

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4007 PAK

LOAN NUMBER 7264 PAK
GRANT NUMBER TF 054392

Development Credit Agreement

(Tax Administration Reform Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Public Disclosure Authorized

Dated March 9, 2005



CREDIT NUMBER 4007 PAK

**LOAN NUMBER 7264 PAK
GRANT NUMBER TF 054392**

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 9, 2005, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (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 Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project, and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank has agreed to provide such assistance in an aggregate principal amount equal to twenty-four million four hundred thousand United States Dollars (\$24,400,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) by an agreement of even date herewith between the Borrower, and the Association and the Bank, both acting as Administrator (the Administrator) of Grant Funds provided by the United Kingdom of Great Britain and Northern Ireland through the Department for International Development ("DFID") (the DFID Grant Agreement), the Administrator has agreed to provide a grant in an amount of Pound Sterling twelve million one hundred fifty-two thousand (£12,152,000) (the DFID Grant) to assist in financing part of the Project on the terms and conditions set forth in the DFID Grant Agreement; 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 May 1, 2004) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the IDA General Conditions, in the Loan Agreement, in the IBRD General Conditions (as so defined) and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “CBR” means the Borrower’s Central Board of Revenue established and operating pursuant to the Central Board of Revenue Act 1924, and Cabinet Division Notification No. 4-14/98-MIN.1 dated 01-12-1998, or any successor thereof;

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

(c) “DFID Grant Account” means the account opened by the Association on its books in the name of the Borrower, to which the amount of the DFID Grant is Credited;

(d) “DFID Special Account” means the account referred to in Section 2.02 (b)(ii) of this Agreement;

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

(f) “Procurement Plan” means the Borrower’s procurement plan, dated August 20, 2004, covering the initial 12 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding 12 month periods (or longer) of Project implementation;

(g) “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 January 15, 2002, and on behalf of the Borrower on January 29, 2002; and

(h) “Special Accounts” means the accounts referred to in Section 2.02(b) of this Agreement collectively; and “Special Account” means either of those accounts individually.

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 fifty-three million five hundred thousand Special Drawing Rights (SDR53,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the DFID Grant may be withdrawn from the DFID Grant Account in accordance with the provisions of Schedule 1 to this Agreement for 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 the DFID Grant.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars in the National Bank of Pakistan: (i) a separate special deposit account for the Credit (the Credit Special Account); and (ii) a separate special deposit account for the DFID Grant (the DFID Special Account), all on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts 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, 2009, 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 March 15 and September 15 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 March 15 and September 15 commencing March 15, 2015 and ending September 15, 2039. Each installment to and including the installment payable on September 15, 2024 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) 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 through CBR with due diligence and efficiency and in conformity with appropriate administrative, financial, taxation and engineering 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. (a) 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 and the DFID Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 8 months after the date of the preceding Procurement Plan, for the Association's approval.

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 for the future operation of the Project; and

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

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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 and the DFID Grant Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account and the DFID Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit and the DFID Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (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:

(a) Subject to subparagraph (b) of this paragraph, the right of the Borrower to withdraw the proceeds of the DFID Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the DFID Grant Agreement.

(b) Subparagraph (a) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the DFID Grant Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions, namely that the DFID Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

Section 6.02. The following are specified as an additional matter within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the DFID Grant Agreement has been duly authorized or ratified by the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. 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 Secretary, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer, Economic Affairs Division, Ministry of Economic Affairs and Statistics 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:

Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad
Pakistan

Cable address:	Telex:	Facsimile:
ECONOMIC Islamabad	ECDIV-05-634	92-51-9205971 92-51-9218976

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 Islamabad, Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Shujah Shah
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ John W. Wall
Country Director
Pakistan

SCHEDULE 1

Withdrawal of the Proceeds of the Credit, the Loan and the DFID Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the Loan, and the DFID Grant, the allocation of the amounts of the Credit and the DFID Grant 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>Amount of the DFID Grant Allocated (Expressed in British Pound Sterling)</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	12,270,000	-	-	75%
(2) Goods				100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(a) Equipment	28,350,000	5,140,000	24,278,000	
(b) Vehicles	1,640,000	-	-	
(3) Consultants' services	4,150,000	4,310,000		98% of local expenditures for services of consultants domiciled within the territory of the Borrower; and 88% of foreign expenditures for services of other consultants

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the DFID Grant Allocated (Expressed in British Pound Sterling)</u>	<u>Amount of Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Training	3,400,000	2,702,000	-	100%
(5) Incremental administrative and operating costs	1,710,000	-	-	80%
(6) Refunding of Project Preparation Advance	1,980,000	-	-	Amount due pursuant to Section 2.02(c) of this Agreement
(7) Front End Fee	-	-	122,000	
(8) Premia for Interest Rate Caps and Interest Rate Collars				Amount due under Section 2.09 (c) of the Loan Agreement
(9) Unallocated				
TOTAL	<u>53,500,000</u>	<u>12,152,000</u>	<u>24,400,000</u>	

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;

(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; and

(c) the term “incremental administrative and operating costs” means the salaries, allowances and other emoluments of CBR staff, other than officials of the Borrower’s civil service, appointed to posts created after July 1, 2004, for purposes of

carrying out the Project, the operation and maintenance (O&M) costs of vehicles, equipment and office premises acquired by CBR under, and/or used in the carrying out of, the Project, the costs of commercial bank transactions conducted for the purposes of the Project, and the costs of advertising in the media for bids and other purposes of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$2,500,000, may be made on account of payments made for expenditures before that date but after July 1, 2004.

4. The Association may require withdrawals from the Credit Account and the DFID Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training; and (f) incremental administrative and operating costs, 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: (a) to improve the effectiveness, responsiveness, efficiency, integrity and fairness of tax administration; (b) to promote compliance with tax laws and broaden the tax base; and (c) to promote trade facilitation.

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: CBR Management and Institutional Development

1. Carrying out of a reorganization to facilitate efficient planning, execution and supervision of core administrative functions.
2. Development and implementation of an overall human resource management strategy to reflect the reorganization.
3. Development and implementation of a staff training program.
4. Development, implementation and promotion of awareness of a code of conduct and ethics.
5. Establishment of a specialized internal audit function.
6. Establishment of an internal affairs and vigilance function.
7. Development and implementation of a change management strategy.

Part B: CBR Revenue Operations Improvement

Carrying out of extensive re-engineering of the Direct Tax, Sales Tax and Central Excise and Customs departments so as to move: (a) from a pure enforcement to a risk-based self-assessment system of taxation founded on voluntary compliance; and (b) from assorted to consistent organizational structures that are functionally-based, automated, decentralized and modern.

Part C: CBR Revenue Services Strengthening

Establishment at the national level of separate functions for: (a) tax audit; (b) collection and enforcement; (c) appeals and dispute resolution; (d) intelligence-gathering and risk management; and (e) tax and customs fraud investigation and prosecution.

Part D: CBR Tax Compliant Culture Creation Activities

Development and implementation of information technology systems to promote: (i) taxpayer education and facilitation; (ii) taxpayer identification and registration; and (iii) quality assurance and monitoring.

Part E: CBR Information Technology Systems Upgrading

Upgrading of information technology systems: (i) to facilitate a move from a highly manual to an automated environment for decision-making; (ii) to bring uniformity and a total systems solution to the entire sales tax life cycle; (iii) to improve the effectiveness and efficiency of direct tax administration; and (iv) to bring a total solutions system to the entire life cycle of customs clearance and other functions dependent on clearance information.

Part F: CBR Infrastructure Up-gradation and Development

Carrying out of a program: (i) for up-grading existing and developing and/or acquiring new infrastructure and facilities; and (ii) for meeting transportation requirements, all consistently with the new functional and operational requirements.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

- (a) invitations to pre-qualify or bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
- (b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

- (c) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (d) bidding shall not be restricted to pre-registered firms;
- (e) qualification criteria shall be stated in the bidding documents;
- (f) bids shall be opened in public, immediately after the deadline for submission of bids;
- (g) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (h) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;
- (i) bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates (CSR);
- (j) contracts shall not be awarded on the basis of nationally negotiated rates;
- (k) contracts shall be awarded to the lowest evaluated and qualified bidders; and
- (l) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short-list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. 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, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) the first contract each for goods, works and services (other than consultants' services) irrespective of value, and thereafter each such contract estimated to cost the equivalent of \$200,000 or more; and (b) the first contract for consultants' services provided by a firm irrespective of value, and thereafter each such contract estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for the first contract for the employment of individual consultants irrespective of value, and thereafter such record for each such contract estimated to cost the equivalent of \$50,000 or more, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, 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 July 31, 2007, 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 September 31, 2007, 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

Credit Special Account and DFID Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the proceeds of the Credit and Categories (2)(a), (3) and (4) set forth in said table in respect of the proceeds of the DFID Grant;

(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 and the DFID Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement;

(c) the term “Authorized Allocation” means, with respect to the Credit Special Account an amount equivalent to US\$7,500,000 to be withdrawn from the Credit Account and deposited into the Credit 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 US\$3,750,000 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 SDR15,000,000; and

(d) the term “Authorized Allocation” means, with respect to DFID Special Account and amount equivalent to US\$2,300,000 to be withdrawn from the DFID Grant Account and deposited into the DFID Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall agree, the Authorized Allocation shall be limited to an amount equivalent to US\$ 1,150,000 until the aggregate amount of withdrawal from DFID Grant 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 to £3,800,000.

2. Payments out of the respective Special Accounts 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 the DFID Grant Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.
- (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 the DFID Grant Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account and the DFID Grant 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 respective 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 any 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 and the DFID Grant 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 Accounts;

(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 and the DFID Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the DFID Grant allocated to the eligible Categories for the respective Special Accounts, 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 and the DFID Grant Account of the remaining unwithdrawn amount of the Credit and the DFID Grant 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 respective 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 any 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 respective 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 any 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 any 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 respective Special Accounts.

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