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CONFORMED COPY

LOAN NUMBER 4699 BUL

Loan Agreement

(Revenue Administration Reform Project)

between

REPUBLIC OF BULGARIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 18, 2003



LOAN NUMBER 4699 BUL

LOAN AGREEMENT

AGREEMENT, dated June 18, 2003, between REPUBLIC OF BULGARIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "GTD" means the Borrower's General Tax Directorate established within the Tax Administration (as defined hereinafter) pursuant to the Borrower's Tax Procedural Code promulgated in the State Gazette issue No. 103, dated November 30, 1999 as amended;

(c) “Law on NRA” means the Borrower’s Law on National Revenue Agency published in the State Gazette, dated November 29, 2002;

(d) “LOC” means the Letter of Commitment No. 99-00-0017 of December 16, 2002, issued by the Borrower’s Minister of Finance committing the Borrower’s Government to the development objectives of the project and to providing the NRA with a modern public sector management environment;

(e) “Management Board of NRA” means the Management Board established pursuant to the Borrower’s Law on NRA, referred to in paragraph 3 (b) of Schedule 5 to this Agreement;

(f) “MOF” means the Borrower’s Ministry of Finance;

(g) “NRA” means the Borrower’s National Revenue Agency established under MOF as a specialized government body to assess, secure and collect public receivables pursuant to the Borrower’s Law on NRA;

(h) “NHIF” means the Borrower’s National Health Insurance Fund established pursuant to the Borrower’s Health Insurance Act published in the State Gazette No. 70, dated September 19, 1998;

(i) “NSSI” means the Borrower’s National Social Security Institute established pursuant to the Borrower’s Social Security Fund Law, dated November 15, 1995, as an autonomous agency responsible for the administrative operation of the Social Security Fund and social insurance programs of the Borrower;

(j) “Order of the Minister of Finance implementing the principles of independent management of the NRA” means Order No. ZMF 294, dated April 18, 2003, issued by the Borrower’s Minister of Finance referred to in paragraph (b) of Section 5.01 to this Agreement;

(k) “Project Account” means the separate payment code introduced in the budget account of MOF in the Bulgarian National Bank, for purposes of making available the counterpart funds for the financing of the Project, in accordance with the provisions of Section 3.01 (c) of this Agreement;

(l) “PCU” means the Borrower’s Project Coordination Unit established within NRA by the Order of the Borrower’s Minister of Finance, dated November 11, 2002;

(m) “PIP” means the Borrower’s Project Implementation Plan, referred to in paragraph 4 of Schedule 5 to this Agreement;

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

(o) "Tax Administration" means the Borrower's Tax Administration in charge of the administration of taxes in the Borrower's territory pursuant to the Borrower's Tax Procedural Code promulgated in the State Gazette issue No. 103, dated November 30, 1999, as amended; and

(p) "Territorial offices" means the offices within NRA in charge of assessing, securing and collecting the public receivables from taxes and compulsory insurance contribution pursuant to the NRA Law.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty one million nine hundred thousand Euro (€31,900,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and in respect of the fee referred to in Section 2.04 of this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project open and maintain in Euro a special deposit account in the Bulgarian National Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

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

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

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

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

ARTICLE III

Execution of the Project

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

(b) Except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through NRA, provide evidence satisfactory to the Bank, not later than thirty (30) days after the State Budget Law of the relevant fiscal year has been published by the Borrower in the State Gazette, each year during Project implementation, starting from calendar year of 2004, that sufficient resources acceptable to the Bank have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under the Project for the year in question.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower, through NRA shall: (i) maintain throughout the course of Project implementation the Project Account and ensure that sufficient funds are made available through this account to enable the Borrower to meet its obligations under paragraph (b) above for such period; and (ii) use the funds in said Project Account for financing the Borrower's contribution to Project expenditures.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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 Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, 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 Bank, consistently applied, by independent auditors acceptable to the Bank;

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

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such 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 1 (a) of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Law on NRA of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower/NRA to perform any of its obligations under this Agreement.

(b) The Order of the Minister of Finance implementing the principles of independent management of the NRA, establishing the NRA's administration, management and budgetary tasks and responsibilities pursuant to the LOC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the NRA to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date of ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
102 Rakovski Street
Sofia, 1040
Republic of Bulgaria

Cable address:	Telex:	Facsimile:
Ministry of Finance Sofia	22727	(359)2-9806863

For the Bank:

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

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

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

REPUBLIC OF BULGARIA

By /s/ Milen Velchev

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be financed</u>
(1) Works	8,400,000	50%
(2) Goods	10,800,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items procured locally
(3) Consultants' services, including audit services and training	11,800,000	95% of foreign expenditures; and 85% of local expenditures
(4) Front-end fee	319,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>581,000</u>	
TOTAL	<u>31,900,000</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 “training” means the expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including travel costs and per diem of trainees, study tours, rental of facilities and equipment and training materials.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) consulting services under contracts with individual consultants costing less than □50,000 equivalent each; (b) consulting services under contracts with consulting firms costing less than □100,000 equivalent each; (c) goods under contracts costing less than □250,000 equivalent each; and (d) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an amount not exceeding □50,000 equivalent, may be made in respect of Categories (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 2003.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide assistance to the Borrower for the implementation of a sustainable revenue collection system in the Borrower's territory.

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

Part A: Implementation and Strengthening NRA's Revenue Collection and Administration Policy Making

1. Strengthening NRA's in-house capacity to: (a) analyze and evaluate revenue collection of direct and indirect taxes, and social contributions; (b) carry out impact analysis, compliance and distribution studies; (c) develop analytical models for applying study results; and (d) recommend and propose, if appropriate, alternative revenue collection programs and policies.

2. Establishing a comprehensive legal system to ensure compliance with tax and social contribution legislation by: (a) establishing, staffing, and equipping a legal office within NRA; and (b) developing a comprehensive revenue collection legal system and database to ensure compliance with tax and social contribution legislation through: (i) the review of existing tax and other applicable legislation and institutional legal framework; and (ii) preparation and support of proposals to improve the legal and institutional legal framework of the revenue collection in the Borrower's territory.

3. Assisting in the preparation and implementation of NRA's strategic and operational plan, including: (a) the progressive integration of Tax Administration and NSSI revenue collection responsibilities as part of NRA's tasks; and (b) introduction of output quality control policies, procedural and evaluation methodologies and assessment of training needs for NRA.

Part B: Organization and Management Development of NRA

1. Support for establishing the organizational and management structures of NRA, including: (a) NRA advisory and technical services and management information systems covering all levels, including accountability, monitoring, and internal control; and (b) equipping NRA facilities and provision of capacity-building training to NRA staff in management, technical and operational areas.

2. Strengthening NRA's human resources services capacities through the development of adequate human resources policies and training strategies, including: (a) strengthening recruitment, selection and hiring procedures, compensation policies and practices, performance systems, workforce strategic planning, management development, and support for training centers, curriculum development and infrastructure; (b) development of a code of ethics for NRA personnel; (c) development of an employment rationalization program based on NRA's staffing needs; and (d) conducting training programs for the professional development and performance enhancement of NRA staff.

Part C: Strengthening the Operational Efficiency of NRA

1. Designing and developing combined and streamlined integrated business processes to support the business operations of NRA in, among others, the following areas: auditing, enforcement, administrative and judiciary recourses and anticorruption and internal investigation.

2. Development and implementation of information systems to support NRA's core business functions through, among others, the installation of appropriate application software systems and the establishment and maintenance of data warehouse for decision-making.

3. Installing, setting up and upgrading information technology and telecommunications infrastructures at NRA's central and territorial level, including internet gateway servers.

Part D: Public Outreach and Community Participation

1. Improving the participation of taxpayers and contributors to the collection of revenues through, among others: (a) increasing the transparency and accountability of NRA; (b) preparing and promoting the use of a Taxpayer and Contributor Charter of Rights; and (c) promoting the development of taxpayer and contributor advisory and information services.

2. Promoting community understanding of the revenue collection administrative system, laws, regulations, rights and obligations of taxpayers, contributors, and citizens through, among others, the carrying out of related: (a) public information and awareness campaign, (b) public information dissemination and educational program, and (c) NRA communication plan designed for the public.

3. Providing information at the government level on NRA's role and responsibilities.

Part E: Rehabilitation of NRA's facilities

Rehabilitation and refurbishing NRA's office and network facilities at the central and territorial level.

Part F: Project Management

Provision of goods and technical assistance with respect to PCU's Project implementation, evaluation, and monitoring tasks and to the change management unit within NRA operations and functioning.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Euro</u>)*
On each June 15 and December 15 beginning December 15, 2008 through December 15, 2019	1,330,000
On June 15, 2020	1,310,000

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) 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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost $\square 300,000$ equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost $\square 3,000,000$ or more each.

(b) Preference for domestically manufactured goods

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

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost $\square 200,000$ equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(d) Pre-qualification of Bidders

The provisions of paragraphs 2.9 and 2.10 of the Guidelines shall apply to works contracts estimated to cost above □10,000,000 equivalent.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost less than □500,000 equivalent per contract which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding (NCB)

Works estimated to cost less than □3,000,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the following additional provisions:

- (i) a point system of evaluation will not be used;
- (ii) domestic preference will not be applied;
- (iii) international bidders will not be excluded from bidding;
- (iv) the draft NCB bidding documents will be prepared and submitted to the Bank for review and no-objection before any NCB tender is issued;
- (v) no bids will be rejected at the bid opening;
- (vi) all bids submitted on or before the deadline for submission of bids will be opened and read out in public bid opening;
- (vii) local bidders shall demonstrate availability of obtaining securities and reasonable access to credit;
- (viii) bid evaluation criteria shall be pre-disclosed to bidders; and
- (ix) technical specifications must be clearly written.

3. International Shopping

Goods estimated to cost less than □100,000 equivalent per contract, as well as the contracts for Security Management Software, Software Development Tools, and Data Warehouse and Mining Software, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than □50,000 equivalent per contract 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.

5. Direct Contracting

Direct Contracting procedure would be used for procurement of the Financial Management Software under Part C of the Project.

Part D: Review by the Bank 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 Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract to be procured in accordance with the procedures referred to in Part B of this Section; (ii) each contract for goods to be procured in accordance with the procedures referred to in Part C.1 of this Section; (iii) each contract for goods purchased in accordance with Part C.3 above the □100,000 threshold; and (iv) each contract for works to be purchased in accordance with the procedures referred to in Part C.2 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods to be procured in accordance with the procedures referred to in Part C.3 and Part C.4 above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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 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 15 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Least Cost Selection

Services for carrying out audits under Part F of the Project and services to carry out public awareness campaigns under Part D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Under a Fixed Budget

Services for technical supervision of civil works under Part E of the Project, and community participation and services contracts under Part D may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

4. 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 Bank of the Selection of Consultants

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of □50,000 or more, the report on the comparison of the qualifications and experience of candidates, the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. 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 5

Implementation Program

1. The Borrower shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2005, or such later date as the Bank shall request a mid-term 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 the mid-term report referred to in paragraph (b) of this Section with the Bank, ninety (90) days after the Bank has received such report, 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 Bank's views on the matter.
2. The Borrower shall maintain NRA during the execution of the Project, with qualified and sufficient staff and resources as shall be required to enable NRA to perform: (a) its duties in respect of overall management and implementation of the Project, in a manner satisfactory to the Bank; and (b) its tasks and responsibilities under the NRA law.
3. Throughout the implementation of the Project, the Borrower shall:
 - (a) maintain, through NRA, the PCU within NRA with such staff and resources as shall be required for the PCU to perform its duties in respect of the management, implementation and monitoring of the Project, in accordance with the PIP and satisfactory to the Bank; and
 - (b) maintain the Management Board of NRA comprising, *inter alia*, representatives of MOF, NRA, NSSI and NHIF, which shall provide policy oversight and guidance for Project implementation.
4. The Borrower, through NRA, shall carry out the Project in accordance with the PIP, including an annual working plan for each year throughout Project implementation

and key instruments for the execution and coordination of the Project (including procurement and financial management procedures) and shall not amend the PIP without the Bank's prior consent.

5. For the purposes of carrying out the training programs under the Project, the Borrower, through NRA, shall:

(a) select: (i) beneficiaries of such training programs, in accordance with criteria satisfactory to the Bank; and (ii) providers, in accordance with procedures agreed with the Bank; and

(b) exchange views with the Bank not later than December 31 of each year throughout Project implementation on the training programs to be carried out in the following calendar year.

6. The Borrower shall not later than December 31, 2003, provide evidence satisfactory to the Bank that the auditors referred to in Section 4.01 of this Agreement have been employed in a manner satisfactory to the Bank.

SCHEDULE 6

Special Account

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

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

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

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

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

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

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

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts

remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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