

CONFORMED COPY

CREDIT NUMBER 3877-NI

Development Credit Agreement

(Public Sector Technical Assistance Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 20, 2004

CREDIT NUMBER 3877-NI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 20, 2004, between the Republic of Nicaragua (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

WHEREAS the Association has agreed, on the basis, inter *alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) “CAPs” means *Centros de Atención al Público*, i.e. public services “kiosks”, within the Borrower’s administrative agencies;

(b) “CFAA” means Country Financial Accountability Assessment;

(c) “Civil Service Law” is the Borrower’s *Ley de Servicio Civil y de Carrera Administrativa* No. 476, passed on November 19, 2003 and published in the Official Gazette No. 235, on December 11, 2003;

(d) “DGCE” means *Dirección General de Contrataciones del Estado*, the Borrower’s Directorate of Public Procurement within the Ministry of Finance and Public Credit;

(e) “DGTEC” means *Dirección General de Tecnología*, the Borrower’s Directorate General of Technology, established within the Ministry of Finance and Public Credit;

(f) “DIGEFUP” means *Dirección General de Función Pública*, the Borrower’s Directorate General of Public Function established within the Ministry of Finance and Public Credit;

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

(h) “Law 290” means *Ley de Organización, Competencia y Procedimientos del Poder Ejecutivo*, the Borrower’s Law of Organization, Competence and Procedures of the Executive Branch, approved on March 27, 1998 and published in the Official Gazette No. 102 of June 3, 1998;

(i) “MHCP” means *Ministerio de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit;

(j) “NDP” means *Plan Nacional de Desarrollo*, the Borrower’s National Development Plan;

(k) “OAFE” means *Oficina de Asuntos Fiscales y Económicos*, the Borrower’s Fiscal and Economic Advisory Office, established within the Ministry of Finance and Public Credit;

(l) “Operational Manual” means the manual referred to in Section 3.02 of this Agreement;

(m) “PCU” means the Borrower’s Project coordination unit referred to in Section 3.04;

(n) “PRGF” means Poverty Reduction and Growth Facility approved by the International Monetary Fund on December, 2002;

(o) “PRSP” means the Borrower’s Poverty Reduction Strategy Paper, approved by the Bank Board of Directors on September 13, 2001;

(p) “SECEP” means *Secretaría de Coordinación y Estrategia de la Presidencia*, the Borrower’s Secretariat of Coordination and Strategy of the Presidency;

(q) “SIGFA” means *Sistema Integrado de Gestión Financiera, Administrativa y de Auditoría*, the Borrower’s Financial Management and Auditing System;

(r) “SISEC” means *Sistema de Información de Servicio Civil*, the Borrower’s civil service information system;

(s) “SNIP” means *Sistema Nacional de Inversión Pública*, the Borrower’s National Public Investment System;

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

(u) “Supplemental Letter” means the letter containing the Project’s monitoring and evaluation indicators for the carrying out of the Project, referred to in Section 3.06 (a) of this Agreement;

(v) “SWAPs” means Sector Wide Approach Programs;

(w) “UCRESEP” means *Unidad de Coordinación del Programa de Reforma del Sector Público*, the Borrower’s Public Sector Reform Program Coordination Unit;

(x) “UIP” means *Unidad de Inversión Pública*, Public Investment Unit, established within SECEP;

(y) “USIP” means *Unidad Sectorial de Inversión Pública*, the Borrower’s Sectoral Public Investment Unit; and

(z) “UTIP” means *Unidad Territorial de Inversión Pública*, the Borrower’s Regional Public Investment Unit.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million eight hundred thousand Special Drawing Rights (SDR 15,800,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a separate special deposit account in its Central Bank on terms and conditions

satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2014 and ending March 15, 2044. Each installment to and including the installment payable on March 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for

Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A.1 through DGTEC, Part A.2 through OAFE, Part B.1 through DIGEFUP, Part B.2 jointly with SECEP except for Part B.2 (f) which shall be through the Office of Public Ethics of the Presidency, Part C through SECEP except for Part C.1 (f) which shall be

through the Secretariat of Economic Relation and Cooperation of the Ministry of Foreign Affairs, and Part D through UCRESEP, with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02 (a) Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Association may otherwise agree, the Borrower shall carry out the Project in accordance with an operational manual (the Operational Manual), satisfactory to the Association, and to be prepared by the PCU, said manual to include specific rules and procedures for Project implementation, including, *inter alia*:

- (i) detailed administrative, financial management and procurement procedures;
- (ii) sample model procurement documents to be used for consultants, works and goods during Project implementation; and
- (iii) a procurement plan for Project implementation, including timetables.

(b) The Operational Manual may be amended from time to time, in a manner satisfactory to the Association, to facilitate continued Project implementation. If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall prevail.

Section 3.03. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. (a) The Borrower shall maintain a Project coordination unit (the PCU) during the implementation of the Project, with functions, staff and responsibilities satisfactory to the Association, which shall include, *inter alia*:

- (i) management coordination and implementation of the Project;
- (ii) monitoring and progress reporting of the Project;
- (iii) processing of documentation required for disbursement of the Credit proceeds and for procurement of goods, works and services under the Project; and

- (iv) preparation and maintenance of records, accounts and financial statements referred to in Article IV of this Agreement.
- (b) The Borrower shall:
 - (i) ensure that the PCU is staffed, at all times during the execution of the Project, by core professional staff (including at least a finance and administration officer, a procurement officer and an accountant who shall report to the PCU's Coordinator) in numbers and with experience and qualifications acceptable to the Association and operating under terms of reference satisfactory to the Association, and selected in accordance with transparent procedures satisfactory to the Association, all as prescribed in the Operational Manual;
 - (ii) ensure that the PCU is provided with adequate facilities, satisfactory to the Association, to carry out its responsibilities; and
 - (iii) consult with the Association on any substitution of the PCU's staff prior to such substitution.

Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

Section 3.06. Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower, through the PCU shall:

- (a) maintain policies, systems and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the results framework and monitoring indicators set forth in the Supplemental Letter, the carrying out of the Project and the achievement of the objectives thereof;
- (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about July 15 of each year during the implementation of the Project, starting in 2005, a report integrating the results of the monitoring and

evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out an annual work plan 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, on or about October 30 of each year during the implementation of the Project, starting in 2005, or such later date as the Association shall request, the reports referred to in paragraph (b) of this Section, and, thereafter, carry out the annual work plans referred to in paragraph (b) of this Section and take all other 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 reports and the Association's views on the matter (the first of said annual work plans shall detail the actions to be carried out under Part A.1 of the Project).

Section 3.07. The Borrower shall finalize preparation of its civil service reform implementation strategy, satisfactory to the Association, by December 31, 2004.

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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower shall prepare through PCU and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that any legislation of the Borrower shall have been amended, suspended, abrogated, repealed, superceded or waived so as to, in the opinion of the Association, affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Operational Manual has been approved by the Association and put into effect;

(b) that an action plan for Project activities to be carried out during the first Project year shall have been prepared by the Borrower and approved by the Association; and

(c) that a procurement plan for Project implementation, including, but not limited to, a detailed plan for the first year of Project implementation, has been prepared by the Borrower and approved by the Association.

Section 6.02. The date July 19, 2004 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 and Public Credit 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:

Edificio del Ministerio de Hacienda y Crédito Público
Avenida Bolívar, frente a la Asamblea Nacional
Managua, Nicaragua
Apartado Postal 28

Facsimile: (505) 222-3033

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

REPUBLIC OF NICARAGUA

By /s/ Salvador Stadthagen Icaza

Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

HONORARY WITNESS ON BEHALF OF
THE REPUBLIC OF NICARAGUA

By /s/ Eduardo Montiel

Minister of Finance and Public Credit

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	650,000	87%
(2) Goods	3,000,000	100% of foreign expenditures and 87% of local expenditures
(3) Consultants' services	6,900,000	100% of foreign expenditures and 91 % of local expenditures
(4) Training	950,000	100%
(5) Operational Costs		
(a) Salaries	2,650,000	91% until withdrawals have reached an aggregate amount equivalent to 1,300,000; 70% until withdrawals have reached an aggregate amount equivalent to 2,100,000; and 50% thereafter

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(b) Other	900,000	80% until withdrawals have reached an aggregate amount equivalent to 400,000; 60% until withdrawals have reached an aggregate amount equivalent to 700,000; and 40% thereafter
(6) Unallocated	750,000	
TOTAL	<u>15,800,000</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 “operating costs” means reasonable expenditures, which would not have been incurred absent the Project, for: (i) salaries of incremental staff; and (ii) consumables, utilities costs, and maintenance and operation of equipment provided under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,550,000 on account of payments made for expenditures before that date but after July 1, 2004.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$25,000 equivalent per contract; (b) works costing less than \$150,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) training and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (i) strengthen its public sector's capacity to develop and implement public policies in order to increase overall effectiveness, efficiency and transparency in the use of public resources and, in particular, to ensure the implementation of the Borrower's strategy set forth in its PRSP and NDP; and (ii) promote good governance and institutional development in order to promote transparency and combat corruption within its public sector.

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

Part A: Strengthening of Fiscal and Financial Management

1. Consolidation and expansion of the Borrower's financial management system, through:

(a) consolidation of the financial management reform by expanding SIGFA modules;

(b) development and implementation of a new financial management legal framework, including the drafting of: (i) a Public Financial Management Law; and (ii) a Public Assets Law;

(c) development and implementation of a human resources management information system comprising payroll and SISEC;

(d) strengthening asset management and public procurement, including the institutional capacity of the Borrower's Directorate-General for Public Procurement (DGCE);

(e) establishment of internal control mechanisms and capacity building for internal control units of the central government;

(f) implementation of SIGFA in central government executing units and decentralized entities;

(g) design of a modernization strategy to improve financial management systems in municipalities and implementation in pilot municipalities; and

(h) design and implementation of tools to increase transparency of public financial management.

2. Strengthening of OAFE's institutional capacity to improve the management and transparency of the Borrower's public resources through:

(a) implementation of an action plan geared to improve public expenditure management consonant with the recommendations set forth in the CFAA and related studies;

(b) design and development of a medium-term expenditure framework and drafting of a Fiscal Responsibility Bill;

(c) design and implementation of monitoring mechanisms of: (i) policy benchmarks under IDA Credit No. 3850, dated February 5, 2004; and (ii) implementation of the benchmarks under the PRGF;

(d) establishment of a system to carry out of an analyses of the fiscal and budgetary effects of public sector reforms and bills submitted to the National Assembly;

(e) provision of technical assistance to the Directorate General of Internal Revenue and the Directorate of Customs on the implementation of an action plan to strengthen tax administration;

(f) strengthening the institutional capacity of the Borrower's Public Spending Commission; and

(g) establishment of an office for debt management at the MHCP.

Part B: Public Administration Reform

1. Provision of support to the Borrower to carry out its strategy referred to in Section 3.02 of this Agreement, through:

(a) implementation of the institutional arrangements provided by the Civil Service Law including the establishment of the Civil Service Directorate at the MHCP, the human resource administrative units at the institutional level, the National Commission for Civil Service, and the Civil Service Appeals' Committee;

(b) design and implementation of the administrative career framework, in accordance with the Civil Service Law, and the corresponding procedures for posts classification, competitive hiring, induction, training, incentives, performance-based evaluation, promotions and dismissals;

(c) design and implementation of a civil service information sub-system (SISEC), including the carrying out of a complete inventory of public sector employees; and

(d) design and implementation of a compensation strategy based on capacity and merit to address salary and wage inequalities for the public sector, including necessary fiscal impact assessments as well as sustainability studies associated with the implementation of a medium-term public sector payment strategy.

2. Provision of support to the Borrower's implementation of its institutional reform, through:

(a) carrying out of an analysis of Law 290 and drafting of an amendment thereof to re-define functions and organization of the executive branch and decentralized entities;

(b) design and implementation on a pilot basis of the Borrower's mechanisms of de-concentration and implementation of pilot CAPs at the departmental levels;

(c) design and monitoring of the Borrower's public policies geared to enhance and modernize the public administration;

(d) carrying out of reengineering studies of central government agencies prior to the implementation of the administrative career framework; and

(e) strengthening of the institutional capacity of the Office of Public Ethics of the Presidency.

Part C: Strengthening of Participatory Public Policy Planning and Monitoring

1. Provision of support to the Borrower's strategic planning management function, the implementation of its poverty reduction strategy and its National Development Plan (NDP) and improvement of donor coordination, through:

(a) improvement and updating of the PRSP;

(b) design and implementation of strategic plans for different sector clusters under its NDP;

(c) design and development of a medium-term budget system consistent with the NDP and PRSP priorities;

(d) design and implementation of harmonized administrative procedures for the mapping and aligning of donor funding for the overall public investment program;

(e) formulation and implementation of Sector Wide Approaches (SWAs) in pilot sectors; and

(f) strengthening of the institutional capacity of the Secretariat of Economic Relations and Cooperation of the Ministry of Foreign Affairs on donor coordination.

2. Strengthening and expansion of the Borrower's public investment system, through:

(a) strengthening of the Public Investment Unit's (PIU) 's institutional capacity responsible for the National System of Public Investment (SNIP);

(b) design and implementation of project formulation and evaluation methodologies;

(c) implementation of a single official registry of public investment projects; and

(d) strengthening the institutional capacity of the Sector and Regional Public Investment Units (USIP and UTIP) to plan, evaluate, and prioritize public investment projects.

3. Strengthening of the Borrower's monitoring and evaluation system through:

(a) enhancement of the monitoring and evaluation system of the PRSP and the NDP;

(b) design of monitoring indicators and strengthening of the government agencies and units in charge of providing source data for their computation;

(c) elaboration and dissemination of the PRSP annual progress reports; and

(d) conducting analytical work to evaluate poverty and social impact of certain public policies and programs under the PRSP and NDP.

4. Provision of support to the Borrower in achieving good governance and transparency and in its promotion of civic society participation, through:

(a) implementation of programs to facilitate institutional dialogue between public agencies and civil society organizations and improvement of public awareness of citizen rights and obligations;

(b) drafting of an access-to-information bill and related regulations to create an enabling environment for civic engagement at the national and local levels;

(c) design and implementation of information mechanisms in government agencies;

(d) design and implementation of mechanisms to foster civil society participation in decision making processes;

(e) the carrying out of a training and mentoring program for public sector agencies in the basic communications arts including areas such as political communication, message development, audience identification, analysis of public opinion research and surveying;

(f) the establishment of a network of communications mechanisms among government agencies; and

(g) the carrying out of campaigns to build consensus around, and ownership of, the Borrower's reform agenda.

Part D: Project Coordination Unit

Strengthening of UCRESEP to carry out its responsibilities under the Project, including:

- (a) overall monitoring of Project implementation;
- (b) contracting and monitoring of consultants;
- (c) oversight of Project finances and technical outputs;
- (d) preparation of reports; and
- (e) contracting of external auditors.

* * *

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

SCHEDULE 3

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. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost \$800,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$350,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$800,000 equivalent per contract, up to an aggregate amount not to exceed \$900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods, including software, which must be purchased from the original supplier to be compatible with existing equipment and costing \$3,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract pursuant to Part B above (International Competitive Bidding), the first contract pursuant to Part C.1 (a) above and the first contract pursuant to Part C.1 (b) above for National Competitive Bidding, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract pursuant to Part C.2 and Part C.3 above, the following procedures shall apply:

- (i) prior to the execution of the first contract under shopping procedures, the Borrower shall provide to the Association the draft request for quotations prior to issuing the invitation and a report on the comparison and evaluation of quotations received

prior to signature of contract or to issuance of the purchase order;

- (ii) prior to the execution of any contract procured under direct contracting procedures, the Borrower shall provide to the Association a letter justifying the request for direct contracting, 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 Schedule.

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under Part D of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for the Project (other than for audits) 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.

3. Individual Consultants

Services of individual consultants for specialized advisory services under the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; specialized advisory services under the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

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

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of

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

3. Post Review

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (6) 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 Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$2,300,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR5,000,000.
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 Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

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

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

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

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

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

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

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

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

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

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

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

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