

CONFORMED COPY

CREDIT NUMBER 3921 AM

Development Credit Agreement

(Social Protection Administration Project)

between

THE REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 30, 2004

CREDIT NUMBER 3921 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 30, 2004, between THE REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement: the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Association or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

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

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

(b) “Foreign Financial Projects Management Center” or “FFPMC” means the project coordinating unit within the Ministry of Finance and Economy established and

operating pursuant to the Minister of Finance and Economy's Decree No. 37, dated March 29, 2000, or any legal successor thereto;

(c) "MLSI" means the Borrower's Ministry of Labor and Social Issues or its legal successor thereto;

(d) "MOFE" means the Borrower's Ministry of Finance and Economy or its legal successor thereto;

(e) "Monitoring and Evaluation Indicators" means the agreed performance indicators set forth in a supplemental letter to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives therefore are being achieved;

(f) "National Information Network" means an electronic communications system providing for the creation, acquisition, storage, maintenance and exchange of digital information required to operate an effective social protection system that will become a social protection portal of the Borrower;

(g) "Operational Manual" means a manual referred to in Section 6.01(c) to be adopted by MLSI no later than September 1, 2004, setting forth the operational and administrative procedures for the implementation of the Project, as such manual may be amended from time to time with prior agreement of the Association;

(h) "Procurement Plan" means the Borrower's procurement plan, dated April 27, 2004, covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

(i) "SES" means the State Employment Service, an agency within the Borrower's Ministry of Labor and Social Issues;

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

(k) "SSIF" means the State Social Insurance Fund, a state fund duly established and operating pursuant to Government Decree No. 656 dated October, 1998, or any legal successor thereto.

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 three million six hundred thousand Special Drawing Rights (SDR 3,600,000).

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 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 special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007, 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 May 1 and November 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 May 1 and November 1 commencing November 2014, and ending May 1, 2044. Each installment to and including the installment payable on May 1, 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 United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

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

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

Section 3.02. The Borrower shall open pursuant to Section 6.01(a) of this Agreement, and thereafter maintain in a commercial bank acceptable to the Association, an account (Project Account), wherein it shall deposit an amount from its own resources sufficient to cover the portion of counterpart financing requirements for local expenditures for which the Borrower is responsible under the Project financing plan and which are projected to be made under the Project in the three months succeeding. The balance in the Project Account, as of the first day of each quarter, shall not be less than \$50,000 equivalent, or such other amount as may be approved by the Association on the basis of criteria agreed upon with the Borrower.

Section 3.03. (a) 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 as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. 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 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 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) Upon the Association's request, the Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section audited for the period indicated in the Association's request, in accordance with auditing standards and 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 date of the Association's request for such audit: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such

period as so audited; and (B) an opinion on such statements, by said auditors, in scope and in detail satisfactory to the Association;

- (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 shall 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 paragraph B.2(c) of Schedule 4, the Borrower shall prepare and furnish to the Association a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

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

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional event is specified, namely, that the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

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, namely, that:

(a) the Borrower has, pursuant to Section 3.02, opened a Project Account with an initial deposit in the amount of \$50,000 equivalent;

(b) the Borrower has appointed a Project Coordinator under terms of reference (TORs) satisfactory to the Association; and

(c) the Borrower has adopted an Operational Manual satisfactory to the Association.

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 and Economy 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 and Economy
1 Government House
Republic Square
Yerevan 375010
Republic of Armenia

Telex:
243331 LADA SU

Facsimile:
(3741) 151-069

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 Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By: /s/ Vardan Khachatryan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger Robinson

Authorized Representative

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 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	272,000	90%
(2) Goods	1,835,000	100% of foreign expenditures and 100% (ex-factory cost) of local expenditures and 90% for other items procured locally
(3) Consultants' Services	700,000	100% of foreign expenditures; 92% of local expenditures
(4) Training and Study Tours	350,000	100%
(5) Incremental Operating Costs	205,000	90%
(6) Unallocated	<u>238,000</u>	
TOTAL	<u>3,600,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “incremental operating costs” means equipment and vehicle maintenance, costs for fuel, office supplies, minor office equipment, literature, field trips, meetings and in-country travel costs related to the Project, FFPMC staff salaries (excluding current Government officials’ salaries), communication costs, reasonable banking charges and media advertisement costs.

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 under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works; (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, (e) training and study tours; and (f) incremental 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 improve the Borrower's capacity to provide a more efficient and sustainable system of labor and public employment, pension and social assistance to enhance social protection to poor and vulnerable population groups.

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: General Support to Social Protection

1. Designing and establishing a communication network for the transmission of information within and between the different social protection programs in MLSI and training specialists on the maintenance of the network.
2. Establishing a cost effective and efficient technology platform based on analysis of the existing information sub-systems linked to MLSI, and developing, delivering and installing the equipment and the applicable system software.
3. Adapting the current MLSI programs to the new network structure.
4. Upgrading the existing programs currently operated by MLSI offices and related agencies, integrating them into the national information network and training staff on their use.

Part B: Improving Labor and Employment

Improving the efficiency and effectiveness of the State Employment Service (SES) and MLSI through:

1. installing a management information system and as part of this service, refurbishing and providing minor repairs to SES offices, supplying and installing hardware, voice and data communication at central and local level and training personnel on their use;
2. piloting a series of programs including new programs to improve the employment process in selected local employment services;

3. refurbishing and providing minor repairs to a professional training and job rehabilitation center for the disabled unemployed and providing it with the necessary equipment, developing pertinent training programs and training of personnel on the use of the programs;
4. refurbishing and providing minor repairs to a facility to be converted into an experimental youth professional orientation center in Yerevan and providing the center with the necessary equipment; developing guidelines on the services to be provided by the center and training personnel on their application; and
5. providing consultants service to MLSI to prepare implementing regulations and carry out any other activities for the promotion of the implementation of the Labor Code when adopted by Government.

Part C: Modernization of Pension System Administration

1. Establishing a modern pension system administration through: (a) developing a management information system to support a range of services including (i) the establishment of a data base of individual client records; and (ii) development of and installation of software hardware; (b) refurbishment and provision of minor repairs to the State Social Insurance Fund (SSIF) offices; (c) training central and local level staff on use of MIS; and (d) strengthening the capacity of the IT department in operating and maintaining the MIS through specialized training of IT system administrators.
2. Developing practical procedures, guidelines and other materials so that critical business processes for improving the collection of contributions, flow of funds, management of clients services can be implemented in a predictable, monitorable and uniform manner.
3. Strengthening the institutional capacity of SSIF to implement a range of administrative procedures through training of SSIF staff on conducting actuarial forecasting, program evaluation and development, providing public information and education about SSIF programs, human resources development and advising policy makers on the implication of program changes.

Part D: Improvement of Social Assistance

Provision of consultants' services to improve the poverty targeting mechanisms through: (i) conducting of community surveys; (ii) developing capacity for in-depth monitoring and evaluation of the efficiency of targeting; (iii) upgrading equipment used to target family poverty benefits; and (iv) providing training to social assistance staff.

Part E: Project Management

Providing office supplies, financing of auditing services and relevant training costs, financing of FFPMC staff's salaries related to this Project, FFPMC consultants' services and operating costs.

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004, (the Procurement Guidelines), and with the provisions of this Schedule. If the Borrower employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, (the Consultant Guidelines), and with the provisions of this Schedule.

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

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

(a) General

Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of national competitive bidding in

accordance with the provisions of paragraphs 3.1, 3.3, and 3.4 of the Procurement Guidelines and the additional procedures in paragraph (b).

(b) Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the Guidelines, the bidding process shall comply with the procedures set-forth below:

- (i) no preference of any kind shall be given based on nationality of the bidder and/or origin of goods. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers and/or origin of goods shall not be applicable to procurement procedures under the Credit;
- (ii) entities in which the Republic of Armenia owns a majority shareholding shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and operate under commercial law;
- (iii) pre-qualification shall be conducted for large works projects;
- (iv) pre and post-qualification criteria shall only pertain to past contract performance, financial, managerial and technical capabilities of bidders;
- (v) joint venture partners shall be jointly and severally liable for their obligations;
- (vi) estimated contract prices shall not be advertised; and
- (vii) in handling the bids:
 - (A) bid prices shall be announced at bid opening. If a two envelope system is used, both envelopes shall be opened at bid opening and bid prices announced;
 - (B) no bids can be rejected at bid opening;

- (C) bids shall not be rejected solely because they exceed the estimated price; and
- (D) bids can be cancelled and new bids invited, only if the conditions of clause 2.60 of the Guidelines are met and any bid evaluation criteria shall be quantifiable in monetary terms or expressed as a pass/fail criteria.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting. Goods and works which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Association's prior agreement, be procured in accordance with the provisions of said paragraphs.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines and the following provision: for purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely of national consultants.

B. Other Procedures

1. Least-cost Selection. Services for an auditor to conduct the financial auditing statements of the Project estimated to cost less than \$50,000 may be procured under contracts awarded on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Association of Procurement Decisions

A. Prior Review

Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods, works and services (other than consultants' services): (i) estimated to cost the equivalent of \$100,000 or more procured on the basis of international competitive bidding or national competitive bidding; (ii) the first two goods contracts equivalent to \$100,000 or less procured in accordance with national competitive bidding and shopping procedures; and (iii) the first two works contracts equivalent to \$50,000 or less procured in accordance with shopping procedures.

(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services Provided by Firms

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm: (i) estimated to cost the equivalent of \$100,000 or more; (ii) the first two contracts equivalent to \$100,000 or less procured in accordance with consultants qualification procedures; (ii) the first contract procured in accordance with least cost selection procedures; and (iii) all individual consultants contracts equivalent to \$50,000 or more and the first two individual consultants contracts less than \$50,000.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants' Services Provided by Individuals.

The following prior review procedures shall apply to contracts for the employment of individual consultants: (a) the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants (or, if the consultant is to be selected on a sole source basis, 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; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review.

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Part A. Institutional Arrangements

1. The Borrower shall:

(a) designate the Foreign Financial Projects Management (FFPMC) as the project implementation entity with the responsibility for financial management and procurement for the Project and shall ensure that FFPMC at all times has adequate staff and resources to fulfill its responsibilities with respect to Project implementation;

(b) require MLSI, SSIF and their subordinate bodies to assist in the implementation of the Project and to set up not later than September 1, 2004, internal working groups to coordinate the implementation of the project activities; and

(c) maintain a Project Management Board consisting of representatives from key stakeholders institutions and agencies with the responsibility for strategy and policy oversight and general inter-agency coordination of project activities.

Part B: Project Monitoring and Evaluation

2. The Borrower shall:

(a) require MLSI to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with Monitoring and Evaluation Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than November 2005, select an independent auditor and not later than December 2004 require FFPMC to recruit a monitoring and evaluation specialist and an architect/engineer under TORs satisfactory to the Association.

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about May 31, 2006, 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

(d) review with the Association, by July 31, 2006, or such later date as the Association shall request, the report referred to in paragraph (c) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$500,000 in respect of the Special Account 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 \$300,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.
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 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.