attachment. Deposit into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 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 October 1, 2002, 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($\frac{1}{2}$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the

date immediately preceding each date specified in Section
of this Agreement, beginning with the Interest Period
Agreement is signed.

2.06
in which this

(ii) "Cost of Qualified Borrowings" means the cost, as
reasonably determined by the Bank and expressed as a
percentage per annum, of the outstanding borrowings of the
down after June 30, 1982, excluding such
portions thereof as the Bank has allocated to
investments; and (B) loans which may
1989 bearing interest
paragraph (a) of this Section.

Bank drawn
borrowings or
fund: (A) the Bank's
be made by the Bank after July 1,
rates determined otherwise than as provided in

(iii) "Semester" means the first six months or the second six
months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice
to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to
read as follows:

"(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
to the Cost of Qualified Borrowings determined in respect
plus one-half of one percent (1/2 of 1%). On
2.06 of this Agreement, the
amount outstanding during the preceding Interest Period, calculated at the rates
applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the
shall notify the Borrower of the Cost of Qualified Borrowings
respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on
January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 15
and November 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out Parts A, B (3) and C of the Project with
due diligence and efficiency and in conformity with
appropriate financial and administrative practices, and
provide, promptly as needed, the funds, facilities,
resources required for the Project; and

shall
services and other

(ii) without limitation or restriction upon any of its other
obligations under the Loan Agreement, the Borrower (A)
cause each Participating Municipality to carry out
of Part B of the Project and to perform
the Implementation Agreement to
or cause to be
facilities, services and other resources, necessary or
appropriate to enable and the Participating Municipalities
perform such obligations, and shall not take or permit
any action which would prevent or interfere

shall
its respective part
all its obligations under
which it is a party; and (B) shall take
taken all action, including the provision of funds,
to
to be taken
with such performance;

(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) For the purposes of Parts B(1) and (2) of the Project, the Borrower shall enter into Implementation Agreements with the Participating Municipalities under terms and conditions which shall have been approved by the Bank; and

(d) The Borrower shall exercise its rights under the Implementation Agreements 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 shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Implementation Agreements or any provision thereof.

Section 3.02. 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 and shall be carried out by the PCU.

Section 3.03. For the purposes of Section 9.08 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 or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each of the Borrower's fiscal years audited, in accordance with appropriate auditing principles consistently applied, independent auditors acceptable to the Bank, with by

(ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, the 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 said records and accounts and the audit thereof as the Bank shall 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 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.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause each Participating Municipality:

(a) to carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) at all times to operate and to maintain its plants, machinery, equipment and other property forming part of the facilities provided under the Project, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and administrative practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Any Participating Municipality shall have failed to perform any of its obligations under the Implementation Agreement to which it is a party;

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Participating Municipality will be able to perform its obligations under the Implementation Agreement to which it is a party;

(c) The Additional Grants shall have failed to become effective by December 31, 1998, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the agreement referred to in paragraph g (i) (A) of this Section; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions

consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraph (a) of Section 6.01 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) the events specified in paragraphs (c) (subject to the proviso thereto), and (d) (i) (B) (subject to the proviso of sub-paragraph (d) (ii)) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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) a project implementation agreement has been executed on behalf of MOF and MSSL on terms and conditions satisfactory to the Bank for the purposes of the Project;

(b) the Project Coordination Unit has been established within MSSL, with functions and responsibilities acceptable to the Bank and a project director and key staff whose qualifications, experience and terms of reference are acceptable to the Bank, have been appointed;

(c) the Borrower has adopted an Operational Manual satisfactory to the Bank in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement;

(d) the Borrower has established a project expenditure management system within MSSL satisfactory to the Bank; and

(e) the Borrower has entered into arrangements satisfactory to the Bank for the provision of project management advice to the PCU.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sermuksniu 6
2600 Vilnius
Lithuania

Telex:

261252 FIMA SU

For the Bank:

International Bank for

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

Cable address: Telex:

 INTBAFRAD 248423 (MCI),
 Washington, D.C. 64145 (MCI)

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

REPUBLIC OF LITHUANIA

By /s/ Antanas Valionis

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President
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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works	550,000 expenditures	100% of foreign and 85% of local expenditures
(2) Goods	830,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local ex- penditures for other items pro- cured locally
(3) Consultants' services and training		
(a) for Parts A(1),	975,000	100%

A(2), B and C

(b) for Part A(2)(b)	375,000	100%
(4) Refunding of Project Preparation Advance	699,300	Amount due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	270,700	
	<hr/>	
TOTAL	3,700,000	=====

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, works or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods, works or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) any payments made for expenditures under Category 3(b) unless the PEF has been established; and

(b) any payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$350,000, may be made on account of payments made for expenditures before that date but after November 18, 1996.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) for goods and works under contracts costing less than \$200,000 equivalent; and (ii) for services under contracts costing less than \$100,000 equivalent for the employment of consulting firms and under contracts costing less than \$50,000 equivalent for the employment of individual consultants, 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 provide social security to the population of the Borrower at an affordable cost through institutional development activities to improve: (i) the capacity of the Borrower to analyze social policy; and (ii) community social care 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: Social Policy Development

(1) Provision of technical assistance, training and equipment to (i) develop, implement, monitor and evaluate a strategic plan for the operations of MSSL and (ii) to improve MSSL's personnel management and training program; and

(2) Provision of: (a) technical assistance and training to assist MSSL to monitor and evaluate social policy through the preparation and publication of an annual social report and provision of training in social policy analysis, and (b) technical assistance to the Policy Evaluation Fund (PEF) within MSSL to strengthen local research capacity.

Part B: Community Social Service Pilot

(1) Rehabilitation of buildings and provision of goods, technical assistance and training for the establishment and operation of three (3) social service centers in each of the cities of Vilnius, Siauliai and Svencionys serving the elderly, families with children and the disabled.

(2) Rehabilitation of buildings and provision of goods, technical assistance and training for the establishment and operation of three (3) education centers for disabled children in each of the cities of Anyksciai, Moletai and Utena.

(3) Provision of goods, including computer equipment, technical assistance and training for the monitoring and evaluation of the implementation of Parts B (1) and (2) of the Project.

Part C: Project Management

Provision of equipment, technical assistance and training to assist the PCU in Project implementation.

* * *

The Project is expected to be completed by April 1, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning November 15, 2002 through November 15, 2013	155,000
On May 15, 2014	135,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (ex-pressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

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 (the Guidelines) and the following provisions of this Section, as applicable.

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 provision 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 Methods

1. National Competitive Bidding

Works estimated to cost \$500,000 or less per contract, up to an aggregate amount not to exceed \$860,000 shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$740,000 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. Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 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.

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

With respect to (i) the first two contracts awarded for works and (ii) contracts for goods and works in an amount equivalent to \$200,000 or more, 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (c) single-source selection of consulting firms, (b) assignments of a critical nature, as reasonably determined by the Bank, (c) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (d) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the Project Coordination Unit within MSSSL, with functions and responsibilities acceptable to the Bank including, without limitation, the carrying out of procurement activities for all parts of the Project, and with a project director and key staff whose qualifications, experience and terms of reference are acceptable to the Bank.

2. The Borrower shall adopt and apply procedures contained in an Operational Manual satisfactory to the Bank, setting out: (i) an implementation plan for the Project, including, without limitation, performance indicators for the Project; (ii) the organization, functions and responsibilities of the PCU; (iii) the format of reports and administrative steps to be followed in Project implementation and monitoring; and (iv) the responsibilities of each entity or agency involved in Project implementation

and monitoring.

3. The Borrower shall:

(a) maintain the Policy Evaluation Fund (PEF) with the functions and responsibilities described in the Operational Manual and shall not amend the by-laws of the PEF so as to affect materially and adversely the objectives of the Project without the approval of the Bank; and

(b) ensure that the national budget for each of the financial years 1997 and 1998 provides for an adequate allocation to the PEF.

4. 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 December 31, 1999, 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 March 31, 2000, 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 views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 and services 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 an amount equivalent to \$350,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 with respect to the Project, 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 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.

