

CONFORMED COPY

CREDIT NUMBER 3170 MD

Development Credit Agreement

(Social Investment Fund Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 17, 1999

CREDIT NUMBER 3170 MD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 17, 1999, between REPUBLIC OF MOLDOVA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to secure from the Swedish International Development and Cooperation Agency (SIDA) grant funding (the SIDA Grant or Grants) in an amount equivalent to U.S. Dollars one million two hundred and fifty thousand (\$1,250,000) to assist in financing Parts A(2), B and C of the Project on the terms and conditions set forth in an agreement or agreements (the SIDA Grant Agreement or Agreements) to be entered into between the Borrower and SIDA; 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 December 2, 1997, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Beneficiary" means any community, organization or agency eligible for assistance under the Project;

(b) "Beneficiary Association" means the voluntary association to be established in selected communities to undertake the operation and maintenance of Microprojects (hereinafter defined) on behalf of Beneficiaries;

(c) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement;

(e) "Framework Agreement" means the agreement to be concluded between MSIF (hereinafter defined) and an Implementing Agency (hereinafter defined) acting on behalf of a Beneficiary, in accordance with the provisions of Part B of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Framework Agreement;

(f) "Implementing Agency" means any community based organization or agency identified by a Beneficiary to be responsible for implementation of the Microproject (hereinafter defined) concerned on behalf of the Beneficiary;

(g) "Implementation Agreement" means the agreement to be entered into between the Borrower and MSIF pursuant to the provisions of Part A.1 of Schedule 4 to this Agreement;

(h) "Lei" means the lawful currency of the Borrower;

(i) "Microproject" means the activities to be carried out by an Implementing Agency in utilization of assistance made available to a Beneficiary;

(j) "MSIF" means the Moldova Social Investment Fund, or any successor thereto, established under the Borrower's Decision No. 468 of May 19, 1997, as an autonomous public interest agency, created by the Borrower to contribute to poverty alleviation in rural communities and among disadvantaged groups;

(k) "National Board" means the National Board established by the Borrower to

provide policy guidance and oversight of Project implementation;

(l) "MIS" means the Management Information System established by the Borrower to provide computerized monitoring and up-to-date data on Project implementation;

(m) "OM" means the Operational Manual, and such term includes all attachments supplemental to the OM, adopted by MSIF, to govern the selection of Beneficiaries and Implementing Agencies and the selection, appraisal and supervision of Microprojects, and to determine the terms applicable to assistance provided by MSIF under the Project;

(n) "Performance Contract" means the contract referred to in Part C of Schedule 4 to this Agreement;

(o) "PMU" means the Project Management Unit established by the Borrower within the MSIF for purposes of Project management;

(p) "Project Account" means the Account to be opened by the Borrower, for purposes of making available its counterpart contribution to the financing of the Project, in accordance with the provisions of Section 6.01 (c) of this Agreement;

(q) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 9, 1997 and May 15, 1997 between the Borrower and the Association;

(r) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement; and

(s) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

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 ten million nine hundred thousand Special Drawing Rights (SDR 10,900,000).

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: (i) the reasonable cost of goods and services required for Parts C and D of the Project and to be financed out of the proceeds of the Credit; and (ii) withdrawals made on account of Microprojects under Part A of the Project.

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

Section 2.03. The Closing Date shall be November 30, 2004, 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 1 and September 1 in each year. Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing March 1, 2009 and ending September 1, 2033. Each installment to and including the installment payable on September 1, 2018 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

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

(c) The Borrower shall make the proceeds of the Credit available to MSIF under the Implementation Agreement to be entered into between the Borrower and MSIF, under terms and conditions which shall have been approved by the Association, including those set forth in Part A.1 of Schedule 4 to this Agreement.

(d) The Borrower shall exercise its rights under the Implementation Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive, the Implementation Agreement or any provision thereof.

Section 3.02. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) maintain the Project Account referred to in Section 6.01 (c) of this Agreement, and shall replenish said account promptly before each month with sufficient funds to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; (b) use the amount in said Project Account for financing the Borrower's contribution to Project expenditures; and (c) ensure that sufficient annual allocations will be made in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

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

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause MSIF to establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out the Project.

(b) The Borrower shall cause MSIF to:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall cause MSIF to carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 1999, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or
- (B) any such loan shall have become due and payable prior to the maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(b) the OM shall have been amended, suspended, abrogated or waived without the Association's prior consent; and

(c) the Borrower or MSIF shall have failed to perform any of their respective obligations under the Implementation Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (a) (ii) of that Section; and

(b) the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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) the SIDA Grant Agreement or Agreements in the amount indicated in Recital B of the Preamble to this Agreement has or have been executed and delivered and all conditions precedent to its or their effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(b) the Implementation Agreement has been executed on behalf of the Borrower and MSIF;

(c) the Borrower has opened in Lei the Project Account in the National Bank of Moldova or in a commercial bank acceptable to the Association, and has deposited into said account an initial amount equivalent to \$75,000; and

(d) the Borrower has submitted to the Association a financial audit report for fiscal year 1998, satisfactory to the Association, for Project preparation activities financed from the Project Preparation Advance and other resources.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Cosmonaut Street, 7
277005 Chisinau
Republic of Moldova

Telex:

(3732) 22810

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF MOLDOVA

By /s/ Ion Sturza

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Roger Grawe

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Microprojects		
(a) under Part A (1) of	7,800,000	85% of amounts the Project disbursed under Framework Agreements
(b) under Part A (2) of	360,000	35% of amounts the Project disbursed under Framework Agreements
(2) Goods under Part D of the Project	22,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' Services including technical audits, training and studies	866,000	100%
(4) PMU's Operating Costs	722,000	100%
(5) Refunding of Project Preparation Advance	360,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(6) Unallocated	770,000	
TOTAL	10,900,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "PMU's Operating Costs" means expenditures incurred by the PMU on account of management of Project implementation for salaries, but excluding salaries of civil servants, communications, local travel, utilities, printing and publications, office supplies, vehicle rental, office maintenance, vehicle maintenance, including repair, insurance, inspection and fuel, parking fees, bank charges, and such other expenditures as may be agreed upon by the Association.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for works costing less than \$75,000 equivalent each with the exception of all contracts for works under the first three Microprojects in each of the Microprojects categories of infrastructure, non-infrastructure and Microprojects targeted to children's development and de-institutionalization, for which contracts withdrawals may be made on this basis of statements of expenditures only after they have been reviewed by the

Association in accordance with the provisions of Part C.2 of Section I of Schedule 3 to this Agreement; (b) contracts for goods costing less than \$50,000 equivalent each with the exception of: (i) all contracts for goods under the first three Microprojects in each of the Microprojects categories of infrastructure, non-infrastructure and Microprojects targeted to children's development and de-institutionalization under Part A of the Project, for which contracts withdrawals may be made on this basis of statements of expenditures only after they have been reviewed by the Association in accordance with the provisions of Part C.2 of Section I of Schedule 3 to this Agreement; and (ii) the first contract for goods under Part D of the Project, for which contract withdrawals may be made on this basis of statements of expenditures only after it has been reviewed by the Association in accordance with the provisions of Part C.2 of Section I of Schedule 3 to this Agreement; (c) all contracts for training; (d) all contracts for technical audits; and (e) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants, with the exception of the first three contracts for services under Microprojects, for which contracts withdrawals may be made on the basis of statements of expenditures only after they have been reviewed by the Association in accordance with the provisions of Part C.2 of Section II of Schedule 3 to this Agreement, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account, in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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 (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special

Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$1,200,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$600,000 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 equal or exceed the equivalent of SDR 3,500,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible

Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$1,200,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the quality of basic social and economic services for poor rural populations, and to increase the capacity of local communities to organize and manage development activities.

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: Microprojects

The selection and carrying out in accordance with the criteria and principles set forth in the OM of:

(1) demand-driven infrastructure and non-infrastructure Microprojects prepared by Beneficiaries; and

(2) targeted Microprojects for strengthening institutionalized children's social development and promoting said children's de-institutionalization.

Part B: Children's Social Development and De-institutionalization

Provision of technical assistance and training to care-givers of institutionalized children with special needs.

Part C: Capacity Building

Provision of technical assistance and training to Beneficiaries for local capacity building for community development, organization and management.

Part D: Project Management

Provision of technical assistance, equipment and operating costs for the operation of the PMU.

* * *

The Project is expected to be completed by May 31, 2004.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) 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 and September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and member country" shall be deemed to be references, respectively, to "Participating Countries" and Participating Country".

Part B: Procurement Procedures

1. National Competitive Bidding

Goods and works required for the carrying out of Microprojects under Part A of the Project, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$11,653,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Readily available, off-the-shelf, goods of standard specifications estimated to cost less than \$15,000 equivalent per contract, up to an aggregate amount not to exceed \$33,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

With respect to: (a) all contracts under the first three Microprojects in each of the Microproject categories of infrastructure, non-infrastructure, and Microprojects targeted to strengthening children's social development and de-institutionalization, under Part A of the Project; and (b) the first contract for goods under Part D of the Project, the procedures set forth in paragraphs 2 and 3 of

Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section 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 (the Consultant Guidelines), subject to the modifications thereto set forth in paragraph 2 of this part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Procedures for the Selection of Consultants

1. Least-cost Selection

Services for: (a) design and engineering preparation for Microprojects and (b) technical audits, estimated to cost less than \$10,000 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 technical assistance, training, studies, workshops, and conferences under Part C of the Project 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 under Parts A, C, and D of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single Source Selection

Services for specialized tasks under Parts A and C of the Project which are estimated to cost less than \$50,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) contracts to be

procured under least cost selection procedures in accordance with the provisions of Part B.1 of Section II of this Schedule, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

(c) With respect to the first three contracts for services under Microprojects, the procedures set forth in subparagraph (a) above and the procedures set forth in subparagraph (b) above shall apply to contracts for the employment of consulting firms and contracts for the employment of individual consultants respectively.

3. Post Review

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

SCHEDULE 4

Implementation Program

Part A: Project Management

1. The Borrower shall cause MSIF to carry out the Project through the PMU, in accordance with the requirements set forth or referred to in the OM and the Implementation Agreement to be entered into between the Borrower and MSIF under terms and conditions which shall have been agreed upon with the Association and which shall include, inter alia, provisions whereby: (a) the Borrower shall make the proceeds of the Credit available to MSIF in the form of a grant; (b) MSIF shall be required to implement the Project in accordance with the OM and the provisions of this Credit Agreement; and (c) MSIF shall be required as part of its responsibility for Project implementation: (i) to prepare and furnish to the Association, by March 31 in each year, for its review and concurrence, an annual work program for the Project; (ii) to maintain the Project financial records and accounts and to arrange for the audit thereof; (iii) to prepare applications for withdrawal of the proceeds of the Credit; (iv) to assist the Implementing Agencies in the preparation of bidding and contract documents for activities to be financed under the Framework Agreement and to ensure that goods, works and services are procured in accordance with the provisions of Schedule 3 to this Agreement; (v) to supervise the implementation of the Project, including supervising the progress of each Microproject; and (vi) to prepare and furnish to the Borrower and the Association, starting in June 1999, semi-annual reports on the progress of Project implementation.

2. The Borrower shall ensure the inclusion in the OM at all times, of provisions, satisfactory to the Association, governing MSIF's activities under the Project, concerning inter alia: (a) eligibility criteria for Beneficiaries and Implementing Agencies; (b) the principles and procedures to be followed for the promotion, appraisal, approval and supervision of Microprojects; (c) the terms and conditions to be included in the Framework Agreements; (d) the indicators to be utilized by MSIF in monitoring the progress of the Project; and (e) the financial management system to be adopted by MSIF to control the use of funds made available to it for purposes of the Project.

3. The Borrower shall cause MSIF to ensure participation by Beneficiaries, in accordance with the principles set forth in the OM, in the preparation of the Microprojects.

4. The Borrower shall cause MSIF to maintain the PMU until completion of the Project, with composition and terms of reference satisfactory to the Association.

5. The Borrower shall maintain the National Board until completion of the Project

with composition and terms of reference satisfactory to the Association.

6. The Borrower shall take all measures necessary to ensure completion of the MIS user's manual, satisfactory to the Association, by May 1, 2000.

Part B: Funding of Microprojects

1. For purposes of Part A of the Project, the Borrower shall cause MSIF to approve Microprojects for financing from the proceeds of the Credit on the basis of an order of priority established in accordance with the criteria and procedures set forth in the OM.

2. The Borrower shall cause MSIF to provide financing for approved Microprojects on the basis of a Framework Agreement, to be entered into between MSIF and an Implementing Agency on behalf of a Beneficiary (or Beneficiaries). Each Framework Agreement shall include, inter alia:

(a) a description of the Microproject, together with an estimate of the cost thereof;

(b) the implementation schedule for the Microproject;

(c) the degree to which cost sharing, in accordance with the principles set forth in the OM, shall be required to be made by the Beneficiary with respect to the financing of the Microproject for the implementation of which assistance is provided to such Beneficiary under the Framework Agreement;

(d) the obligation of the Implementing Agency to procure goods, works and services to be financed under the Framework Agreement in accordance with the procedures set forth in the OM;

(e) the obligation of the Implementing Agency to report to MSIF on the progress of Microproject implementation and to enable representatives of MSIF and of the Association, if the Association shall so request, to visit the facilities, construction sites or other activities to be financed under the Framework Agreement; and

(f) the obligation of the Implementing Agency to maintain records and accounts for expenditures incurred under the Microproject and financed from the proceeds of the Credit made available to the Implementing Agency under the Framework Agreement and to submit to MSIF at regular intervals statements with respect to such records and accounts.

3. The Borrower shall cause MSIF to: (a) obtain the Association's prior approval of the first three Framework Agreements proposed by it in each of the Microprojects categories of infrastructure, non-infrastructure, and Microprojects targeted to strengthening children's social development and de-institutionalization; and (b) include in the progress reports referred to in paragraph A.1 (c)(vi) above, based on externally contracted annual reviews of sample of completed Microprojects, information and analysis adequate to support the conclusion that the selection of Microprojects, Beneficiaries, and Implementing Agencies and the determination of the terms and conditions of Framework Agreements are all made in accordance with the principles set forth in the OM.

Part C: Operation and Maintenance of Microprojects

The Borrower shall cause MSIF to: (a) prepare and furnish to the Association for its review and concurrence a draft contract (Performance Contract) for operation and maintenance of facilities included in selected Microprojects, to be concluded with Beneficiary Associations of such Microprojects upon the completion thereof, which shall describe inter alia, the requirement for sustainability of the benefits accruing for the Microproject;

(b) after taking into account the Association's comments thereon finalize the content of said Performance Contract and conclude it on a pilot basis, with such Beneficiary Associations as the Association and the MSIF shall agree; and

(c) include in the progress report referred to in Part A.1 (c)(vi) above information concerning implementation of Performance Contracts.

Part D: Monitoring and Evaluation(

1. The Borrower shall cause MSIF to:

(a) employ, in accordance with the provisions of Section II of Schedule 3 to this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Association, to carry out annual technical audits of selected Microprojects, the first such audit to be carried out by October 1, 2000; and

(b) submit the results of said audits upon completion thereon to the Association for its review and comment.

2. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2002, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

