

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4097-HO

Development Credit Agreement

(Nutrition and Social Protection Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 9, 2005

Public Disclosure Authorized

CREDIT NUMBER 4097-HO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 9, 2005, between REPUBLIC OF HONDURAS (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; and

WHEREAS (B) 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), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

(a) "Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be

financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “AIN-C Program” means *Atención Integral a la Niñez en la Comunidad*, the Borrower’s community-based health and nutrition program for children less than 5 years of age;

(b) “Beneficiary Communities” means a community of the Borrower’s territory eligible under the Project as defined under the Project Operational Manual;

(c) “DGPS” means *Dirección General de Promoción de la Salud*, a general directorate of SOH responsible for the promotion of health services;

(d) “FEP Program” means the Borrower’s First Employment Program for the Project, adopted on May 02, 2005 to support youth labor market insertion;

(e) “FEP Program Beneficiary” means a poor, unemployed or under-employed young person from the age of 15 up to 19 approximately, living in urban marginalized areas, facing education challenges and lacking adequate acquisition of knowledge and skills to compete in the Borrower’s labour market, as further determined in the POM;

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

(g) “Fiscal Year” means the Borrower’s Fiscal Year commencing January 1 and ending December 31 of the same calendar year;

(h) “Implementation Agreement” means the agreement between SOP, SOH or SOLSS, respectively, and an Implementation Partner, for the carrying out of selected activities under the Project;

(i) “Implementation Partner” and “IP” mean selected public and private sector institutions entering into Implementation Agreements with SOP, SOH or SOLSS for the carrying out of activities under the Project;

(j) “Lempira” means the national currency of the Borrower;

(k) “Management Agency” means an agency, institution, NGO or any other service providing entity selected by the Borrower in accordance with the provisions of Schedule 3 to this Agreement to assist SOLSS in the implementation of Part C of the Project;

(l) “NGO” means a non governmental organization established and operating under the laws of the Borrower;

(m) “Procurement Plan” means the Borrower’s procurement plan, dated April 19, 2005 covering the initial 18 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 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(n) “Project Implementation Plan” and “PIP” mean the plan referred to in Section 3.05 (b) of this Agreement;

(o) “Project Operational Manual” and “POM” mean the manual referred to in Section 3.05 (a) of this Agreement;

(p) “Project Preparation Advance” means the project preparation advance extended by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on March 15, 2005 and on behalf of the Borrower on May 6, 2005;

(q) “Project Year” and “PY” mean each twelve month period during Project implementation starting from the day after the Effective Date and ending twelve calendar months thereafter, and each subsequent twelve month period thereafter until completion of the Project;

(r) “Service Agreement” means the agreement referred to in Section 3.06 of this Agreement;

(s) “SOH” means the Borrower’s Secretariat of Health;

(t) “SOH Special Account” means the account for the implementation of Part B of the Project referred to in Schedule 4 to this Agreement;

(u) “SOLSS” means the Borrower’s Secretariat of Labor and Social Security;

(v) “SOLSS Special Account” means the account for the implementation of Part B of the Project referred to in Schedule 4 to this Agreement;

(w) “SOP” means the Borrower’s Secretariat of the Presidency;

(x) “SOP Special Account” means the account for the implementation of Part A of the Project referred to in Schedule 4 to this Agreement;

(y) “Special Accounts” means collectively the SOP Special Account, the SOH Special Account and the SOLSS Special Account; and

(z) “UDECOFISS” means *Unidad de Extensión de Cobertura y Financiamiento de Servicios de Salud*, a unit of SOH responsible for coverage expansion and health services financing.

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 this Agreement, an amount in various currencies equivalent to thirteen million three hundred thousand Special Drawing Rights (SDR 13,300,000).

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 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.

(b) The Borrower may, for the purposes of Part A, Part B and Part C of the Project, open and maintain in Dollars three (3) separate special deposit accounts, the SOP Special Account, the SOH Special Account and the SOLSS Special Account respectively in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of each respective Special Account shall be made in accordance with the provisions of Schedule 4 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 June 30, 2010 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. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each September 15 and March 15 commencing September 15, 2015 and ending March 15, 2025. Each installment shall be five percent (5%) of such principal amount.

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 Part A of the Project through SOP, Part B of the Project through SOH and Part C of the Project through SOLSS, with due diligence and efficiency and in conformity with appropriate administrative, environmental, employment and public health 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 this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with this Agreement, the POM and the PIP.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and 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, 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 12 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 designed to ensure the continued achievement of Project's objectives; and

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

Section 3.04. (a) Without limitation to the provisions of Section 3.01 (a) above, the Borrower shall:

(a) commencing the second FY after the Effective Date until completion of the Project, open and maintain two (2) accounts in Lempira to finance its contribution to the Project, one each for SOH and SOLSS respectively in the Treasury books of the Borrower's Ministry of Finance, under terms and conditions satisfactory to the Association;

(b) deposit therein:

(i) in respect of SOH, the equivalent in Lempira of \$3,000,000 as counterpart funds for the duration of the Project, to be made available for Project implementation, on a yearly basis, in accordance with amounts agreed with the Association during each FY preceding the FY during which the funds are to be deposited for Project implementation purposes; and

(ii) in respect of SOLSS, the equivalent in Lempira of \$300,000 as counterpart funds for the duration of the Project, to be made available for Project implementation, on a yearly basis, in accordance with amounts agreed with the Association during each FY preceding the FY during which the funds are to be deposited for Project implementation purposes; and

(c) ensure that amounts deposited into the SOH and SOLSS Project Accounts 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.

Section 3.05. (a) No later than the Effective Date, the Borrower shall adopt the Project Operational Manual, satisfactory in form and substance to the Association, consisting of different modules setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including the following:

A. For the one part:

- (i) the Project administrative, accounting, auditing, reporting, procurement, financial and disbursement procedures, including all pertinent standard documents in relation thereto;
- (ii) the social assessment and indigenous people development plan prepared for the Project and disclosed to the public on April 15, 2005;
- (iii) the selection method, eligibility criteria, and procedures for interventions of, and carrying out of activities by, stakeholders and participants to the Project, including the Implementation Partners and the terms and conditions for such intervention and participation; and
- (iv) the plan for the monitoring and supervision of the Project.

B. For the other part:

- (i) the selection criteria for participating municipalities, certification processes for NGOs and other private sector providers under Part B of the Project and the terms and conditions for the contractual agreements in relation thereto;
- (ii) the selection criteria for public and private training institutions and private sector enterprises under Part C of the Project, and the terms and conditions for the contractual agreements in relation thereto;
- (iii) the eligibility criteria for Beneficiary Communities and FEP Program Beneficiaries under Part B and Part C respectively of the Project; and
- (iv) the training programs in respect of Part C of the Project.

(b) The detailed description of project implementation, including: (i) all Project activities, their sequencing and the prospective timetable and benchmarks in relation thereto; and (ii) the institutional arrangements in respect thereof, including, *inter alia*, the specific plan for the coverage expansion of the AINC-C Program of the Borrower to be supported under Part B of the Project.

(c) The Borrower shall: (i) maintain the POM and the PIP throughout Project implementation; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the POM and the PIP; and (iii) from time to time, proceed with amending the POM or the PIP only with the Association's prior consent.

(d) In the event that any provision of the POM or the PIP shall conflict with any one under this Agreement, the terms of this Agreement shall prevail.

Section 3.06. No later than the Effective Date, the Borrower shall, through SOLSS, enter into an agreement, satisfactory in form and substance to the Association, with a Management Agency selected in accordance with the provisions of Schedule 3 to this Agreement (the Service Agreement), setting forth therein the terms and conditions thereof, including, *inter alia*, the terms of reference, the service fees, and the financial obligations related to the provision of management services in respect of the implementation of Part C of the Project, including the acquisition of goods and the carrying out of small works in relation thereto.

Section 3.07. No later than three (3) months after the Effective Date, the Borrower shall appoint the independent auditors referred to in Section 5.01 of this Agreement, in accordance with the provisions of section III of Schedule 3 to this Agreement.

Section 3.08. 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 April 30 and October 30 in each FY, 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 June 30 and December 30 in each FY, 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter maintain throughout Project implementation, with respect to the carrying out of: (i) Part A of the Project by SOP; (ii) Part B of the Project by SOH; and (iii) Part C of the Project by SOLSS, a comprehensive financial management system, including records and accounts, and prepare financial statements, including consolidated financial statements drawn up by SOP, 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), commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, 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 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 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 Section 3.07 of this Agreement, the Borrower shall cause SOP to prepare and furnish to the Association a financial monitoring report covering the overall implementation of the Project, 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 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 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

Effective Date; Termination

Section 5.01. 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: (i) established the financial management system for the Project referred to in Section 4.01 (a) of this Agreement, in a manner satisfactory to the Association; and (ii) prepared terms of reference, satisfactory to the Association, for the appointment of the independent auditors referred to in Section 4.01 (b) of this Agreement;

(b) the Borrower has adopted: (i) the Project Operational Manual; and (ii) the Project Implementation Plan, satisfactory to the Association;

(c) the Borrower has prepared and furnished to the Association, satisfactory in form and substance to the Association, a training plan for the implementation of Part B of the Project;

(d) the Borrower has turned UDECOFISS into a fully operational unit of SOH for Project implementation purposes, satisfactory to the Association;

(e) the Borrower has prepared and furnished to the Association, satisfactory in form and substance to the Association, the methodology for the impact evaluation of the Project, including the design of the baseline that will enable the follow up of Project implementation;

(f) the Service Agreement has been signed by the parties thereto and has become effective; and

(g) the Borrower has appointed a procurement specialist and an officer in charge of the accounting of the Project to each of SOH, SOP and SOLSS respectively, and has established the relevant systems for the administration of goods and services to be procured under the Project.

Section 5.02 The date December 8, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance 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:

Secretaría de Estado en el Despacho de Finanzas
Dirección de Crédito Público
Avenida Cervantes, Barrio El Jazmín
Tegucigalpa, M.D.C.
Honduras, C.A.

Cable address:

HACIENDA
Tegucigalpa

Facsimile:

(504) 237-4142

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(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 Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Ralph Oberholzer

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Armitage

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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	400,000	100%
(2) Consultants' Services, training and audits:		
(a) under Part C of the Project, not including audits,	3,300,000	100 %
(b) other, including audits	7,400,000	100%
(3) Operating costs	800,000	100%
(4) Refunding of Project Preparation Advance	1,300,000	Amount due pursuant to Section 2.02 (b) of this Agreement.
(5) Unallocated	<u>100,000</u>	
TOTAL	<u>13,300,000</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;

- (c) the term “Consultant services and training” shall mean to include:
- (i) in respect of “Consultant services”: the Service Agreement between SOLSS and the Management Agency;
 - (ii) in respect of “training”: (A) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (B) course fees; (C) training facility rentals; and (D) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and
 - (iii) in respect of both terms, the acquisition of goods and the carrying out of small works needed in the performance of the Service Agreement and in the carrying out of the training programs; and

(d) the term “Operating costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, salaries of locally contracted employees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures, under such terms and conditions as the Association shall specify by notice to the Recipient, including for expenditures under contracts not subject to the Association’s Prior Review pursuant to the terms of Section IV of Schedule 3 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) improving the nutritional condition and basic health status of infants and young children inside its territory; and (ii) increasing the job marketability of its disadvantaged youth.

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: Institutional strengthening of the Borrower's social protection framework for children and youth

Strengthening Borrower's institutional capacity for improving human capital investment in poor families through:

1. support for the definition, formulation, implementation, evaluation and monitoring of children and youth social protection policies, strategy and programs;
2. development of instruments, systems and mechanisms designed to ensure the efficiency of public expenditures in the area of social protection;
3. support towards the building of capacity of SOP to undertake policy development activities and Project coordination activities; and
4. design and implementation of participatory instruments for the monitoring and evaluation of local level interventions related to social protection of children and youth.

Part B: Support for the implementation of the Borrower's AIN-C Program

Deploying integrated nutrition and basic health services activities and enhancement of the institutional and operational capacity therefor through:

1. carrying out of preparatory activities for, and implementation of, the coverage expansion of the Borrower's AIN-C Program to no less than 1000 communities in at least four (4) of the poorest departments of the Borrower's territory; and
2. support for the institutional and operational capacity building of central and departmental levels of SOH to enable: (a) UDECOFISS and DGPS, at the central level, to administer territorial expansion of AIN-C Program nutrition and basic health services, and to define financial sustainability of the AIN-C Program thereafter; and (b) local level

SOH bureaus and units to undertake an homogeneously consistent implementation of the AIN-C Program activities.

Part C: Implementation of Borrower's FE Program for disadvantaged youth

Promoting opportunities for education, training and labor market insertion of unemployed or underemployed poor urban youth at social risk through:

1. carrying out of selection processes with respect to determining: (a) eligible FEP Program Beneficiaries; and (b) eligible public or private Implementation Partners under the Project;
2. carrying out of relevant employment-targeted training programs and job internships in partnership with selected public and private Implementation Partners;
3. (a) advertisement of the opportunities offered by the FE Program to civil society, training institutions, prospective employers; and (b) establishment of post-training counseling services and employment referrals systems for youth who have graduated from their training in the FE Program; and
4. (a) development of a monitoring and evaluation system in SOLSS; and (b) provision of support for the institutional and operational capacity building of SOLSS.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. (1) All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

(2) Without any limitations to any other provisions set forth in this Schedule or in the Procurement Guidelines, the following shall expressly govern the procurement of goods and services (other than consultant services) referred to in Part A of this Section:

(a) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.

(b) Foreign bidders shall not, as a condition for submitting bids, be required to:

(i) be registered in the Borrower's territory;

(ii) have a representative in the Borrower's territory;

(iii) be associated with suppliers or contractors of the Borrower's territory; and

(iv) certify that, in their country of origin, suppliers or contractors of the Borrower's territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.

(c) Contracts shall not be divided for the sole purpose of reducing contract amounts.

B. (1) 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.

(2) Without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following shall expressly govern the procurement of consultants' services referred to in Section II of this Schedule:

(a) Foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Borrower's territory for the services being procured; and

(b) Foreign consultants shall not be required to be registered with associations of the Borrower's territory or to be associated with consulting firms of the Borrower's territory as a condition for participating in any selection process.

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 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 \$150,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding.

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

3. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

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 \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

3. 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.

4. 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

A. 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) each contract for goods and services (other than consultants' services) procured on the basis of

International Competitive Bidding or Direct Contracting; (b) each contract for consultants' services provided by a firm; (c) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more (for each such contract, the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval, said contract to be awarded only after the Bank's approval shall have been given); and (d) each contract for the employment of individual consultants estimated to cost less than the equivalent of \$50,000 (for each such contract, the terms of reference of the consultant only shall be furnished to the Bank for its prior review and approval, said contract to be awarded only after the Bank's approval shall have been given).

B. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Special Accounts

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 Land Credit Facilities, Investment Subprojects and goods, works 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) for the purposes of this Schedule, the term “Authorized Allocation” means: A (i) an amount of \$100,000 to be withdrawn from the Credit Account and deposited into the SOP Special Account; (ii) an amount of \$1,350,000 to be withdrawn from the Credit Account and deposited into the SOH Special Account; and (iii) an amount of \$550,000 to be withdrawn from the Credit Account and deposited into the SOLSS Special Account, all pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to: B (i) an amount equivalent to \$50,000 in respect of the SOP Special Account; (ii) an amount equivalent to \$675,000 in respect of the SOH Special Account; and (iii) an amount equivalent to \$275,000 in respect of the SOLSS Special Account, 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 800,000.
2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the 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 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 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 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 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 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 for the respective Special Account 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 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 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 for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

