

CONFORMED COPY

LOAN NUMBER 4673-BR

Loan Agreement

(Municipal Pension Reform Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 16, 2003

LOAN NUMBER 4673-BR

LOAN AGREEMENT

AGREEMENT, dated October 16, 2003, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the 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 (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “MPS” means *Ministério da Previdência Social*, the Borrower’s Ministry of Social Security;

(b) “Operational Manual” means the manual, dated December 7, 2001, which contains, inter alia, the operational procedures for the carrying out of the Project, the requirements for a municipality to become a Participating Municipality, and the model form for Subsidiary Agreements;

(c) "Participating Municipality" means any of the Borrower's 26 municipalities, to be selected by the Borrower among the capitals of the Borrower's states, as a first priority, and the 50 largest municipalities in the territory of the Borrower, which meet the requirements set forth in the Operational Manual to benefit from Part B of the Project;

(d) "PCU" means the unit within the Executive Secretariat of MPS, established pursuant to MPS's *Portaria* No. 8486, dated October 25, 2000, which will be assigned, as provided in Section 5.01 (a) of this Agreement, responsibility for managing and coordinating the carrying out of Project activities, including Project financial management, procurement and disbursement activities;

(e) "SIPREV" means *sistema integrado de informações previdenciárias*, the software developed by MPS which provides a comprehensive format for an electronic data base adequate for pension related reporting, actuarial and diagnostic purposes;

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

(g) "Subsidiary Agreement" means any of the agreements referred to in Section 3.01 (b) of this Agreement;

(h) "Training and Publication Services" means the services of firms to be employed to organize training activities or to effect the publication of training materials or municipal pension reform materials under the Project; and

(i) "UT" means the unit referred to in Section 5.01 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to five million Dollars (\$5,000,000).

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, consultants' services and training activities required for the Project and to

be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest

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

- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan, as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of the LIBOR Base Rate and the LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. The Borrower’s Minister of Social Security and any person or persons he or she may designate in writing are designated as representatives of the Borrower for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MPS with the assistance of the Participating Municipalities, with due diligence and efficiency and in conformity with appropriate administrative, financial and social security practices, and the provisions of the Operational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower, through MPS, shall enter into an agreement, satisfactory to the Bank, with each Participating Municipality (the Subsidiary Agreement), whereby: (i) the Borrower will undertake to make available to such Participating Municipality the technical assistance and goods under Part B of the Project as shall be required to enable such Municipality to carry out its activities under Part B of the Project; and (ii) such Participating Municipality will declare its commitment to the objective of the Project and will undertake to carry out such activities and to collaborate with the Borrower in the carrying out of the Project as set forth or referred to in this Loan Agreement (including the Operational Manual).

(c) The Borrower shall comply with its obligations and exercise its rights under the Subsidiary Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods, Training and Publication Services 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 3.03. The Borrower shall, during the execution of the Project, maintain the PCU and the UT with a structure and functions satisfactory to the Bank, and with qualified staff in adequate numbers as required to carry out their respective responsibilities under the Project, including, in the case of the PCU, with technical assistance, satisfactory to the Bank, in respect of the procurement activities under the Project.

Section 3.04. 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 the letter, dated May 15, 2002, from the MPS to the Bank, the carrying out of the Project and the achievement of the objective thereof; and

(b) review with the Bank, on the 24th month after the Effective Date, or such later date as the Bank shall request, the progress achieved in the carrying out of the Project during the period preceding the date of such review, based on the monitoring and evaluation activities referred to in paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said review.

Section 3.05. The Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objective 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 a financial management system in the PCU, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures of the Borrower 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 Bank, consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records, accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such financial statements, records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such 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) The Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance acceptable to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first such report shall be furnished to the Bank 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 such report shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement, within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Borrower, through MPS, has formally defined, in a manner satisfactory to the Bank, the responsibilities of the PCU in respect of the Project;

(b) the Borrower has established, in a manner satisfactory to the Bank, a unit (the UT) in the Secretariat of Social Security of MPS with responsibility for assisting the PCU and the Participating Municipalities in all technical aspects related to the carrying out of the Project, and for providing technical assistance on pension matters to the Participating Municipalities; and

(c) the PCU has obtained assistance, satisfactory to the Bank, to carry out the procurement activities under the Project.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to

be furnished to the Bank, namely, that this Agreement has been validly registered with the Central Bank of Brazil.

Section 5.03. The date January 15, 2004, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministério da Fazenda
Procuradoria Geral da Fazenda Nacional
Esplanada dos Ministérios, Bloco "P" - 8º andar
70048-900 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 412-1740

With copies to:

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 225-4022

Ministério da Previdência Social
Secretaria de Previdência Social
Esplanada dos Ministérios, Bloco "F" - 7º andar
70059-900 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 317-5195

For the Bank:

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

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

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Ana Lúcia Gatto de Oliveira
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas
Acting Regional Vice President
Latin America and the Caribbean

Witnessed by:

/s/ Ricardo José Ribeiro Berzoini
Ministro da Previdência Social

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	442,000	80%
(2) Consultants' services	2,898,000	84%
(3) Training	1,099,000	30%
(4) Front-end fee	50,000	Amount due pursuant to Section 2.04 of this Agreement
(5) Unallocated	511,000	
TOTAL	<u>5,000,000</u>	

2. For the purposes of this Schedule, the term "training" includes reasonable travel costs and per diems of trainees, and Training and Publication Services.

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 exceeding \$300,000, may be made on account of payments made for expenditures incurred within twelve months before the date of this Agreement; and

(b) expenditures in respect of a Participating Municipality, unless such Municipality has entered into a Subsidiary Agreement with the Borrower.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures regarding goods, consultants' services and training that are not subject to prior review by the Bank pursuant to Section I, Part C.2, and Section II, Part D.2, of Schedule 4 to this Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to upgrade the management of municipal pension systems in Brazil.

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: Institutional Strengthening of MPS

1. Provision of technical assistance to MPS in the areas of information technology, actuarial science, pension legislation, and project and financial management, and acquisition and utilization of computer equipment and software to enable MPS to assist municipalities in the upgrading of the management of their pension systems.
2. Carrying out of training workshops for staff of the Participating Municipalities and other stakeholders, and publication of a technical series to disseminate laws, regulations, best practices and other materials relevant to pension management.
3. Carrying out of studies on: (a) pension fund asset management; and (b) needs evaluation and strategy for assisting municipalities operating their own pension systems.
4. Carrying out of a training program for MPS staff in best practices in pension systems' management.
5. Provision of technical assistance for the installation, maintenance and upgrade of SIPREV, and refinement, development and implementation of new modules for SIPREV.

Part B: Institutional Strengthening of Municipal Pension Management

1. Provision of small hardware and software packages to each Participating Municipality in order to enable such Participating Municipality to be linked to, and operate, SIPREV.
2. Provision of technical assistance for the upgrading of the cadastre of pensioners of each Participating Municipality.

3. Carrying out of an actuarial evaluation of the pension liabilities of each Participating Municipality, and development of proposals for achieving actuarial balance and reforming the pension system of each Participating Municipality.
4. Carrying out of at least one workshop on municipal pension system reform, and development and dissemination of pension materials to stakeholders, in each Participating Municipality.
5. Carrying out of training in pension management to staff of each Participating Municipality.

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars</u>)*
On each June 15 and December 15	
beginning December 15, 2007 through June 15, 2017	250,000

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Training and Publication Services

Part A: General

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

Part B: Procurement Procedures

1. National Competitive Bidding

Goods and Training and Publication Services shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. Standard bidding documents, satisfactory to the Bank, shall be used in the procurement of goods under this Part B.1.

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement to be undertaken pursuant to this Part B.1:

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(b) whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil;

(c) the arrangements, under the invitation to bid, for joint-ventures (*consórcios*) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(e) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

2. Shopping or Pregão

Goods and Training and Publication Services, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount of \$650,000 equivalent, may be procured under contracts awarded on the basis of: (a) either national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, and a standard request for quotations acceptable to the Bank; or (b) the procedures known as "*pregão*," set forth in the Borrower's *Decreto* No. 3555, of August 8, 2000, as amended by *Decreto* No. 3693, of December 20, 2000.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated every six months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Procurement of all goods and Training and Publication Services shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to the first three contracts to be awarded pursuant to the provisions of Part B.1 above.

3. Post Review

The procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to the review by the Bank of any contract not governed by the provisions of paragraph 2 above.

Section II. Employment of Consultants

Part A: General

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 Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, and Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Consultants' Qualifications

The services of consulting firms 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 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Consulting firms' services for training activities costing not more than \$100,000 equivalent in the aggregate may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Consultants' services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, costing not more than \$500,000 in the aggregate, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines, and the provisions of paragraph 3 of Appendix 1 thereto.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of the candidates, or the qualifications and experience of the candidate in the case of sole source selection, as well as the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, consultants’ services and training activities required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$250,000 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 equal or exceed the amount of \$1,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence

required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

Thereafter, withdrawals from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as

the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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