

CONFORMED COPY

CREDITNUMBER 4140 ZA

Financing Agreement

(Public Service Management Program – Support Project)

between

REPUBLIC OF ZAMBIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 10, 2006

CREDIT NUMBER 4140 ZA

FINANCING AGREEMENT

AGREEMENT, dated February 10, 2006, between REPUBLIC OF ZAMBIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II —FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty million seven hundred thousand Special Drawing Rights (SDR 20,700,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III —PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension is that the Program, or a significant part thereof, has been amended, suspended, abrogated, repealed or waived, at the instance of the Recipient, so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration is that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consists of the following:
 - (a) the Recipient has adopted and submitted the Project Implementation Plan (PIP) in a form and substance satisfactory to the Association;
 - (b) the Recipient has demonstrated the ability to produce financial reports, in form and substance satisfactory to the Association;

(c) the Recipient has adopted and submitted a service delivery improvement facility operations manual, in a form and substance satisfactory to the Association; and

(d) the Recipient appointed to the PEMFA Project Coordination Unit, and the PSM Coordination Unit, respectively, a procurement specialist and a financial management specialist.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under Articles IV and V of the General Conditions and Schedule 2 to this Agreement shall terminate is 20 years after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient’s Representative is the Minister responsible for finance.

The Recipient’s Address is:

Ministry of Finance
and National Planning
PO Box 50062
Lusaka, Zambia

Cable address:	Telex:	Facsimile:
MINFIN	42221	253494
Lusaka		251078

The Association’s Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	1-202-477-6391
Washington, D.C.	64145 (MCI)	

AGREED at Lusaka, Republic of Zambia, as of the day and year first above written.

REPUBLIC OF ZAMBIA

By /s/ Ng'andu P. Magande

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ohene Nyanin

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's efforts to improve the efficiency and effectiveness of its public service delivery institutions, through enhanced accountability of the management of public expenditure and public service in line with its strategies for poverty reduction and promotion of its economic growth.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part 1: Public Expenditure Management and Financial Accountability

The carrying out of Subprograms for:

(a) Commitment Control and Financial Management System. Implementation of an effective financial management and commitment control system, including rolling out the financial management system to all central spending agencies and provinces, implementing a new treasury management system, and reform of government accounting system.

(b) Integrated Financial Management and Information Systems Implementation. Implementing an automated financial management system to ensure improved public expenditure, efficiency and effectiveness in use of public resources.

(c) Improved Fiscal Policy and Economic Planning. Implementing a policy-based budgetary process for effective mobilization and allocation of resources in a systematic, effective and predictable manner, including developing a multi-year economic framework, producing a new macroeconomic model, reviewing existing planning processes, and construction of a consistency framework and of a budget forecasting tool.

(d) Reformed Budget Preparation and Budget Execution. Establishing a more credible budgeting process, developing a transparent and simplified budget document, carrying out regular public expenditure reviews, and improving the cash release system.

(e) Improved Debt Management. Implementing reforms for effective management of the Recipient's external and domestic debt, and its investments including, *inter alia*, strengthening the institutional capacity of the Investment and Debt Management Department, carrying out reforms on the back office functions of the Investment and Debt Management Department, and developing a plan for the domestic debt market.

(f) Improved Internal Audit. Strengthening internal controls for improved public expenditure management and financial accountability, including building institutional capacity, reviewing and enhancing internal control systems, and carrying out training programs designed for professional development of staff.

(g) Improved External Finance Coordination. Improving overall budgetary planning and coordination of external financing, including strengthening the coordination role of the Economic and Technical Cooperation Department.

(h) Development of a consistent and harmonized Legal Framework for Public Expenditure and Management. Harmonization of the legal framework for financial management to ensure its consistency, transparency and accountability, reviewing existing laws relating to public expenditure management, and strengthening the capacity of the Ministry of Justice for reform of laws, including training legal professional staff in legislative drafting, legal aspects of public expenditure and management, and a specified number of associate counsel to ensure effective support and consistent staffing levels.

(i) Strengthening External Audit. Strengthening the external auditing function to improve accountability and transparency in the use of public resources, including strengthening the capacity of the Office of Auditor General to support its decentralized functions in the districts and provinces.

(j) Supporting Selected Parliamentary Committees. Strengthening the capacity of the Parliamentary Accounts and Estimates Committees, implementing a modernized management information system for committees;; including strengthening the capacity of the committees for oversight role in public expenditure and financial accountability.

(k) Accountancy Training and Regulation. Strengthening the accountancy profession, and improving effective regulatory services to ensure high professional and ethical standards, including revision of laws, preparation and implementation of the professional code of conduct for accountants, installation of an integrated data management system in ZICA for effective management of its professional regulatory functions, reorganization of ZICA to strengthen its functions, and development of a one-stop accountancy resource centre.

(l) Public Procurement Reform. Promotion and institutionalization of a transparent, accountable and efficient public procurement system to improve public expenditure, including implementation of a new procurement law and revised guidelines, enhancing procurement practices, implementing a code of conduct, establishing a procurement and supplies unit in all ministries, provinces and spending units, and supporting transformation of the ZNTB into an effective and transparent regulatory oversight body.

(m) Support to PEMFA Project Coordination Unit for effective management, oversight, coordination and implementation of PEMFA Subprograms.

Part 2: Public Service Management

The carrying out of Subprograms for:

(a) Rightsizing. Restructuring as may be necessary to rationalize the functions of the ministries and institutions including, *inter alia*: (i) developing a methodology to determine the staffing requirements in key sectors, (ii) developing revised organization structures for district and provincial administrations, (iii) re-evaluation of the current downsizing strategies, (iv) developing and implementing strategies for contracting-out non-core services, (v) developing and implementing an HIV/AIDS prevention and mitigation strategy for the public service, (vi) developing and implementing a strategy for mainstreaming gender equity in the public service, and (vii) developing and implementing a social protection strategy.

(b) Pay Reform. Developing and implementing a comprehensive pay policy to attract, motivate and retain qualified and competent key professional and technical staff, through: (i) carrying out diagnostic work to inform the development of the policy, (ii) developing a revised public service pay structure which reflects the pay policy, (iii) enhancing planning and budgeting arrangements for personnel emoluments, and (iv) supporting the creation of a sustainable public service pensions fund.

(c) Service Delivery Improvement. Developing and implementing effective performance management systems in ministries, departments and institutions, including, *inter alia*: (i) carrying out an in-depth review of the implementation of all performance management initiatives, (ii) developing a revised strategy and implementation plan for performance management, (iii) implementing a flexible facility to strengthen capacity of the ministries, departments and institutions, and (iv) building management capacity among permanent secretaries, heads of departments and managers of service delivery outlets, all for improved service delivery.

(d) Payroll Management and Establishment Control. Strengthening the payroll management system, including: (i) sensitizing key stakeholders to effectively manage change, (ii) building adequate business and technical capacity to manage and maintain a payroll management and establishment control system, (iii) completing verification of establishments and staffing to ensure roll-out of the system in all ministries, (iv) establishing a department for management of payroll management and establishment control system, (v) supporting implementation and training activities, (vi) strengthening payroll integrity, (vii) implementing additional human resources sub-modules, (viii) decentralizing the information technology infrastructure to the provincial level, (ix) integrating the payroll management and establishment control system with the integrated financial management systems, and (x) interfacing the payroll management and establishment control system with other systems.

(e) Supporting PSM Project Coordination Unit for effective management, oversight, coordination, and implementation of PSM Subprograms.

Part 3: Supporting Retrenchment

Carrying out the Retrenchment Plan, including separation of excess and redundant staff, through the provision of severance payments to retrenched staff of the Recipient's public service.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

Institutional Arrangements

1. The Recipient shall implement the Program in accordance with the procedures set out in the Program Implementation Plan, the PEMFA MOU and PSM MOU respectively, and, except as the Recipient and the Association shall otherwise agree, the Recipient shall not amend or waive any provision thereof, if in the opinion of the Association and the Cooperating Partners, such amendment or waiver may materially and adversely affect the implementation of the Program.

2. The Recipient shall at all times during Project implementation maintain the PSRP Steering Committee comprised of Secretary to the Cabinet, Deputy Secretary to the Cabinet, Secretary to the Treasury, and permanent secretaries, both with the overall responsibility for oversight and policy guidance.

Execution Covenants for Part 1 of the Project

3. The Recipient shall maintain at all times during Project implementation:

(a) PEMFA Steering Committee with the responsibility for oversight of management, and implementation of Subprograms under Part 1 of the Project. To this end, PEMFA Steering Committee shall be comprised of the Secretary to the Treasury as its chair, and its other members shall be the representatives of the ministries and departments, and chief executives of institutions responsible for PEMFA Subprogram activities under Part 1 of the Project; and

(b) PEMFA Project Coordination Unit with the responsibility for day to day management, coordination, and implementation of Part 1 of the Project. To this end, the Recipient shall appoint to the PEMFA Project Coordination Unit, a project director, a procurement manager, a finance manager, a monitoring and evaluation specialist, a legal framework expert, and a capacity development specialist, all with terms of reference, qualifications and experience acceptable to the Association.

Execution Covenants for Part 2 of the Project

4. The Recipient shall maintain at all times during Project implementation:

(a) the Office of DSC-FED with the responsibility for coordination, management, and implementation of Subprograms under Part 2 of the Project. To this end, the Office of DSC-FED will be supported by an advisory committee comprised of the Permanent Secretary of Management Development Division, Permanent Secretary of Public Service Management Division, and task managers responsible for PSM Subprogram activities under Part 2 of the Project;

(b) PSM Project Coordination Unit with the responsibility for day to day management, coordination, and implementation of Part 2 of the Project. To this end, the Recipient shall appoint to the PSM Project Coordination Unit, a project director, a procurement specialist, a financial management specialist, a monitoring and evaluation specialist, and a service delivery improvement facility specialist, all with terms of reference, qualifications and experience acceptable to the Association

Execution Covenants for Part 3 of the Project

5. For the purpose of the provision of Severance Payments to staff of the Recipient's public service retrenched under Part 3 of the Project, the Recipient shall:

(a) prepare and furnish to the Association a Retrenchment Plan including a social impact assessment, acceptable to the Association, and setting forth, *inter alia*, the following: (i) a specification of the eligible staff of the Recipient's public service in form of a list, including for each individual staff the total amount of severance payments due under a retrenchment program to be specified in the Retrenchment Plan, (ii) list amount and retrenchment notification processes for each individual staff, duly certified by an independent audit firm, (iii) the verification process to be followed to confirm that said eligible staff of the Recipient's public service have received such payments and have been removed from the Recipient's payroll; and (iv) rules, procedures and guidelines for a operation of the Retrenchment Account opened in BOZ, on terms and conditions satisfactory to the Association.

(b) carry out Part 3 of the Project in accordance with the Retrenchment Plan;
and

(c) not amend or waive any provision of the said Retrenchment Plan which, in the opinion of the Association, may materially or adversely affect the implementation of Part 3 of the Project.

Fiscal Framework, Planning, Budgeting and Execution of PEMFA and PSM Subprograms.

6. (a) Except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure at all times during implementation of the Project, that each ministry, department or institution responsible for a PEMFA Subprogram or PSM Subprogram, comply with resource allocation and management procedures relating to the establishment of the fiscal framework, medium term planning and annual budget, execution and reallocation, as specifically set forth in the Program Implementation Plan.

(b) The procedures referred to in sub-paragraph (a) above shall include the following:

- (i) resource allocation and management procedures and annual review process shall be aligned to the Fiscal Year and budget classification system, in accordance with the procedures and timetable specified in the PIP;
- (ii) during each Fiscal Year the medium-term projections of resource available under the Program shall be incorporated into the macro-economic fiscal framework, and appropriate division of resources between ministries, departments and institutions responsible for Subprogram activities, established and annualized on the basis of previous year's performance, and in accordance with the procedures and timetable specified in the PIP;
- (iii) during each Fiscal Year, each ministry, department or institution responsible for a Subprogram activity shall, through the PEMFA Steering Committee, or Office of DSC-FED respectively, submit to MoFNP: (A) costed medium-term plans of Subprogram activities within medium-term plans; and (B) Annual Work Plans established in the Recipient's overall annual fiscal plan, and in accordance with the procedures and timetables specified in the PIP;
- (iv) during each Fiscal Year, PEMFA Project Coordination Unit and PSM Project Coordinating Unit respectively, shall appraise and submit the Annual Work Plans to MoFNP, or the Office of the DSC-FED respectively, for approval in accordance with the criteria set forth in the PIP, which shall include: (A) the relevance of planned activities in relation to the assessed

constraints, and (B) provision for support of PEFA and PSM Subprograms, all in accordance with procedures and timetable specified in the PIP;

- (v) (A) during each Fiscal Year the Recipient shall incorporate into its budget, all Annual Work Plans for Subprogram activities under Parts 1 and 2 of the Project, and (B) such approved annual implementation plans shall be executed on a six-monthly reimbursement basis, as set forth in the procedures and timetables specified in the PIP; and
- (vi) during each Fiscal Year, PEMFA Steering Committee and Office of DSC-FED, respectively, shall review and recommend to MoFNP reallocation of annual budget for PEMFA and PSM Subprograms on the basis of yearly utilization and performance, in accordance with the procedures and timetables set forth in the PIP.

Annual Work Plan and Budget

7. Without limitation upon the provisions of paragraph 6 of this Schedule, and except as the Recipient and the Association shall otherwise agree, the Recipient shall, by October 31 of each year during the implementation of the Project, furnish for approval by the Association a draft annual work plan and budget for the following Fiscal Year, in a scope and format agreed with the Association and other Cooperating Partners.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare semiannual Project Reports and Project Annual Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Annual Report shall cover the period from January 1 through December 31, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

- (i) activity based budgeting is in place in all ministries, departments and institutions, and is aligned with and linked to the MTEF;
- (ii) percentage of deviation of actual spending from approved budget is reduced from over 20% to under 15% of approved budget;
- (iii) time taken to prepare audited annual reports for all the Recipient's ministries, departments and institutions accounts is within the period stated under the laws of the Recipient;
- (iv) the payroll for the public servants of the Recipient is reconciled to remove discrepancy between the final payroll and staff establishment;
- (v) at least four ministries have published service delivery charters and have implemented effective service delivery feedback systems; and
- (vi) all public procurement is decentralized and the ZNTB's oversight and regulatory role is strengthened.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than September 30, 2007.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the semiannual Project Reports, not later than 45 days after the end of each calendar six months, interim un-audited financial reports for the Project covering the previous six months, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods

- (a) National Competitive Bidding.
- (b) Shopping.
- (c) Direct Contracting.
- (d) Limited International Bidding.
- (e) Procurement from IAPSO.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Methods

- (a) Quality-based Selection
- (b) Least Cost selection
- (c) Single Source Selection.
- (d) Individual Consultants.
- (e) Selection under Fixed Budget.
- (f) Selection Based on Consultants' Qualifications.

D. Review by the Association of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association shall specify by notice to the Recipient, to finance Eligible Expenditures in each category, as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Subprograms		Such percentage of eligible expenditures as the Association may determine for each Fiscal Year
(a) PEMFA Subprograms	5,350,000	
(b) PSM Subprograms	7,650,000	
(2) Severance payments for Part 3 of the Project	6,690,000	100% of the amounts disbursed
(3) Refund of Project Preparation Advance	380,000	Amount payable pursuant to Section 2.07 of the General Conditions
(4) Unallocated	630,000	
TOTAL AMOUNT	<u>20,700,000</u> =====	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for:

(a) payments made prior to the date of this Agreement;

(b) Subprogram activities under Category 1, unless: (A) PEMFA MOU among the Recipient and Cooperating Partners has been revised and its addendum signed among the Recipient and Cooperating Partners participating in the arrangements for pooling of funds for PEMFA Subprograms; and (B) PSM MOU has been signed among the Recipient and Cooperating Partners participating in the arrangements for the pooling of funds for PSM Subprograms; and (C) such Subprogram activities have been approved

by the Association and the Cooperating Partners, and the respective Side Agreements confirming such approval, the percentage, and amount of Pooled Fund Expenditures to be financed by the Association for each Fiscal Year of the Project implementation has been submitted to the Association on an annual basis.

The Association shall, upon the request of the Recipient, make payments under Category 1 based on the Association's annual commitment, as described in the respective Side Agreement;

(c) Severance Payments under Category 2, unless the Recipient has prepared and adopted the Retrenchment Plan including a social impact assessment for execution of Part 3 of the Project, in a form and substance satisfactory to the Association; provided that, the said Retrenchment Plan shall, prior to its adoption, have been submitted to the Association in draft form for review and approval; and

(d) payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency, other than the Association, shall have financed or agreed to finance under any other credit or grant.

2. The Closing Date is December 31, 2010.

Section V. Other Undertakings

The Recipient shall, not later than June 30, 2006:

(a) select the auditors referred to in section 4.09 (b) (i) of the General Conditions; and

(b) appoint to PEMFA Project Coordination Unit, and PSM Project Coordination Unit respectively, the following key personnel: (i) a project director, (ii) a monitoring and evaluation specialist, and (iii) a specialist to manage the service delivery improvement facility.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 1 and October 1	
commencing April 1, 2016 to and including October 1, 2025	1%
commencing April 1, 2026 to and including October 1, 2045	2%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

- (a) “AIDS” means the Acquired Immune Deficiency Syndrome;
- (b) “Annual Work Plan” means each program of work and budget prepared annually by the PEMFA Project Coordination Unit and the PSM Project Coordination Unit (all as hereinafter defined), respectively, in accordance with paragraph 7 of Section I of Schedule 2 to this Agreement;
- (c) “BOZ” means Bank of Zambia, the Recipient’s Central Bank;
- (d) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement;
- (e) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004;
- (f) “Cooperating Partners” means, collectively, the Association, DANIDA, DfID, (all as hereinafter defined), European Commission, Federal Republic of Germany, Kingdom of Norway, Republic of Finland, Republic of Ireland, Kingdom of Netherlands, Government of Sweden, and UNDP (as hereinafter defined), and any other national or international agency making a financial contribution to the Pooled Funds (as hereinafter defined);
- (g) “DANIDA” means the Danish Agency for Development Assistance;
- (h) “DfID” means the United Kingdom Government Department for International Development;
- (i) “Economic and Technical Cooperation Department” means a department in the MoFPN (as hereinafter defined);
- (j) “Fiscal Year” and “FY” mean the Recipient’s fiscal year beginning January 1 and ending December 31 of the next calendar year;
- (k) “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005;
- (l) “IAPSO” means the Inter-Agency Procurement Services of the United Nations;

(m) “Investment and Debt Management Department” means a department in the MoFNP (as hereinafter defined), responsible for management of the Recipient’s investments, domestic and external debt;

(n) “MTEF” means the Medium Term Expenditure Framework, a three year budgeting tool;

(o) “Memorandum of Understanding” or “MOU”; means PEMFA MOU or PSM MOU (all as hereinafter defined);

(p) “MoFNP” means the Ministry of Finance and National Planning of the Recipient;

(q) “Office of the Auditor General” means the Office of the Auditor General established pursuant to the provisions of Article 121 of the Recipient’s Constitution;

(r) “Office of DSC-FED” means the Office of the Deputy Secretary to the Cabinet in charge of Finance and Economic Development of the Recipient;

(s) “PEMFA MOU” means the memorandum of understanding signed among the Recipient and certain cooperating partner organizations, dated December 8, 2004, including an Addendum to be executed between the Recipient, and the Cooperating Partners, setting forth *inter alia* common procedures on procurement, financial management and disbursement arrangements for pooling of funds for PEMFA Subprograms, as such MOU may be amended from time to time, and such terms includes any schedules or addenda to the MOU;

(t) “PEMFA Project Coordination Unit” means the unit referred to in paragraph 3 of Section I of Schedule 2 to this Agreement;

(u) “PEMFA Steering Committee” means the committee referred to in paragraph 3 of Section I of Schedule 2 to this Agreement;

(v) “PEMFA Subprogram” means activities approved under Part 1 of the Project for implementation by a ministry, department or other institution of the Recipient, and which are included in the Annual Work Plans to be carried out in each Fiscal Year, in accordance with the PIP (as hereinafter defined) and as agreed upon between the Recipient and the Association;

(w) “Pooled Funds” means funds provided by the Cooperating Partners in support of the Program;

(x) “Program Implementation Plan” and “PIP” mean the implementation plan referred to in Section 5.01 (a) of this Agreement and consisting of, *inter alia*, guidelines and procedures to be used for the purpose of implementation of the Project, including financial management and procurement procedures, and such other

administrative, financial, organizational arrangements, as such plan may be amended from time to time, and such term includes any schedules to the PIP;

(y) “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004;

(z) “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 14, 2005, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs;

(aa) “Program” means the program of actions and strategies designed to improve management, efficiency, transparency, accountability and use of public resources, and to promote good governance at all levels of the Recipient’s public sector, and set forth or referred to in the Recipient’s Strategy for Priority Areas of the Public Service Reform Programme (PSRP) 2004–2008, and a letter dated October 28, 2005, from the Recipient to the Association;

(bb) “PSM MOU” means the memorandum of understanding to be signed among the Recipient and certain cooperating partner organizations, setting forth *inter alia* common procedures on procurement, financial management and disbursement arrangements for pooling of funds for PSM Subprograms, as such MOU may be amended from time to time, and such terms includes any schedules or addenda to the MOU;

(cc) “Project Preparation Advance” means the advance referred to in Sectionn2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on August 1, 2005, and on behalf of the Recipient on August 17, 2005;

(dd) “PSRP Steering Committee” means the committee referred to in paragraph 2 of Section I of Schedule 2 to this Agreement;

(ee) “PSM Subprogram” means activities approved under Part 2 of the Project for implementation by a ministry, department or other institution of the Recipient, and which are included in the Annual Work Plans to be carried out in each Fiscal, in accordance with the PIP and as agreed upon between the Recipient and the Association;

(ff) “PSM Project Coordination Unit” means the unit referred to in paragraph 4 of Section I of Schedule 2 to this Agreement;

(gg) “Retrenchment Account” means the account to be established under terms and conditions satisfactory to the Association pursuant to Part 3 of the Project, to be used for Severance Payments (as hereinafter defined);

(hh) “Retrenchment Plan” means the plan referred to in paragraph B.1 (c) of Section IV of Schedule 2 to this Agreement, and to be implemented by the Recipient in

accordance with its terms, and the provisions of paragraph 5 of Section I of Schedule 2 to this Agreement;

(ii) “Side Agreement” means an agreement or a letter of annual commitment to be signed among the Recipient and Cooperating Partners after carrying out the Annual Review, setting forth, *inter alia*, the financial commitments of each Cooperating Partner towards the Pooled Funds for the Fiscal Year following such review, and referred to in paragraph B.1 (b) of Section IV of Schedule 2 to this Agreement, and the term “Side Agreements” means all such Side Agreements for PEMFA Subprograms and PSM Subprograms;

(jj) “Severance Payments” means payments made by the Recipient to the staff of its public service separated from its employment under Part 3 of the Project;

(kk) “Subprogram” means a PEMFA Subprogram or PSM Subprogram, and the term “Subprograms” all such PEMFA Subprograms and PSM Subprograms;

(ll) “UNDP” means United Nations Development Program;

(mm) “ZICA” means Zambia Institute of Chartered Accountants, a corporate body established and operating pursuant to Zambia Institute of Chartered Accountants Act (CAP 390) of the laws of the Recipient, and responsible for regulation of the practice and profession of accountancy in the territory of the Recipient; and

(nn) “ZNTB” means Zambia National Tender Board, established and operating pursuant to the Zambia National Tender Board Act (CAP 394) of the laws of the Recipient, and responsible for management and regulation of public procurement in the territory of the Recipient.