

CONFORMED COPY

LOAN NUMBER 3942 TU

Loan Agreement

(Public Financial Management Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 11, 1995

LOAN NUMBER 3942 TU

LOAN AGREEMENT

AGREEMENT, dated October 11, 1995, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, 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 Single Currency Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (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) "MOF" means the Ministry of Finance of the Borrower;
- (b) "Treasury" means the Undersecretariat of Treasury of the Borrower;
- (c) "SPO" means the State Planning Organization of the Borrower;
- (d) "CA" means the Customs Administration of the Borrower;
- (e) "GDR" means the General Directorate of Revenues of the MOF;
- (f) "GDBFC" means the General Directorate of Budget and Fiscal Control of the MOF;
- (g) "GDPA" means the General Directorate of Public Accounts of the MOF;
- (h) "GFMIS" means the Government Financial Management Information System of the Borrower;
- (i) "PPMIS" means the Personnel and Payroll Management Information System of the Borrower;
- (j) "PMU" means a Project Management Unit and "PMUs" mean the Project Management Units established within: (i) the GDR, (ii) the GDBFC and the GDPA, and (iii) the CA, with overall responsibility for the coordination of Parts A, B and C of the Project, respectively;
- (k) "Working Groups" mean the working groups, referred to in Parts A.2, B.1 and B.2, and C.2 of Schedule 5 to this Agreement, established within the MOF and the CA, with responsibility for the implementation of specific activities under Parts A, B and C of the Projects, respectively;
- (l) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated May 26, 1995 and July 13, 1995 between the Borrower and the Bank; and
- (m) "Special Account A", "Special Account B" and "Special Account C" mean the accounts referred to, respectively, in paragraphs (b) (i), (b) (ii) and (b) (iii) of Section 2.02 of this Agreement, and "Special Accounts" means Special Account A, Special Account B and Special Account C.

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 of sixty-two million dollars (\$62,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may open and maintain in dollars in the Central Bank of the Borrower, on terms and conditions satisfactory to the Bank: (i) for the purposes of Part A of the Project, Special Account A; (ii) for the purposes of Part B of the Project, Special Account B;

and (iii) for the purposes of Part C of the Project, Special Account C. Deposits into, and payments out of, the Special Accounts 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 June 30, 2000 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 (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with 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, shall carry out Part A of the Project through the GDR, Part B of the Project through the GDBFC and the GDPA, and Part C of the Project through the CA, with due diligence and efficiency and in conformity with appropriate administrative, financial and technological practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project, including, inter alia, annual budgetary allocations, at a level satisfactory to the Bank, for each part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 3.02. (a) The Borrower shall, without limitation to the provisions of Sections 9.06 and 9.07 of the General Conditions, prepare and furnish to the Bank for approval for purposes of the Project, by October 31 of each year, starting on October 31, 1996, its proposed annual operational program, such program to be of such scope and in such detail as the Bank shall reasonably request, to include, inter alia: (i) a detailed list of the Project activities to be executed and expenditures to be incurred, in respect of each Part of the Project, during the immediately following year; and (ii) a list of the Borrower's agencies or third parties selected to participate in Project activities or to assist the Borrower, through contractual arrangements, in the carrying out thereof, all during the immediately following year.

(b) The Borrower shall review: (i) the progress made in the carrying out of each Part of the Project against a set of indicators agreed between the Borrower and the Bank; and (ii) the level of funding required for the Project for the immediately following year from the proceeds of the Loan and budgetary allocations made by the Borrower.

(c) The Borrower shall: (i) introduce such changes into each proposed annual operational program as shall be agreed between the Borrower and the Bank; and (ii) make provision for budgetary allocations for the immediately following year as shall be agreed between the Borrower and the Bank.

Section 3.03. Without limitation or restriction upon the provisions of Section 3.02 of this Agreement, the Borrower shall: (a) not later than March 31, 1996, carry out a review, jointly with the Bank, of progress in Project implementation; (b) not later than March 31, 1997, carry out a review of the pilot implementation of the new customs systems under Part C of the Project; and (c) not later than March 31, 1998, carry out a review of the pilot GFMIS under Part B of the Project.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. 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 Accounts for each fiscal year audited, in accordance with appropriate auditing principles 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, 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 or payment out of each Special 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

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition of effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower has appointed, under terms of reference satisfactory to the Bank, an in-house technical adviser to assist the GDBFC and the GDPA in the implementation of budgetary reforms under Part B of the Project.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Undersecretary of the Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Basbakanlik Hazine
Mustesarligi
Inonu Bulvari
Emek - Ankara
Republic of Turkey

Cable address:

Telex:

MALIYE-HAZINE

821-42285 (MLYE-TR) or
921-42689 (ANK-TR)

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
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF TURKEY

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman
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) Part A of the Project:		
(a) Goods	1,190,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 85% of local expenditures for other items procured locally
(b) Training	500,000	100%
(c) Consultants'	6,000,000	100%

services

(2) Part B of the Project:

(a) Goods	4,680,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 85% of local expenditures for other items procured locally
(b) Training	300,000	100%
(c) Consultants' services	2,690,000	100%

(3) Part C of the Project:

(a) Goods	35,250,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 85% of local expenditures for other items procured locally
(b) Training	580,000	100%
(c) Consultants' services (advisory)	1,560,000	100%
(d) Project management support services	1,000,000	100%

(4) Refunding the Project Preparation Advance 2,000,000 Amounts due pursuant to Section 2.02 (c) of this Agreement

(5) Unallocated 6,250,000

TOTAL 62,000,000

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 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 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) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed \$6,200,000 may be made on account of payments made for expenditures before that date but after September 29, 1994;

(b) expenditures in respect of Category (1) for Part A of the Project, until the Bank has received satisfactory evidence of the appointment, under terms of reference satisfactory to the Bank, of an in-house adviser and a procurement specialist for said Part A of the Project; and

(c) expenditures in respect of Category (3) for Part C of the Project, until the Bank has received satisfactory evidence of the execution of an agreement between the Borrower and the International Monetary Fund for the provision to the CA of technical assistance, including an in-house adviser and an information technology specialist for said Part C of the Project.

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 under contracts not exceeding \$300,000 equivalent; and (ii) for services of consultants' firms of less than \$100,000 and of individual consultants of less than \$50,000; 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 enhance the first phase of the Borrower's fiscal consolidation and reform efforts in tax administration, management of government expenditures and customs administration and in improving the efficiency and effectiveness of the agencies responsible for administering these functions.

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: Tax Administration

(1) Restructuring of the central, regional and local tax agencies to reduce fragmentation of managerial authority and strengthen the GDR, including the establishment of new regional offices focusing on automated data processing, audit and training.

(2) Development and implementation of a modern automated system for core tax administration functions and management information in the GDR to allow for an expansion of business and provide for more effective and efficient operations.

(3) Development and broadening of the tax base and enlarging of revenues, through the introduction of a third-party financial information system for cross-checking purposes and strengthening the policy formulation capability of the GDR.

(4) Development and implementation of an enhanced audit strategy.

(5) Increase in voluntary tax payment compliance by streamlining current procedures.

(6) Strengthening the role of the banking system in routine tax administration processes and speeding transfer of tax payments through the banking system.

(7) Provision of training and consultants' services to support the above activities, including, inter alia: (a) an in-house technical advisory team to assist the GDR in planning, coordination, implementation and monitoring; (b) carrying out of an organization study to provide assistance in the restructuring of the GDR and the preparation of draft

legislation, regulations and manuals re-defining the GDR and its personnel administration; (c) preparation of an information/process model for the tax administration system; (d) establishment of a development laboratory in Ankara to model new/changed processes, local tax offices, regional offices and the new centralized intelligence research operation, test computer configurations and communications interconnections, and to develop and conduct demonstrations and training for the GDR staff; and (e) training and modeling activities to enhance policy formulation capability.

Part B: Expenditure and Personnel Management

- (1) Strengthening of the budgetary system control by elimination or restructuring of revolving funds, annexed budgets and extra budgetary funds.
- (2) Restructuring of the budget office system, rationalization of the account offices network and reduction in the ex-ante controls.
- (3) Strengthening budget-decision making by introducing a new budget code structure for economic analysis.
- (4) Installation of streamlined procedures to govern commitment authorizations and monitoring and a simplified model compatible with the proposed computerized financial ledger system.
- (5) Modernization of payments processes and cash management, including the establishment of improved norms and procedures for cash projection and improvements in public banking arrangements.
- (6) Integration of the management of public administration with financial management through the initiation of position ceilings, a centralized data base on the civil service linking position and budget management, and establishment of a modern payroll system.
- (7) Strengthening the capability of the GDBFC and the GDPA in management of public expenditures through upgrading of MOF information systems, realigning the GDBFC and the GDPA systems on a functional basis in an integrated financial management system and training in modern government financial management accounting.
- (8) Integration of budgeting and accounting functions in the MOF and linking them with Treasury's cash and debt management system within the context of the financial ledger system.
- (9) Strengthening of information technology staffs of the GDBFC and the GDPA by expanding their capacities for system development and maintenance through technical training.
- (10) Provision of training and consultants' services to support the above activities, including, inter alia, carrying out of studies to: (a) define a reform strategy for improving budget coverage; (b) introduce a new budget and chart of accounts; (c) prepare an action program for rationalizing the system of controls over government expenditures; (d) define new regulations and procedures for budgeting of positions in the public administration and develop a detailed program for computerization of personnel information and payroll; (e) review banking arrangements and government accounts; and (f) establish overall functional and information requirements of the information systems, overall systems architecture and technology architecture, and implement the systems at eight pilot sites; and provide training and modeling activities to enhance policy formulation capability.

Part C: Customs Modernization

(1) Revision of regulations and procedures by the introduction of self-assessment methods, selective physical inspections and document checks, strengthening post-release reviews and streamlining import controls.

(2) Upgrading of computerization to full automation of customs procedures and strengthening the capacity to enforce legislative and regulatory requirements, following a successful pilot implementation.

(3) Consolidation of responsibilities for the development and maintenance of automated information systems.

(4) Restructuring and rationalizing of the customs organization in line with new operational procedures, together with decentralization of operations.

(5) Provision of training and consultants' services to support the above activities.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings.

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "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.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus
- (ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings.

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

- (i) one half of one percent (1/2 of 1%);
- (ii) 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 such Disbursed Amount for such Interest Period;

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

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

- (i) one-half of one percent (1/2 of 1%);
- (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, 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 to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus
- (iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

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

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, 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 this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn 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.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semi-annual installments payable on each March 15 and September 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after March 15, 2011 the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization scheduled for such Disbursed Amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (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 estimated to cost the equivalent of \$300,000 or more per contract shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of Contracts

To the extent practicable, contracts for equipment shall be grouped into bid packages estimated to cost \$300,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provision 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. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract and \$350,000 equivalent or less in the aggregate 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.

2. Direct Contracting

Proprietary software which must be purchased from the original supplier to be compatible with existing tools and costing \$570,000 equivalent or less in the aggregate may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to prequalify for bidding, 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 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 each contract procured under the provisions of Part B of this Schedule and Part C.2 of this Schedule, 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. In order to assist the Borrower in carrying out the Project, the Borrower shall employ management, financial, tax and customs consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

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 individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c)

assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Tax Administration (Part A of the Project)

1. The Borrower shall maintain the PMU within the GDR, under terms of reference satisfactory to the Bank, which shall be responsible for the coordination and implementation of activities under Part A of the Project, including, inter alia, coordinating all procurement activities, monitoring the availability of funds and all costs and expenditures, and preparing periodic and completion reports, all with respect to said Part A of the Project.
2. The Borrower shall maintain within the GDR five Working Groups, under terms of reference satisfactory to the Bank, which shall be responsible for carrying out specific activities under Part A of the Project, namely, automation, collections, organization, tax policy analysis and third-party systems.
3. The Borrower shall, by December 31, 1996, furnish the Bank with an action plan for the reorganization of the GDR, including its headquarters, regional offices and local offices.
4. The Borrower shall, by December 31, 1996, furnish the Bank a copy of its decision concerning the collection by the GDR of social security, health and unemployment contributions.

B. Expenditure and Personnel Management (Part B of the Project)

1. The Borrower shall maintain, within the GDBFC and the GDPA, the PMU for Part B of the Project, under terms of reference satisfactory to the Bank, which shall be responsible for the coordination and implementation of the activities under said Part B of the Project under the Head of Department from the GDBFC, and four Working Groups with responsibility for implementation of specific activities under said Part B of the Project.
2. The Borrower shall maintain four Working Groups, under terms of reference satisfactory to the Bank, which shall be responsible for carrying out specific activities under Part B of the Project, including, budget preparation and revision, budgetary control processes, personnel and payroll management, and information systems.
3. The Borrower shall, by January 1, 1997, put into effect the chart of accounts in a manner satisfactory to the Bank.
4. The Borrower shall, through the MOF, furnish to the Bank by December 31, 1997, a plan satisfactory to the Bank, for the reorganization and rationalization of the budget offices.
5. The Borrower shall: (a) by January 1, 1997, adopt a new budget code structure which shall include, inter alia, functional and economic classification of expenditures according to international standards, and full implementation of position ceilings in a manner satisfactory to the Bank; and (b) prepare the general budget to be submitted to Parliament for the 1997 fiscal year on the basis of said new code structure and position ceilings.
6. The Borrower shall, by February 28, 1996, adopt for implementation in the preparation of the 1997 budget, the new

timetable and methodology for budget preparation.

7. The Borrower shall, by December 31, 1997, successfully conduct the pilot operation for the GFMIS and the PPMIS. The success of such pilot operation shall be measured on the basis of criteria agreed with the Bank.

C. Customs Modernization (Part C of the Project)

1. The Borrower shall maintain the PMU within the CA, under terms of reference satisfactory to the Bank, which shall be responsible for the coordination and implementation of Part C of the Project.

2. The Borrower shall maintain within the CA, under terms of reference satisfactory to the Bank, seven Working Groups which shall be responsible for carrying out specific activities under said Part C of the Project, including tariffs, trade documents harmonization and standardization, customs procedures and organization, information technology, technical assessment, national implementation and training.

3. The Borrower shall, through the CA, by December 31, 1996, issue new and/or revised customs regulations as agreed between the Borrower and the Bank.

4. The Borrower shall, through the CA, by June 30, 1997, furnish to the Bank a satisfactory plan for the reorganization of the CA, including the headquarters, regional offices and local offices.

5. The Borrower shall, by December 31, 1996, successfully conduct the pilot site operation. The success of such pilot site operation shall be assessed on the basis of criteria agreed with the Bank, including, inter alia: (a) simplification of procedures; (b) reduction of release times from customs control; (c) improvement in the accuracy of duty and tax calculations; and (d) reduction in the rate of physical inspections.

SCHEDULE 6

Special Accounts A, B and C

1. For the purposes of this Schedule:

(a) the term "eligible Category" means, in respect of Special Account A, Category (1); in respect of Special Account B, Category (2); and in respect of Special Account C, Category (3); as 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 Part A, B and C of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the respective eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means in respect of Special Account A, an amount equivalent to \$1,200,000, in respect of Special Account B, an amount equivalent to \$930,000, and in respect of Special Account C, an amount equivalent to \$1,300,000, to be withdrawn from the Loan Account and deposited in the respective 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 in respect of Special Account A, an amount equivalent to \$600,000, in respect of Special Account B, an amount equivalent to \$470,000, and in respect of Special Account C, an amount equivalent to \$650,000, 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 \$1,000,000, in respect of Special Account A, \$900,000, in respect of Special Account B, and \$8,700,000, in respect of Special Account C.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the respective Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of said 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 in the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Bank requests for deposits therein 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 said 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 said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, 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 each 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 Special Account A, Special Account B or Special Account C:

(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; or

(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 Special Account A, Special Account B or Special Account C;

(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 respective eligible Category, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the respective part of the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account A, Special Account B or Special Account C: (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 respective 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 respective Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the respective 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 Special Account A, Special Account B or Special Account C.

(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.

