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**GRANT NUMBER H173-NEP**

# **Development Grant Agreement**

**(Economic Reform Technical Assistance Project)**

between

**KINGDOM OF NEPAL**

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 1, 2005**

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**GRANT NUMBER H173-NEP**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated August 1, 2005, between the KINGDOM OF NEPAL (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), 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 Grant provided for in Article II of this Agreement (the Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals 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);

(b) “Economic Advisory Services Unit” or “EASU” means the Economic Advisory Services Unit to be established within the NPC (as hereinafter defined) Secretariat for the purpose of, *inter alia*, coordinating and supervising the implementation of the Project;

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

(d) “Fiscal Year” or “FY” means the twelve (12) month period corresponding to each of the Recipient’s fiscal years, which period commences and ends in mid-July of each calendar year;

(e) “MOGA” means the Ministry of General Administration of the Recipient, or any successor thereto;

(f) “National Planning Commission” or “NPC” means the National Planning Commission of the Recipient, or any successor thereto;

(g) “Nepal Rastra Bank” means the central bank of the Recipient established and operating pursuant to the provisions of the Recipient’s Nepal Rastra Bank Act, 2058 (2001);

(h) “Operational Guidelines” means the Operational Guidelines to be prepared by the Recipient and setting out details of procedures, guidelines, timetables and other institutional and implementation arrangements for the carrying out of the Project (including without limitation guidelines for preparing proposals for Subprojects, entry eligibility criteria for Subprojects and operational modalities (including procedures for disbursements of Subproject funds), internal control mechanism and monitoring, audit and reporting arrangements for Subprojects), as the same may be updated from time to time with the agreement of the Association;

(i) “Participating Entity” means any ministry, department or agency within a ministry, or any other agency or entity which participates in the carrying out of a Subproject;

(j) “Procurement Plan” means the procurement plan to be prepared by the Recipient and covering the initial twelve (12) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding twelve (12) month periods (or longer) of Project implementation;

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

(l) “Subproject” means an economic reform activity to be carried out under Part E of the Project;

(m) “Subproject Agreement” means a memorandum of understanding or a similar arrangement to be executed between the Recipient and each Participating Entity for the carrying out of its Subproject; and

(n) “Technical Assistance Steering Committee” or “TASC” means the Technical Assistance Steering Committee to be established by the Recipient to, *inter alia*, take decisions on proposals for Subprojects.

## ARTICLE II

### The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to two million Special Drawing Rights (SDR 2,000,000).

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

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in Nepal Rastra 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.

Section 2.03. The Closing Date shall be December 31, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the amount of the Grant 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant 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 2.05 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 Recipient; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on January 1 and July 1 in each year.

### **ARTICLE III**

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

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than four (4) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient 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 Recipient on said plan.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project of the departments or agencies of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient shall:

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

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

- (i) retain, or cause to be retained, until at least one (1) year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraphs 9 and 10 of Schedule 4 to this Agreement, the Recipient 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 Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said Report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said Report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after the end of the first Fiscal Year trimester 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 Fiscal Year trimester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after each subsequent Fiscal Year trimester, and shall cover such Fiscal Year trimester.

## **ARTICLE V**

### **Effectiveness; Termination**

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

- (a) The Procurement Plan satisfactory to the Association has been prepared;
- (b) The TASC has been established;
- (c) The EASU has been established with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a project coordinator; (ii) a deputy project

coordinator; (iii) a financial officer; (iv) a procurement specialist; and (v) support staff as needed;

(d) The Operational Guidelines satisfactory to the Association have been prepared; and

(e) The format for Financial Monitoring Reports satisfactory to the Association has been prepared.

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 Recipient; Addresses**

Section 6.01. The Secretary, Ministry of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance  
His Majesty's Government of Nepal  
Singha Durbar  
Kathmandu  
Nepal

Facsimile:

(977-1) 4259-891



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 Kathmandu, Kingdom of Nepal, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ Bhanu Prasad Acharya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tashi Tenzing

Acting Country Director  
Nepal

## SCHEDULE 1

### Withdrawal of the Proceeds of the Grant

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

	<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1)	Goods under Parts A-D of the Project	150,000	100%
(2)	Consultants' Services and Studies under Parts A-D of the Project	240,000	100%
(3)	Training, Study Tours and Workshops under Parts A-D of the Project	150,000	100%
(4)	Goods, Consultants' Services, Studies, Training, Study Tours and Workshops for Subprojects Under Part E of the Project (Challenge Fund)	1,330,000	100%
(5)	Incremental Operating Costs	30,000	100%
(6)	Unallocated	<u>100,000</u>	100%
	TOTAL	<u>2,000,000</u>	

2. For the purposes of this Schedule, the term “Incremental Operating Costs” means costs of the operation and maintenance of facilities, vehicles and equipment used by the EASU for Project implementation (including without limitation payments for office rental, utilities, fuel for vehicles and office consumables).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR80,000, may be made in respect of Categories (1), (2), (3) and (5) on account of payments made for expenditures before that date but on or after July 16, 2005; and

(b) payments made for any Subproject unless and until: (i) the proposal for such Subproject has been approved by the Association; and (ii) the Recipient and the Participating Entity have executed a Subproject Agreement for such Subproject in form and substance satisfactory to the Association and furnished a copy thereof to the Association.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$50,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms costing less than \$200,000 equivalent per contract; (d) training, study tours and workshops; and (e) Incremental Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Recipient in strengthening its capacity to implement economic reforms aimed at improving service delivery, public sector management, increasing inclusion and reducing government intervention in the economy and putting the Recipient on a higher growth path.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objective:

#### **Part A: Improved Governance and Public Sector Management**

1. Provision of technical assistance for human resource management and development, including: (i) provision of support where necessary for communicating and implementing policy changes envisaged under the proposed Civil Service Amendment Act, Governance Act, and Umbrella Public Administration/Management Act; (ii) strengthening MOGA's capacity to manage an integrated human resource function, and to support the Administrative Reform Committee and the Administrative Reform Commission Monitoring Committee in monitoring progress on reform; (iii) support for civil service reform in the areas of wage decompression, position reclassification, performance management, pension reform and health insurance; (iv) expansion of human resource management information system; and (v) establishment of a transparent and effective recruitment, transfer and promotion process.
2. Provision of technical assistance for strengthening anti-corruption initiatives, including: (i) support to the institutions charged with enforcement, prevention and public awareness, such as the Commission for the Investigation of Abuse of Authority, the National Vigilance Centre, to expand institutional reach; and (ii) support for analysis and implementation of reforms aimed at changing business practices to ensure transparency and accountability.
3. Provision of technical assistance for implementing public procurement legislation, including: (i) support to the proposed procurement regulatory body that deals with public procurement policy and oversight and independent review panel; and (ii) support to the capacity building in procurement.
4. Provision of technical assistance for improving financial accountability, including: (i) support for implementation of the development action plans resulting from the country financial accountability assessment; and (ii) updating reviews of the Recipient's fiduciary risk assessment.

Part B: Accelerated Privatization

1. Provision of technical assistance for privatization of the following key public enterprises: (i) Royal Nepal Airlines Corporation (RNAC); (ii) Nepal Oil Corporation (NOC); and (iii) Nepal Telecom (NT).
2. Provision of technical assistance for changes to the legislative and institutional framework for implementing privatization, including the creation of a separate body for privatization.

Part C: Improved Service Delivery

1. Provision of technical assistance for improving institutions to deliver better services, including: (i) support to analysis and implementation of the institutional framework to support decentralized recruitment; and (ii) management of local cadres and support to line ministries to re-engineer business processes for better planning and coordination of activities including better information management and monitoring.
2. Provision of technical assistance for private health sector assessment to recommend appropriate public private partnership models for the health sector, including: (i) assessment of the health sector market; (ii) survey of private sector providers; (iii) assessment of views and perceptions of policy makers and stakeholders in public and private sectors; (iv) survey of pharmaceutical companies and their impact on the health of poor and vulnerable populations; and (v) review of past and existing public private partnership models (such as contracting in/out specific health services, health facilities, social marketing and franchising models).
3. Provision of technical assistance for review of health sector regulatory provisions, including: (i) gaps in legal bases of health policies, reform programs and actions; (ii) existing legal provisions that facilitate or constrain service delivery, including training and deployment of service providers; (iii) gaps in environmental and occupational hazard aspects in health care; (iv) gaps in existing health system including decentralization; and (v) regulation of private health care providers in terms of quality, standards, pricing and other practices that affect the poor.
4. Provision of technical assistance for capacity building for community management, including capacity building of government officials, school management committees, including their Community School National Network and support organizations for the new mode of service delivery.
5. Provision of technical assistance for development of the legal and institutional framework for the establishment of an autonomous entity, HIV/AIDS Trust, including: (i) comprehensive assessment of the institutional capacity of organizations involved in HIV/AIDS activities (including public, private, non-profit and international partners); (ii) development of suitable institutional options and associated costing implications; and

(iii) review of staffing issues (including public service rules, human resource issues and pay scales).

Part D: Implementation of Strategic Communications Program

Undertaking a strategic communications campaign program aimed at raising awareness of the benefits of economic reform and building consensus around reform actions, including: (i) assessment of the communications needs, identification of stakeholders and issues, determination of communication strategies, and carrying out of a communications audit; (ii) public relations campaign; (iii) dialogue between government representatives and reform stakeholders; and (iv) discussions among government, employers and unions on the reform process.

Part E: Challenge Fund

Support of other activities aimed at implementing economic reforms, to be selected in accordance with eligibility criteria set forth in the Operational Guidelines.

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The Project is expected to be completed by June 30, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

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

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

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

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

###### A. International Competitive Bidding

1. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

2. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

###### B. Other Procurement Procedures

###### 1. National Competitive Bidding

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

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

- (i) invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper, at least thirty (30) days prior to the deadline for the submission of bids;
- (ii) bid documents shall be prepared in accordance with the sample for the Project approved by the Association;
- (iii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iv) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;
- (v) bids shall be opened in public in one place, immediately after the deadline for submission of bids;
- (vi) no firm, regardless of its class of registration, shall be denied the participation in bidding for reasons unrelated to its capability and resources to successfully perform the contract, nor shall it be disqualified for such reasons;
- (vii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (viii) qualification criteria (in case pre-qualifications were 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;
- (ix) contracts shall be awarded to the lowest evaluated bidders;
- (x) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;
- (xi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (xii) contracts shall not be awarded on the basis of nationally negotiated rates;
- (xiii) re-bidding shall not be carried out without the prior concurrence of the Association;



- (xiv) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xv) 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;
- (xvi) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xvii) extension of bid validity shall not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than eight (8) weeks; and (B) for all subsequent requests for extension irrespective of the period;
- (xviii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and
- (xix) there shall not be any restrictions on the means of delivery of the bids.

2. Shopping

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

3. Direct Contracting

Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method (including without limitation Direct Contracting to local communities).

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

1. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget, Least-cost Selection, or Selection Based on Consultants' Qualifications

Services estimated to cost less than \$25,000 equivalent per contract may, with the Association's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.5, 3.6, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection

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

3. Individual Consultants

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

Section IV. Review by the Association of Procurement Decisions

A. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

- (a) each contract for goods procured on the basis of International Competitive Bidding;

(b) each contract for goods procured on the basis of National Competitive Bidding and estimated to cost the equivalent of \$50,000 or more;

(c) the first three (3) contracts for goods procured on the basis of Shopping, regardless of value;

(d) the first three (3) contracts for goods procured on the basis of Direct Contracting, regardless of value;

(e) each contract for consultants' services provided by a firm and estimated to cost the equivalent of \$200,000 or more;

(f) each contract for consultants' services provided by a firm procured on the basis of Single Source Selection and estimated to cost the equivalent of \$100,000 or more; and

(g) each contract for consultants' services provided by an individual and estimated to cost the equivalent of \$50,000 or more. With respect to each contract for consultants' services provided by an individual and estimated to cost the equivalent of less than \$50,000, the proposed terms of reference and the proposed selection of a particular consultant shall be provided to the Association for its prior review and approval, and the contract shall be awarded only after the said approval shall have been given.

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

## **SCHEDULE 4**

### **Implementation Program**

#### Technical Assistance Steering Committee (TASC)

1. The Recipient shall maintain the TASC consisting of senior officials of key stakeholder ministries and agencies and representatives of civil society.

#### Economic Advisory Services Unit (EASU)

2. The Recipient shall maintain the EASU with an adequate number of professional staff with skills, qualifications, experience and terms of reference satisfactory to the Association, including without limitation: (i) a project coordinator; (ii) a deputy project coordinator; (iii) a financial officer; (iv) a procurement specialist; and (v) support staff as needed.

#### Operational Guidelines

3. The Recipient shall implement the Project in accordance with the provisions of the Operational Guidelines and shall not take any action which would prevent or interfere with such implementation.

#### Subprojects under Part E of the Project

4. The Recipient shall ensure that each Subproject under Part E of the Project: (i) shall be selected by the TASC in accordance with eligibility criteria set forth in the Operational Guidelines; and (ii) shall be carried out only with the Association's prior approval of the proposal for such Subproject setting forth detailed terms of reference and budget estimates.

5. Prior to the commencement of each Subproject, the Recipient shall execute a Subproject Agreement with the Participating Entity for such Subproject, in form and substance satisfactory to the Association, setting forth the respective obligations of the parties thereunder for the carrying out of such Subproject, and furnish a copy thereof to the Association.

6. The Recipient shall ensure that each Subproject shall be implemented in accordance with the provisions of the Operational Guidelines and the Subproject Agreement for such Subproject and shall not take any action which would prevent or interfere with such implementation.

7. The Recipient shall exercise its rights in respect of each Subproject and under the Subproject Agreement for such Subproject in such manner as to: (i) protect the interests of the Recipient and the Association; and (ii) achieve the purposes of the Project.

8. The Recipient shall ensure that procurement of the goods and services required for Subprojects and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

Trimesterly Implementation Progress Reports

9. The Recipient shall, within forty-five (45) days after the end of each Fiscal Year trimester, provide to the Association a trimesterly implementation progress report setting forth: (i) a Financial Monitoring Report; (ii) the progress of Project implementation and achievement of the indicators referred to in paragraph 10 below; and (iii) proposed action plans for Project implementation for the following Fiscal Year trimester.

Monitoring and Evaluation; Mid-Term Review

10. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association by August 31, 2007, a report or reports integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report(s) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2007, or such later date as the Association shall request, the report(s) referred to in subparagraph (b) of this paragraph, 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(s) 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 Grant 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 Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
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 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
  - (b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient 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 Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions; and

(d) once the total unwithdrawn amount of the Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Recipient 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 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement, including the General Conditions.



## SCHEDULE 6

### Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
  - (a) The term “Borrower” is modified to read “Recipient”.
  - (b) The term “Credit” is modified to read “Grant”.
  - (c) The term “Credit Account” is modified to read “Grant Account”.
  - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

*“Section 1.01. Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
  - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
  - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

- (a) Section 4.02(a) is modified to read as follows:

*“Section 4.02. Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

- (b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

- (c) Section 4.03 is modified to read as follows:

*“Section 4.03. Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

- (d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is modified to read as follows:

*“Section 5.08. Treatment of taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item

in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:
  - (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
  - (b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with “the words “corrupt, fraudulent, collusive or coercive”.
9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”
10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date ten (10) years after the date of the Development Grant Agreement.”