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**CREDIT NUMBER 3722 – CE**

# **Development Credit Agreement**

**(Economic Reform Technical Assistance Project)**

**between**

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 29, 2003**



**CREDIT NUMBER 3722 – CE**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated January 29, 2003, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (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 the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Challenge Fund” means the fund created under the Project for the purpose of financing Subprojects (as hereinafter defined) under Part D of the Project as described in Schedule 2 to this Agreement;

(b) “Economic Policy Committee” means the committee composed of certain members of the Borrower’s cabinet, their authorized representatives, and certain officials of the Borrower;

(c) “Electricity Reforms Act” means the Borrower’s Electricity Reform Act;

(d) “Environmental Framework” means the Environmental Framework prepared by the Borrower and submitted to the Association on October 8, 2002, including any amendments made to such framework from time to time with the Association’s approval, setting forth, among other things, the procedures and mechanisms for carrying

out Environmental Screening, Phase I Environmental Audits, Phase II Environmental Audits and environmental assessments, as well as procedures for developing and implementing Environmental Management Plans (as such terms are hereinafter defined);

(e) “Environmental Management Plan” or “EMP” means a plan prepared in accordance with the Environmental Framework by a Participating Entity (as hereinafter defined) for a Subproject, which sets out the environmental protection measures in respect of the Subproject, as well as the administrative and monitoring arrangements to ensure the implementation of the plan, including any amendments made to such plan, from time to time with the agreement of the Association;

(f) “Environmental Screening” means the preliminary environmental screening of potential environmental impact, if any, arising from, or relating to, a proposed Subproject to be financed either under Part B (support to priority sub-sectors) or under Part D (challenge fund) of the Project;

(g) “ERD” means the External Resources Department of the Borrower’s Ministry of Policy Development and Implementation; ;

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

(i) “Fiscal Year” means the Borrower’s fiscal year beginning on January 1 in any one calendar year and ending on December 31 in the same calendar year;

(j) “Insurance Board of Sri Lanka” means the insurance board established and operating under the Regulation of Insurance Industry Act (No. 43 of 2000), for the regulation of the Borrower’s capital markets and insurance sectors;

(k) “MERST” means the Borrower’s Ministry of Economic Reforms, Science and Technology;

(l) “Participating Entity” means any ministry, department or agency within a ministry, or any other agency or entity, which is carrying out, or is eligible to carry out, Subprojects under Part A (strengthening capacity), Part B (support for priority sub-sectors) and Part D (challenge fund) of the Project;

(m) “Pensions Reform Unit” means the unit established by the Borrower for the purpose of formulating, implementing and monitoring of pension reforms within the Borrower’s territory;

(n) “Peoples Bank” means the Peoples Bank of Sri Lanka an entity established and operating under Act No. 20 of 1961;

(o) "PERC" means the Public Enterprise Reform Commission established and operating under the Public Enterprise Reform Commission Act (No. 1 of 1996);

(p) "Phase-I Environmental Audit" means a phase-I environmental audit for certain Subprojects to be carried out by a Participating Entity according to the procedures specified in the Environmental Framework;

(q) "Phase-II Environmental Audit" means a phase-II environmental audit for certain Subprojects to be carried out by a Participating Entity according to the procedures specified in the Environmental Framework;

(r) "Project Coordination Unit" or "PCU" means the project coordination unit established and operating within MERST for the purpose of coordinating and supervising implementation of the Project;

(s) "Project Implementation Plan" means the Borrower's Project Implementation Plan, which is satisfactory and acceptable to the Association, including any amendments made to such plan, from time to time, with the Association's approval;

(t) "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 April 29, 2002 and on behalf of the Borrower on May 3, 2002;

(u) "PSIDP" means the Private Sector Infrastructure Development Project being implemented by the Borrower under a Development Credit Agreement between the Borrower and the Association dated July 25, 1996 (Cr. 2880-CE);

(v) "Public Utilities Commission" means the Borrower's Public Utilities Commission;

(w) "Sectoral Concept Paper" means the sectoral concept paper, approved or to be considered by the Economic Policy Committee, which is prepared by a Participating Entity in consultation with MERST or the Ministry of Policy Development and Implementation, and outlines the Participating Entity's economic reform implementation strategy, the principles and procedures to be followed for implementation of such strategy and information relating to the Environmental Screening of any proposed Subprojects envisaged by the paper;

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

(y) "Subproject" means an economic reform activity to be carried out under Part B (support for priority sub-sectors) or Part D (challenge fund) of the Project.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eleven million four hundred thousand Special Drawing Rights (SDR 11,400,000).

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

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2008 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing April 1, 2013 and ending October 1, 2042. Each installment to and including the installment payable on October 1, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

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

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

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



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

#### **ARTICLE IV**

##### **Financial Covenants**

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

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, (A) copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph D of Schedule 4 to this Agreement, 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 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**

### **Effective Date; Termination**

Section 5.01. 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 Borrower has prepared and submitted to the Association, a Project Implementation Plan in form and substance acceptable to the Association.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VI

### Representative of the Borrower; Addresses

Section 6.01. The Secretary, Ministry of Finance, of the Borrower at the time 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:

Ministry of Finance and Planning  
The Secretariat  
Colombo 1, Sri Lanka

Cable address:	Telex:	Facsimile:
SECMINFN	FINMIN 21409	94-1-449823
	FORAID 21232	94-1-447633

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 Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Jayampathy Charitha Ratwatte  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter C. Harrold  
Country Director  
Sri Lanka

**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	230,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost); and 85% of local expenditures for other items procured locally
(2) Consultants' services	2,280,000	100% of foreign expenditures and 80% of local expenditures for consultant services by firms and 75% of local expenditures for consultant services by individuals
(3) Training and workshops	340,000	100%
(4) Incremental Operating Costs	570,000	75% until March 31, 2005 and 50% thereafter
(5) Payments for Subprojects under Part D of the Project (challenge fund)	6,080,000	90% of amounts disbursed

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Refunding of Project Preparation Advance	800,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	1,100,000	
TOTAL	<u>11,400,000</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 operating costs” means the incremental operating costs arising under the Project on account of local contractual support staff salaries, equipment rental and maintenance, office rental and maintenance, materials and supplies, and utilities and communications’ expenses, but excluding salaries of the Borrower’s civil service;

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$250,000 equivalent each; (ii) consultant services by firms under contracts costing less than \$100,000 equivalent each; (iii) consultant services by individuals under contracts costing less than \$50,000 equivalent each; (iv) all training and workshop expenses; (v) all incremental operating costs; and (vi) all payments for Subprojects, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in strengthening its capacity to implement economic reforms aimed at expanding the role of the private sector and enhancing economic growth within the Borrower's territory.

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: Strengthening Capacity

Provision of technical advisory services, staff training, and acquisition of equipment for various ministries, departments, institutes and agencies, including, among other things, supporting the operations of PERC, ERD and other departments within MERST, which coordinate and implement economic regulation and financial and infrastructure reforms.

#### Part B: Support to Priority Sub-Sectors

1. Provision of technical advisory services for the increased participation of the private sector in the transport sector, including establishment of a transport sector regulatory system, streamlining the accounting systems of bus companies, carrying out a valuation exercise of bus companies, and carrying out assessments of potential new routes.
2. Provision of legal and technical advisory services and equipment for restructuring Peoples Bank.
3. Provision of legal and technical advisory services for a proposed asset management vehicle to collect non performing loans and for the training of staff.
4. Provision of legal and technical advisory services for: (i) the establishment of a single regulator for the non-banking financial sector of the Borrower; and (ii) the strengthening of the insurance regulatory capacity.
5. Provision of technical advisory services and training, and the acquisition of equipment, for the establishment of a Pensions Reform Unit, including preparation of a pensions reform agenda to develop the pensions industry.
6. Provision of legal and technical advisory services and training to staff of the Superannuation Regulatory Agency, for the strengthening of its operations and the enforcement of its embodying legislation.

7. Carrying out private sector participation activities initiated under the PSIDP in the two pilot secondary towns of Galle-Karutara and Greater Negombo, for the improvement of access to safe water.
8. Strengthening the institutional capacity of the Public Utilities Commission, through formulation of a human resources plan, development of internal regulations, preparation of a regulatory manual, and preparation of regulations, rules and licenses required under the Public Utilities Commission Act, the Electricity Reforms Act and the Water Services Reform Act.
9. Development of a regulatory framework for the telecommunications sector.

Part C: Support to the Economic Reform Communications Strategy

Carrying out a communications campaign for the Borrower's economic reform agenda, through the organization of workshops and the provision of technical advisory services and training to staff of MERST and other selected stakeholders.

Part D: Challenge Fund

Supporting activities that relate to the Borrower's economic reform agenda.

\* \* \*

The Project is expected to be completed by December 31, 2007.



### **SCHEDULE 3**

#### **Procurement and Consultant Services**

##### Section I. Procurement of Goods

##### Part A: General

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

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.
3. Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section 1 of the Guidelines:

- (i) invitations to 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;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) qualification criteria (in case prequalification was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (v) bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) contracts shall be awarded to the lowest evaluated bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) rebidding shall not be carried out without the Association's prior concurrence;
- (x) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xi) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xiii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xiv) extension of bid validity shall not be allowed unless justified by exceptional circumstances; and
- (xv) there shall not be any restrictions on the means of delivery of the bids.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$80,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (i) the first two contracts for goods procured through international competitive bidding during each Fiscal Year; (ii) the first two contracts for goods procured through national competitive bidding during each Fiscal Year; and (iii) each contract for goods estimated to cost \$250,000 equivalent or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and 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, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Consulting services under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Consultancy services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Consultancy services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Selection

Services which are estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in

accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association 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 Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every three (3) months during the execution of the Project, and each such updating shall be furnished to the Association 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 Association.

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 to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

## **SCHEDULE 4**

### **Implementation Program**

#### **A. Institutional Arrangements**

1. MERST shall be responsible for overseeing the implementation of the Project and guiding the strategic orientation of all economic reform efforts within the Borrower's territory.

2. The Borrower shall maintain the Economic Policy Committee, or any successor entity or committee thereto, which is responsible for reviewing and approving Sectoral Concept Papers prepared by a Participating Entity.

3. (a) The Borrower shall maintain within MERST, the Project Coordination Unit whose mandate, terms of reference and composition shall be acceptable to the Association.

(b) The Project Coordination Unit shall coordinate all activities under the Project, including: (i) financial management; (ii) procurement; (iii) monitoring and evaluation; and (iv) preparing and submitting to the Association quarterly progress reports and financial statements for the entire Project.

(c) The Project Coordination Unit shall also be responsible for: (i) reviewing, prioritizing, assisting in the preparation of, and processing Sectoral Concept Papers, terms of reference and other documentation, for Subprojects and other activities under the Project; and (ii) assisting each Participating Entity in carrying out its Subproject(s).

4. The Borrower shall ensure that:

(a) the Project Coordination Unit shall be headed by a project coordinator, who shall be assisted by a project finance manager, a procurement specialist, and other suitably qualified and experienced staff in adequate numbers; and

(b) the positions of project coordinator, project finance manager and procurement specialist, which are referred to in this paragraph, shall be kept filled at all times by persons having qualifications and experience acceptable to the Association.

#### **B. Project Implementation Plan**

1. The Borrower shall prepare and transmit to the Association for comments, and thereafter adopt in form and substance acceptable to the Association a Project Implementation Plan, which sets out details of all operational guidelines and procedures

as shall have been agreed with the Association for the implementation, monitoring and supervision of the Project, including:

- (a) performance indicators and monitoring and evaluation guidelines;
- (b) administrative, accounting and financial procedures;
- (c) procurement and disbursement guidelines; and
- (d) the Environmental Framework.

2. The Borrower shall carry out the Project in accordance with the Project Implementation Plan, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

C. Subprojects

1. Any expenditures on account of Subprojects shall be made in accordance with criteria, terms and conditions set forth in the Project Implementation Plan, the Sectoral Concept Paper and the applicable terms of reference, as the case may be.

2. Expenditures for activities relating to any Subprojects shall not be used to finance taxes or duties levied on, or in respect of, eligible expenditures relating to a Subproject, or any part thereof.

3. goods and services required for the purposes of financing Subprojects shall be procured in accordance with procedures referred to in Schedule 3 to this Agreement, and set forth in the Sectoral Concept Paper, the applicable terms of reference or the Project Implementation Plan, as the case may be.

4. Using the Environmental Framework as a basis for further and more detailed social and environmental analysis, the Borrower shall, in respect of each Subproject, cause each Participating Entity to:

(a) carry out an Environmental Screening, in a manner that is acceptable to the Association, for each Subproject to be financed under Part B (support for priority sub-sectors) or Part D (challenge fund) of the Project;

(b) where it is necessary and appropriate, undertake: (i) a Phase-I Environmental Audit; and, if required, (ii) a Phase-II Environmental Audit;

(c) where necessary and appropriate on the basis of the environmental audits carried out under sub-paragraph (b), above, prepare and develop an Environmental Management Plan for a Subproject, satisfactory and acceptable to the Association; and

(d) where an Environmental Management Plan has been prepared under subparagraph (c), above, implement such plan in accordance with the guidelines, timetable and other specifications set forth in the plan.

5. Notwithstanding the provisions of paragraph 1 of Schedule 1 no withdrawals shall be made in respect of expenditures for Subprojects under Part B (support for priority sub-sectors) and Part D (challenge fund) of the Project unless the Participating Entity responsible for implementing the Subproject has provided evidence satisfactory and acceptable to the Association that it has carried out an Environmental Screening for the Subproject.

6. Without prejudice to its obligations under paragraph 3, above, the Borrower shall:

(a) submit to the Association, for its review and clearance, the first two Phase-I Environmental Audits prepared under the Project in respect of any Subprojects;

(b) submit to the Association, for its review and clearance, all Phase-II Environmental Audits and related risk assessments prepared under the Project in respect of any Subprojects; and

(c) submit to the Association, for its review and clearance, all environmental assessments required by the Environmental Framework in respect of any Subprojects;

D. Monitoring and Evaluation, Reports and Reviews

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 agreed upon between the Borrower and 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, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 2004, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and



the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 750,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

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

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

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

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

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

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