

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4681 BUL

Loan Agreement

(Social Investment and Employment Promotion Project)

between

REPUBLIC OF BULGARIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 29, 2003

LOAN NUMBER 4681 BUL

LOAN AGREEMENT

AGREEMENT, dated January 29, 2003, between REPUBLIC OF BULGARIA (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 (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) “Active Labor Services” means labor and human resource services, including services for the unemployed that help them overcome frictional and structural unemployment and lack of demand for labor, including: employment and training services, small business technical assistance and incubator services, and local economic development planning services, provided to Unemployed Individuals (hereinafter defined) under Part B.2 of the Project;

(b) “Beneficiary(ies)” means a Community (hereinafter defined) or a municipality eligible for a Small Grant (hereinafter defined) in accordance with the

eligibility criteria specified in the Operational Manual (hereinafter defined), and for whose benefit a Small Grant (hereinafter defined) is provided or proposed to be provided for the purposes of implementing activities under Part A of the Project;

(c) “Community” means a group of people united geographically or by a common purpose, which works in partnership with demand-responsive support organizations and service providers to provide social and infrastructure services, organize economic activity and resource management, empower poor people, improve governance, and enhance security of the poorest;

(d) “EA” means the Borrower’s Employment Agency established under the Law for Encouragement of Employment, published in the State Gazette No. 112 of December 29, 2001;

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

(f) “Law for the Social Investment Fund” means the law adopted by the Borrower and published in the State Gazette No. 32 of April 3, 2001;

(g) “Local Employment Bureaus” means the local extensions of the EA at the local level;

(h) “MOLSP” means the Borrower’s Ministry of Labor and Social Policy;

(i) “Operational Manual” means the manual, referred to in paragraph 5 of Schedule 5 to this Agreement and dated January 2003 satisfactory to the Bank;

(j) “Project Account” means the separate payment code introduced in the budget account of MOLSP in the Bulgarian National Bank, for purposes of making available the counterpart funds for the financing of the Project, in accordance with the provisions of Section 3.01 (c) of this Agreement;

(k) “REC” means the Borrower’s Regional Employment Commission, established within the Council for Regional Development under the Employment Promotion Act, published in the State Gazette No. 112 of December 29, 2001, in charge of regional coordination and representation in development and employment matters;

(l) “SIF” means the Borrower’s Social Investment Fund established under the Law for the Social Investment Fund;

(m) “SIF Steering Committee” means the committee established within SIF pursuant to the Law for the Social Investment Fund referred to in paragraph 3 of Schedule 5 to this Agreement;

(n) “Small Grant” means a grant made or proposed to be made by the Borrower, through SIF, to an eligible Beneficiary out of the proceeds of the Loan for the financing of a Sub-project (hereinafter defined);

(o) “Small Grant Agreement” means an agreement between the Borrower, through SIF, and a Beneficiary referred to in paragraph 6 of Schedule 5 to this Agreement;

(p) “Special Account” means the account referred to in Section 2.02 (b) to this Agreement;

(q) “Sub-project” means an activity under Part A of the Project to be carried out by a Beneficiary and in respect of which a Small Grant is provided, or proposed to be provided, for the benefit of the Beneficiary; and

(r) “Unemployed Individuals” means individuals who are registered as unemployed at Local Employment Bureaus or who have been served notice that they are going to be laid off from their work within three months.

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 fifty million and eight hundred thousand Euro (□50,800,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of Small Grants made under the Project to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, services, and operating costs required for carrying out the Project, other than for Small Grants made under 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 Euro a special deposit account in the Bulgarian National Bank, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007, 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 Euro 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 June 15 and December 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 Part A and Part C of the Project through SIF, and shall carry out Part B of the Project through SIF and EA, with due diligence and efficiency and in conformity with appropriate administrative, environmental, technical and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through SIF, provide evidence satisfactory to the Bank, by no later than thirty (30)

days after the State Budget Law of the relevant fiscal year has been published by the Borrower in the State Gazette, each year during Project implementation, starting as of 2003, that sufficient resources have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under this Project for the year in question.

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

(d) 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. (a) The Borrower shall, through SIF, make the proceeds of the Loan allocated under Category (3) of the table in paragraph 1 of Schedule 1 to this Agreement available to Beneficiaries under Small Grant Agreements to be entered between the Borrower, represented by SIF, and such Beneficiaries, under standard terms and conditions which shall have been approved by the Bank, including those set forth in paragraph 6 (c) of Schedule 5 to this Agreement.

(b) the Borrower shall exercise its rights under any Small Grant Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Small Grant Agreement or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months 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, through the SIF, 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, through SIF:

- (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, through SIF, prepare and furnish to the Bank a Financial Monitoring Report, 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 forty-five (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 forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) The Operational Manual has been amended, abrogated, or modified without the Bank's prior consent.

(b) The law for the Social Investment Fund of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under the Agreement.

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 paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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:

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

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

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

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

REPUBLIC OF BULGARIA

By /s/ Milen Velchev

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 Euro)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	450,000	100% of foreign expenditures, 100% of local expenditures (ex- factory), and 80% of other local expenditures
(2) Consultants' services, including audit services and training	1,800,000	85% for local consultants, and 95% for international consultants
(3) Small Grants under Part A of the Project	37,000,000	80% of the disbursed amount under the Sub-project Grant Agreements
(4) Active Labor Services under Part B.2 of the Project	10,300,000	80% of the disbursed amount
(5) Incremental Operating Costs	270,000	95% of expenditures incurred until December 31, 2003; 90% of expenditures incurred until December 31, 2004; 80% of expenditures incurred until December 31, 2005; 75% of expenditures incurred until December 31, 2006; and 25% of expenditures incurred thereafter
(6) Front-end fee	508,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>472,000</u>	

TOTAL 50,800,000

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;

(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;

(c) the term “training” means the expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including travel costs and per diem of trainees, study tours, rental of facilities and equipment, and training materials; and

(d) the term “incremental operating costs” means expenditures incurred by SIF on account of Project implementation, including minor office equipment, furniture and supplies, utilities, communications and internet fees, copying, reproduction and publication costs, travel and per diem costs of SIF staff associated with the implementation of the Project activities, and such other expenditures as may be agreed upon by the Bank.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than □ 100,000 equivalent each; (b) Active Labor Services under Part B.2 of the Project for contracts costing less than □ 50,000 equivalent each; (c) Small Grants under Part A of the Project of up to □ 50,000 equivalent each; (d) services provided by consulting firms under contracts costing less than □ 100,000 equivalent each; (e) services provided by individual consultants under contracts costing less than □ 50,000 equivalent each; and (f) training and incremental 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 strengthen the Borrower's existing social protection services and improve standards of living of poor unemployed people and selected disadvantaged communities.

The Project consists of the 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: Community Infrastructure for Development Initiative (CIDI)

1. Provision of technical assistance, goods, and training to: (a) improve delivery of social and economic services for population in poor areas; and (b) enhance social capital, social awareness, and social institutional capacity of poor communities and local governments to, among others, stimulate local development and provide social services to the population in poor communities.

2. Provision of Small Grants to carry out in a participatory manner Community and municipal Sub-projects to: (a) improve delivery of social and economic services for the population in poor areas; and (b) enhance social capital, social awareness, and social institutional capacity of poor communities and local governments to, among others, stimulate local development and provide social services to the population in poor communities.

Part B: Bulgarian Active Labor Market Initiative (BALMI)

1. Provision of technical assistance and goods to assist Unemployed Individuals in poor communities to re-enter the labor market through the development and use of a labor market information system.

2. (a) Provision of Active Labor Services to Unemployed Individuals in poor communities, made available through the Local Employment Bureaus throughout the Borrower's territory in accordance with the Operational Manual.

(b) Provision of technical assistance to carry out an impact study related to the implementation, evaluation and results of Active Labor Services.

Part C: Project Management

Provision of goods and technical assistance, including the financing of audit services for the Project, and financing of incremental operating costs with respect to the Project implementation, evaluation, and monitoring.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Euro</u>)*
June 15, 2007	1,520,000
December 15, 2007	1,550,000
June 15, 2008	1,580,000
December 15, 2008	1,610,000
June 15, 2009	1,645,000
December 15, 2009	1,675,000
June 15, 2010	1,705,000
December 15, 2010	1,740,000
June 15, 2011	1,775,000
December 15, 2011	1,810,000
June 15, 2012	1,845,000
December 15, 2012	1,880,000
June 15, 2013	1,915,000
December 15, 2013	1,950,000
June 15, 2014	1,990,000
December 15, 2014	2,030,000
June 15, 2015	2,070,000
December 15, 2015	2,110,000
June 15, 2016	2,150,000
December 15, 2016	2,190,000
June 15, 2017	2,235,000
December 15, 2017	2,275,000
June 15, 2018	2,320,000
December 15, 2018	2,365,000
June 15, 2019	2,410,000
December 15, 2019	<u>2,455,000</u>
TOTAL	<u>50,800,000</u>

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works for Sub-projects carried out under Part A of the Project 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 and works for Sub-projects carried out under Part A of the Project to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Notification and Advertising

The invitation to bid for each contract for procurement of goods estimated to cost 200,000 equivalent or more and for each contract for procurement of works for Sub-projects carried out under Part A of the Project estimated to cost 500,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding (NCB)

(a) Goods estimated to cost less than □200,000 equivalent per contract and works for Sub-project carried out under Part A of the Project 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.

(b) Additional conditions with regard to NCB procedures:

- (i) the Borrower shall not use a point system of evaluation;
- (ii) the Borrower shall not apply domestic preference;
- (iii) the Borrower shall not exclude international bidders from bidding;
- (iv) the Borrower shall prepare draft NCB bidding documents for procurement of works and goods and submit to the Bank the first three contracts for review and no-objection before the NCB tender is issued;
- (v) the Borrower shall not reject bids at the bid opening;
- (vi) the Borrower shall ensure that bids submitted on or before the deadline for submission of bids will be opened and read out at public bid opening;
- (vii) local bidders shall demonstrate the availability of obtaining securities and reasonable access to credit, if required;
- (viii) the Borrower shall pre-disclose bid evaluation criteria to bidders; and
- (ix) the Borrower shall ensure that technical specifications are clearly written in the bidding documents.

2. International Shopping

Goods estimated to cost less than □ 100,000 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 national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Sub-projects for Community Infrastructure for Development Initiative

Goods, works, and services required for Sub-projects carried out under Part A of the Project may be procured in accordance with the provisions of paragraph 3.15 of the Guidelines following criteria and procedures acceptable to the Bank and set forth in the Operational Manual.

5. Active Labor Services

Active Labor Services under Part B.2 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.15 of the Guidelines following criteria and procedures acceptable to the Bank and set forth in the Operational Manual.

Part E: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract to be procured in accordance with the procedures referred to in Part B above; and (ii) the first two contracts to be procured in accordance with the procedures referred to in Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first three contracts and each contract estimated to cost the equivalent of □ 50,000 or more, to be procured for the purposes of carrying out Sub-projects under Part A of the Project; and (ii) the first three contracts and each contract estimated to cost the equivalent of □ 50,000 or more, to be procured for Active Labor Services under Part B.2 of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply

(c) With respect to the first two contracts procured in accordance with the procedures referred to in Part C.2 and Part C.3 above, the following procedures shall apply:

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

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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Annual audit services estimated to cost less than □20,000 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 for consultant firms largely devoted to providing local training estimated to cost less than □ 50,000 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. Single Source Selection

Services for study tours which are estimated to cost up to an aggregate amount of □ 100,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Selection Under a Fixed Budget

Services for detailed technical supervision of infrastructure Sub-projects and social assessment studies estimated to cost less than □ 150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated from time to time during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

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 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of □50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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, through SIF, shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the 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 June 30, 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 September 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. SIF shall maintain during the execution of the Project qualified and sufficient staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project, in a manner satisfactory to the Bank.
3. SIF Steering Committee shall provide oversight and policy guidance for the overall implementation of the Project.
4. The Borrower, through MOLSP, shall ensure that, for the purposes of Part A and Part B of the Project, SIF shall consult and coordinate with REC with regard to local level implementation of the Project, allocation of funds for Sub-projects, and targeting of activities carried out under the Project.
5. The Borrower, through SIF and EA, shall implement the Project in accordance with the Operational Manual including:
 - (a) the respective roles and responsibilities of EA and SIF for the purposes of carrying out Part B.2 of the Project and the consultation mechanisms that will be put in

place to ensure the participation of interested stakeholders and local subdivisions for this Part of the Project;

(b) the guidelines, procedures and criteria for Small Grants under Part A of the Project;

(c) the procedures and criteria, including eligibility criteria, applicable to the provision and implementation of Active Labor Service provided under Part B.2 of the Project;

(d) an implementation plan for the Project adopted by the Borrower;

(e) the environmental mitigation, monitoring, and institutional measures for the execution of the Project; and

(f) key instruments for the execution and coordination of the Project (including procurement and financial management procedures).

6. (a) For the purposes of carrying out Part A of the Project: (i) Communities shall be eligible to present Sub-projects for an amount up to □80,000 equivalent; and (ii) municipalities shall be eligible to present Sub-projects for an amount up to □200,000 equivalent, all in accordance with the criteria and procedures set forth in the Operational Manual;

(b) Sub-projects shall be evaluated by SIF, approved by SIF Steering Committee, and implemented by the Beneficiaries in accordance with the criteria and procedures set forth in the Operational Manual, in a manner satisfactory to the Bank and in consultation with Sub-project representatives of interested communities;

(c) For purposes of each Sub-project, the Borrower shall, through SIF, conclude an agreement with the Beneficiary, in a manner satisfactory to the Bank and in accordance with the Operational Manual (Small Grant Agreement). Said agreement will provide that the Beneficiary shall be awarded a Small Grant to carry out a Sub-project under the following respective obligations of the parties thereunder, including but not limited to:

(i) a description of the Sub-project and an estimate of the cost thereof, disbursement schedules and procurement procedures, as they may apply, and the amount of the Beneficiary's contribution to the cost of the Sub-project;

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

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

- (a) ensure that the guidelines for environmental review of Sub-projects included in the Operational Manual are followed by interested communities and municipalities; and
- (b) regularly assess, identify and mitigate, if necessary, any effects of aggregate investments on the environment in accordance with the Operational Manual.

8. Active Labor Services under Part B.2 of the Project shall be implemented by EA, with the oversight of SIF Steering Committee, in accordance with the criteria and procedures set forth in this Agreement and the Operational Manual.

9. The Borrower shall select, by not later than February 28, 2003, the auditors referred to in Section 4.01 of this Agreement in a manner satisfactory to the Bank.

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, Small Grants, and incremental 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 □1,500,000 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 □500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of □2,000,000.
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 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.