

CONFORMED COPY

CREDIT NUMBER 3698 ET

Development Credit Agreement

(Capacity Building for Decentralized Service Delivery Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 12, 2002

CREDIT NUMBER 3698 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 12, 2002, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of

the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter of sector policy dated May 15, 2002, from the Borrower, describing a program of actions, objectives and strategies (the Program) designed to strengthen the Borrower's efforts and actions aimed at: (i) building public sector capacity at the federal, regional and local levels, and (ii) enhancing public sector delivery performance of basic administrative, social and local services; and declaring therein the Borrower's commitment to the execution of the Program; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985 (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) "Beneficiary" means any: (i) *Woreda* (as hereinafter defined), municipality, regional or federal government institution (Beneficiary Institution); (ii) ministry, agency or regional bureau of the Borrower (Beneficiary MAB), including MoFED, MFA (both as hereinafter defined), the Federal Civil Service Commission, the Bureau of Finance and Economic Development; (iii) training institution in the Borrower's territory (Beneficiary TI); and (iv) civil society institution (Beneficiary CSI) in the Borrower's territory, which is to benefit from the capacity building and training programs under the Project;

(b) "*Birr*" means the currency of the Borrower;

(c) "CSRP" means the Borrower's Civil Service Reform Program initiated in 1996 in the Borrower's territory;

(d) "Financial Monitoring Report" and "FMR" mean each report prepared in accordance with Section 4.02 of this Agreement;

(e) "Fiscal Year" and "FY" mean the Borrower's fiscal year beginning July 8 and

ending July 7 of the next calendar year;

(f) “Letter of Undertaking” means the written understanding reached between MCB and MFA (both as hereinafter defined) for the implementation of Part B of the Project by MFA;

(g) “MCB” means the Borrower’s Ministry of Capacity Building;

(h) “MFA” means the Borrower’s Ministry of Federal Affairs;

(i) “MoFED” means the Borrower’s Ministry of Finance and Economic Development;

(j) “NCBP” means the Borrower’s National Capacity Building Program adopted in October 2001 for cross sector improvement of institutional and human capacity in its territory;

(k) “NBE” means the National Bank of Ethiopia, the Borrower’s central bank;

(l) “Participation Agreement” means the Agreement to be entered into between: (i) MCB and any Beneficiary under Part A.3 of the Project; and (ii) MFA and a Beneficiary under Part B of the Project, all for the purpose of carrying out a Subproject (as hereinafter defined);

(m) “Project Account” means the Account referred to in Section 3.04 of this Agreement;

(n) “Project Implementation Plan” means the implementation plan referred to in Section 6.01 (c) of this Agreement and consisting of different schedules, including the Project Operational Manual, setting forth respectively, *inter alia*, the administrative, financial and accounting procedures; the procurement and disbursement procedures; the eligibility criteria for Subprojects and for each respective Beneficiary; the terms and conditions for Participation Agreements and Work Programs, including procurement, accounting, and financial arrangements and procedures therefor; performance indicators to be used in relation thereto, and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Borrower not later than the Effective Date, as the same may be amended from time to time;

(o) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on December 13, 2001 and on behalf of the Borrower on

January 3, 2002;

(p) “Region” means an administrative area within the Borrower’s territory as

defined in the Borrower's Constitution;

(q) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(r) "Subproject" means training and capacity building activities and procurement, financial and accounting procedures therefor, to be carried out by a Beneficiary under Parts A.3 and B of the Project;

(s) "UDCBO" means the Urban Development Capacity Building Office of MFA;

(t) "Woreda" means an administrative area within the Borrower's territory, established and operating pursuant to the Borrower's Constitution; and

(u) "Work Program" means defined capacity building and training activities to be implemented by a Beneficiary MAB pursuant to a letter of undertaking issued by MCB under Parts A.1, A.2, and A.4 of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty million seven hundred thousand Special Drawing Rights (SDR 20,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit, and (ii) amounts paid (or, if the Association shall so agree, to be paid) by MCB on account of withdrawals made for the carrying out of a Subproject by a Beneficiary, to meet the reasonable cost of goods and services required for the carrying out of a Participation Agreement to be financed under the Project, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in NBE, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the

principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2005 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on July 1 and January 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each July 1 and January 1 commencing July 1, 2012 and ending January 1, 2042. Each installment to and including the installment payable on January 1, 2022, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's

economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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 the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, public utility and financial practices, and with due regard for environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives , and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower, for the purposes of making available its counterpart contribution to the financing of the Project, shall:

(a) open and maintain, for the duration of the Project, an account (the Project Account) in *Birr* in NBE, on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into the Project Account, in an amount equivalent to *Birr* 6,500,000 to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by March 1, and September 1 in each Fiscal Year during Project implementation such amount as shall be required to timely replenish the Project Account back to the amount of the initial deposit for the first Fiscal Year referred to in paragraph (b) above; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the Project in addition to those financed from the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01.(a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the

Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six 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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Financial Monitoring Reports or 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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 Financial Monitoring Reports or 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 8 (a), (b) and (c) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and thereafter not later than 45 days after each calendar quarter, a Financial Monitoring Report for such period, in form and substance satisfactory to the Association, which:

(i) sets forth actual and projected sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the projected and actual sources and 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 previously forecast and actual implementation targets; 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 Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has established the accounting and financial management system for the Project referred to in Section 4.01 of this Agreement, satisfactory to the Association;

(b) the Borrower has opened the Project Account pursuant to Section 3.04 (a) of this Agreement and has deposited therein the initial deposit referred to in Section 3.04 (b) of this Agreement;

(c) the Borrower has adopted the Project Implementation Plan, in form and

substance satisfactory to the Association;

(d) the Borrower has prepared the procurement plan for the first year of Project implementation, in form and substance satisfactory to the Association;

(e) the Borrower has appointed to MCB a Procurement Specialist and a Financial Management Officer, both with experience and qualifications satisfactory to the Association; and

(f) the Letter of Undertaking for the implementation by MFA of Part B of the Project has been entered into between MCB and MFA, in form and substance satisfactory to the Association.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance and Economic Development
Ministry of Finance and Economic Development
P.O. Box 1905
Addis Ababa,
Federal Democratic Republic of Ethiopia

Cable address:

Telex:

21147

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS 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 their respective names in the District of Columbia, United States of America, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Kassahun Ayele
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox
Acting Regional vice President Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	2,370,000	100% of foreign expenditures and 85% of local expenditures
(2) Consultants' services	1,260,000	100% of foreign expenditures and 85 % of local expenditures
(3) Training	870,000	100%
(4) Subprojects	13,750,000	90 % of amounts disbursed
(5) Refinancing of Project Preparation Advance	400,000	Amounts due pursuant to Section 2.02 (c)
	of this Agreement	
(6) Unallocated	2,050,000	
TOTAL	20,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods 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; and

(b) Category (4), unless a Participation Agreement shall have been entered into between: (i) MCB and a Beneficiary; and (ii) MFA and a Beneficiary, in accordance with the procedures and the terms and conditions referred to in Schedule 4 to this Agreement and set forth in detail in the Project Implementation Plan, as shall be evidenced by the first of each such Participation Agreement, furnished to the Association for its prior approval.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$100,000 equivalent each; (ii) services under contracts costing less than \$100,000 equivalent each for consulting firms and less than \$50,000 equivalent each for individual consultants; and (iii) Subprojects, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in enhancing decentralized public service delivery performance through a coordinated program of: (a) implementing civil service reforms, (b) restructuring and empowering local governments, and (c) strengthening the Ministry of Capacity Building.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Civil Service Reform

Strengthening MCB's ability to implement the Borrower's CSRP through:

1. CSRP coordination and change management, including provision of technical advisory services for:

(a) the strengthening of the CSRP Coordinating Office in MCB;

(b) the carrying out of local and foreign training, including study tours, of selected civil servants in public sector reform issues;

(c) the design and initiation of the CSRP's implementation phase;

(d) the preparation of civil service reform implementation measures, actions, policies and strategies; and

- (e) the dissemination of CSRP related materials.
2. Resource management and control activities, including prototyping of budgetary and personnel management systems through:
- (a) the implementation of the Budget Information System and the interim Budget, Disbursement and Accounts Systems at federal level and in the Borrower's regional finance bureaus;
 - (b) the carrying out of training programs in: (i) procurement; and (ii) performance appraisal systems, at federal and regional levels;
 - (c) the carrying out of training, the acquisition of goods and equipment and the provision of technical advisory services, all for the strengthening of treasury operations and cash management; and
 - (d) the development of a Human Resource Information System at federal level.
3. Performance and service delivery improvement, including:
- (a) the development of a framework for the Borrower's Performance and Service Delivery Improvement Program (PSIP);
 - (b) the financing of approved Subprojects for 5 federal and 5 regional Beneficiary MABs; and
 - (c) the preparation of an operational manual for the implementation of PSIP at all levels of the Borrower's administration.
4. Accountability and transparency activities, including the development of:
- (a) the accounting and auditing professions; and
 - (b) a Performance Tracking Facility for the financing of activities relating to the monitoring and evaluation of public sector performance by Beneficiaries.

Part B: Local Government Restructuring and Empowerment

Development of financially sound Local Governments with capacity and incentives to deliver improved services through:

1. provision of technical advisory services for the preparation, revision and implementation of federal and regional policy and strategies for strengthening Local Governments;

2. restructuring of selected Local Governments to enable efficient, accountable and financially sustainable service delivery;
3. provision of financing to eligible Local Governments for rehabilitation of infrastructure; and
4. provision of financing for the carrying out of training programs in, inter alia, accounting, planning and management for Beneficiaries.

Part C: Institutional Strengthening of MCB

Strengthening capacity of MCB through:

1. the provision of technical advisory services;
2. the acquisition of goods and equipment, including software; and
3. the carrying out of training programs and study tours for selected staff of MCB.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

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).

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and

paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(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

Goods and works estimated to cost respectively less than \$200,000 and \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent each respectively, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment and costing \$50,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under lump-sum, fixed-price

contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract procured under competitive bidding procedures and estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract procured under direct contracting and prior to the execution of any such contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract, and 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

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines).

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 paragraph 4.5 thereof, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$50,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services which meet the requirements of paragraph 3.2 of the Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for financial audits and task of a standard nature 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 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.7 of the Consultant Guidelines.

4. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant

Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, (ii) the first 2 contracts for services from MCB and MFA estimated to cost less than \$100,000, and (iii) the terms of reference for all contracts procured under the Project, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

SCHEDULE 4

Implementation Program

Institutional arrangements

1. The Borrower shall maintain at all times during Project implementation:

(a) MCB, to be responsible for: (i) the implementation of Part A of the Project

through the Coordinating Office of CSRP; (ii) the implementation of Part C of the Project; (iii) approval of Subprojects under Part A.3 of the Project; and (iv) overall coordination of Project activities, including financial management thereof;

(b) UDCBO, to be responsible for: (i) the implementation of urban management activities related to the carrying out of Part B of the Project by MFA; and (ii) the appraisal of Subprojects developed by Beneficiaries under Part B of the Project; and

(c) MFA to be responsible for approving Subprojects appraised by UDCBO under Part B of the Project.

2. The Borrower shall: (i) maintain the Project Implementation Plan and all schedules thereof for the implementation of all components of the Project; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Project Implementation Plan; and (iii) not amend or waive any provision thereof which in the opinion of the Association may materially and adversely affect the implementation of the Project.

3. Not later than May 1, 2003, the Borrower shall appoint an independent Auditor, with experience and qualifications satisfactory to the Association, and shall appoint said Auditor in accordance with the provisions of Section II of Schedule 3 to this Agreement.

4. Not later than 3 months after the Effective Date, the Borrower shall appoint an Accountant for the Project, with experience and qualifications satisfactory to the Association.

Eligibility criteria for Subprojects

5. Without limitation to the provisions of paragraph 2 of this Schedule, no Subproject for the carrying out of Parts A.3 and B of the Project shall be eligible for financing out of the proceeds of the Credit unless MCB for Part A.3 of the Project and UDCBO for Part B of the Project shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Implementation Plan, upon which MCB and MFA shall approve said Subproject, that the Subproject satisfies the eligibility criteria specified in the Project Implementation Plan, which shall include the following:

(a) the Subproject shall be for the provision of training and capacity building services; and

(b) the Subproject shall be in compliance with the standards set forth in the laws of the Borrower relating to safety and environmental protection.

Terms and conditions of Participation Agreements

6. (a) In financing a Subproject, MCB, for the carrying out of Part A.3 of the Project, and MFA, for the carrying out of Part B of the Project, shall each enter into a Participation

Agreement with a Beneficiary.

(b) The Participation Agreement shall set forth the respective obligations of the parties thereunder which are specified in the Project Implementation Plan, under terms and conditions which shall include the following:

- (i) financing for the Subproject shall be on a grant basis, not to exceed \$4,000,000 equivalent per Participation Agreement;
- (ii) the requirement that the goods, works and services to be financed out of the proceeds of the Participation Agreement shall be procured and paid: (A) by MCB on behalf of Beneficiaries, for the implementation of Part A.3 of the Project; and (B) by MFA, for the implementation of Part B of the Project; in conformity with the provisions set forth in Schedule 3 to this Agreement and that such goods, works and services shall be used exclusively in the carrying out of the Subproject;
- (iii) the requirement that the proceeds of the Participation Agreement be used exclusively by MCB and MFA on behalf of the Beneficiaries for the purposes specified in the Subproject;
- (iv) the requirement that MCB and MFA maintain for each Beneficiary an accounting and financial management system, including records and separate accounts reflecting the operations, resources and expenditures related to carrying out of the Subprojects;
- (v) the right of MCB for Part A.3 of the Project, and MFA for Part B of the Project, to inspect by themselves or jointly with the Association the services, goods, works and constructions financed under the Subproject, the operation thereof and any record or relevant document; and
- (vi) the right of MCB and MFA, respectively, to suspend or terminate the right of a Beneficiary to use the goods, works and services financed out of the proceeds of the Credit upon failure by such Beneficiary to perform any of its obligations under the Participation Agreement.

Terms and conditions of Work Programs

7. The Borrower shall ensure that a Work Program agreed with a Beneficiary is: (a) for the implementation of Parts A.1, A.2 and/or A.4 of the Project; (b) fully reflective of national capacity building policies and priorities; (c) prepared in a participatory manner and with key performance indicators for the evaluation of activities to be carried out under each such Work Program; (d) include a financing and procurement plan; and (e) that the implementation of the Work Program is supported and supervised by MCB.

Reviews

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 1, 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 Association, by January 31, 2004, or such later date as the Association 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 Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,250,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000..

2. Payments out of the Special Account shall be made exclusively for eligible expenditures

in accordance with the provisions of this Schedule.

3. After the Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify; and

(ii) prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Association, 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 Association pursuant to said Section in respect of the audit of the records and

accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

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

SCHEDULE 6

Performance Indicators

Unless otherwise agreed to by the Association, for the purpose of this Agreement, the performance indicators for implementation of the Project are as follows:

1. Improved prioritization of public expenditures at the federal level and in participating local governments.
 2. Improved cost-efficiency and financial sustainability in participating federal and regional Beneficiary MABs and local governments.
 3. Improved client satisfaction with services delivered by participating federal and regional Beneficiary MABs and local governments.
 4. 50% of the subprograms of the Borrower's NCBP are fully financed and under implementation.
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