

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7279-JO

Loan Agreement

(Public Sector Reform Capacity Building Project)

between

THE HASHEMITE KINGDOM OF JORDAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 13, 2005

LOAN NUMBER 7279 -JO

LOAN AGREEMENT

AGREEMENT, dated June 13, 2005, between THE HASHEMITE KINGDOM OF JORDAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Beneficiary" means a local institution that receives a Challenge Fund Grant (as hereinafter defined) under Part B.2 of the Project;

(b) "Cabinet Secretariat" means the Cabinet Office/Secretariat in the Prime Ministry (as hereinafter defined);

(c) "Challenge Fund Grant" means a grant provided to a Beneficiary under Part B.2 of the Project, pursuant to Schedule 7 to this Agreement;

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

(e) “Government Communications Directorate” or “GCD” means the Government Communications Directorate in the Prime Ministry (as hereinafter defined);

(f) “Government Performance Directorate” or “GPD” means the Government Performance Directorate in the Prime Ministry (as hereafter defined);

(g) “Human Resource Policy Directorate” or “HRPD” means the Human Resource Policy Directorate in the Prime Ministry (as hereafter defined);

(h) “MOF” means the Borrower’s Ministry of Finance, or any successor entity thereto;

(i) “MOJ” means the Borrower’s Ministry of Justice, or any successor entity thereto;

(j) “Operating Units” means collectively, GPD, GCD, HRPD, PSRD, the Cabinet Secretariat, or any other institution selected by the Borrower, satisfactory to the Bank;

(k) “Operational Manual” means the Borrower’s Operational Manual, satisfactory and acceptable to the Bank, including any amendments made to such manual, from time to time, with the Bank’s approval, that sets forth various procedures and information necessary for carrying out the Project; performance indicators and monitoring and evaluation guidelines; administrative, accounting and financial procedures; procurement and disbursement guidelines; and the eligibility criteria for the Challenge Fund Grants;

(l) “Prime Ministry” means the Borrower’s Prime Ministry;

(m) “Procurement Plan” means the Borrower’s procurement plan, dated February 16, 2005, 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 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(n) “Project Coordination Team” or “PCT” means the Project Coordination Team maintained pursuant to paragraph 2 of Schedule 5 of this Agreement;

(o) “Project Improvement Unit” or “PIU” means the Project Improvement Unit in a selected ministry or a department, to be established under Part B of the Project;

(p) “Public Sector Reform Program” means the Borrower’s Public Sector Reform Program for public sector reforms;

(q) “Public Sector Reform Directorate” or “PSRD” means the Public Sector Reform Directorate of the Prime Ministry under Part A of the Project;

(r) “Sub-Grant Agreement” means a written agreement to be entered into between the Borrower and a Beneficiary in accordance with terms and conditions set forth in the Operational Manual, satisfactory to the Bank, including those set forth in Schedule 7 to this Agreement;

(s) “Sub-Project” means a public sector quality improvement development project or scheme to be carried out by a Beneficiary under Part B.2 of the Project which meets the eligibility criteria to receive a Challenge Fund Grant set out in the Operational Manual; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to fifteen million United States Dollars (\$15,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank 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 Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Central Bank of Jordan on terms and conditions satisfactory to the Bank, 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 2 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after

the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semi annually in arrears on October 1 and April 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

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 technical 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 Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 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 guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. 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 Bank, and furnish to the Bank 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 Bank, a plan designed to ensure the sustainability of the Project; and

(b) afford the Bank 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 Bank, adequate to reflect the operations, resources and expenditures related to the Project.

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

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (ii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), 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 5 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, 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 Loan, and explains

variances between the actual and planned uses of such funds;
and

- (ii) 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 Bank 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 Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Planning and International Cooperation of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning and International Cooperation
P.O. Box 555
Amman 11118
The Hashemite Kingdom of Jordan

Cable address:

21319 NPC JO

Facsimile:

962-6-4649 341

For the Bank:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

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

HASHEMITE KINGDOM OF JORDAN

By /s/ K. Kawar

Authorized Representative

INTERNATIONAL BANK FOR DEVELOPMENT
AND RECONSTRUCTION

By /s/ C. Poortman

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars</u>	<u>% of Expenditures to be financed</u>
(1) Goods and equipment	600,000	100% of foreign expenditures, 100% of local Expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services	10,950,000	90% of local expenditures for services of consulting firms domiciled within the territory of the Borrower; 5% of local expenditures for services of individual consultants domiciled within the territory of the Borrower; and 90% of foreign expenditures for services of consultant firms and individuals
(3) Challenge Fund Grants	900,000	90%
(4) Training and workshops	870,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars</u>	<u>% of Expenditures to be financed</u>
(5) Incremental Operating Costs	180,000	50%
(6) Front-end fee	75,000	Amount due under Section 2.04 of this Agreement
(7) Unallocated	1,425,000	
	<u>15,000,000</u>	
TOTAL	<u>=====</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 the incremental expenses incurred on account of Project implementation and management, including maintenance of equipment, office supplies, communication charges, advertisement and publication costs, periodicals subscription, but excluding salaries of the officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of US\$1,500,000 may be made on account of payments made for expenditures before that date but after December 31, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than US\$250,000 equivalent per contract; (b) for services of individual consultants costing less than \$50,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than US\$100,000 equivalent per contract; (d) training and

workshops; (e) Challenge Fund Grants; and (f) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to assist in the implementation of the Borrower's Public Sector Reform Program; and (b) to that end, to provide support to implementing reforms in areas ranging from policy coordination to improved financial and human resource practices.

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

Part A: Improving Policy Coordination and Decision Making

Strengthening the Prime Ministry by establishing Operating Units and building the capacity of those units already established.

Part B: Strengthening Performance Monitoring and Evaluation

1. Carrying out of programs for performance management and service delivery improvement through the capacity building, restructuring and reorganization of selected government line-ministries and departments, including establishing of PIUs on a pilot basis.
2. Financing of the Sub-Projects, through provision of the Challenge Fund Grants to the Beneficiaries.

Part C: Improving Institutional Streamlining

Carrying out of programs for institutional streamlining through capacity building, restructuring and realignment of selected government line-ministries and departments.

Part D: Resource Management

1. Management of human resources through: (i) the drafting of new civil service bylaws; (ii) the carrying out of human resource management policies and procedures; (iii) the streamlining and restructuring of relevant government institutions and agencies; and (iv) the developing of a strategy for pay reforms.
2. Strengthening the financial management of MOF and MOJ through, *inter alia*, staff training and technical assistance.

Part E: Monitoring and Evaluation of the Public Sector Reform Program

Carrying out of monitoring and evaluation of the Public Sector Reform Program.

* * *

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

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 1 and October 1 Beginning April 1, 2010 through April 1, 2021	4.17%
On October 1, 2021	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each

Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

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

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

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

Section II. Particular Methods of Procurement of Goods 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. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than US\$250,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;

(b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(c) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process, to that end, having a presence in the Borrower's territory should not be a condition for bidding;

(d) qualification criteria shall be stated in the bidding documents, and one envelop system shall be used;

(e) except for late bids, bids shall be opened in public, immediately after the deadline for submission of bids, and the prices for all bids will be read out in this public session and no disqualification shall be made at that stage;

(f) before rejecting all bids and soliciting new bids, the Bank's prior concurrence shall be obtained;

(g) bids shall be solicited and contracts shall be awarded on the basis of unit prices, and not on the basis of a schedule of rates, and award will be based on all items included within the bid or the lot in case of multiple lots.

(h) contracts shall be awarded to the lowest evaluated and qualified bidders; and

(i) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

2. Shopping. Goods estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method

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-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than US\$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection 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 in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank'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 sole-source basis subject to the prior review of the Bank.

Section IV. Review by the Bank of Procurement Decisions

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:

(a) each contract for goods and services (other than consultants' services) procured on the basis of International Competitive Bidding;

(b) the first two contracts for goods and services (other than consultants' services) regardless of value, procured on the basis of National Competitive Bidding;

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

(d) each contract for goods regardless of value, procured on the basis of Direct Contract;

(e) the first two contracts for consultants' services for each selection method regardless of value;

(f) each contract for consultants' services: (i) estimated to cost the equivalent of US\$100,000 or more and provided by a firm; or (ii) estimated to cost the equivalent of US\$50,000 or more and provided by an individual consultant;

(g) each contract for consultants' services procured on a single source basis;

(h) each contract awarded before the Loan Effectiveness and to be paid from the proceeds of the Loan regardless of the value; and

(i) in respect of the Challenge Fund Grant: the first two procurement packages regardless of the value, procured on the basis of: (i) selection of individual consultants; (ii) selection of firms; and (iii) Shopping.

2. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

1. The Borrower shall not later than September 30, 2005, prepare the Operational Manual in form and substance satisfactory to the Bank, and shall carry out the Project in accordance with said manual. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of the Operational Manual if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
2. The Borrower shall maintain PCT which shall be located in PSRD in a form and with functions, staffing and resources satisfactory to the Bank. PCT shall be headed by a Project Director assisted by an adequate number of staff (including a Procurement Officer, a Financial Officer, and a Public Sector Reforms Specialist). The PCT Project Director and staff of PCT shall have qualifications and experience, and be appointed on terms and conditions, satisfactory to the Bank. The PCT shall be responsible for overall management of the Project and the coordination of its implementation.
3. The Borrower shall not later than May 31, 2005, appoint a financial management specialist and a procurement specialist, whose qualifications and experience are acceptable to the Bank, will be assigned to the Project throughout its execution.
4. The Borrower shall ensure that the Challenge Fund Grants shall be made to the Beneficiaries in accordance with eligibility criteria set out in the Operational Manual, and under terms and conditions satisfactory to the Bank, including those set forth in Schedule 7 to this Agreement.
5. 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 Bank, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31, 2007, 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 Bank, by September 30, 2007, or such later date as the Bank 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 Bank's views on the matter.

SCHEDULE 6

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 Loan 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 US\$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of US\$2,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank 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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request, or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

SCHEDULE 7

Challenge Fund Grants

1. (a) To be eligible for a Challenge Fund Grant, a Beneficiary must prepare and furnish a Sub-Project proposal to the Borrower that fully satisfies the eligibility criteria specified in the Operational Manual.

(b) In evaluating each Sub-Project proposal, consideration shall be given to the Beneficiary's capacity to carry out, manage and maintain the Sub-Project in conformity with appropriate administrative, financial, technical and managerial standards.

2. (a) The Borrower shall make the amounts of the proceeds of the Challenge Fund Grant available to the Beneficiary under a Sub-Grant Agreement. The Sub-Grant Agreement shall provide for rights adequate to protect the interests of the Bank and the Borrower, including to the extent that it shall be appropriate to:

- (i) require the Beneficiary to carry out the Sub-Project with due diligence and efficiency and in accordance with sound administrative, financial, technical and managerial standards; and maintain adequate records for the Sub-Project concerned;
- (ii) require that all goods and services required for the Sub-Project shall be procured in accordance with the provisions of Schedule 4 to this Agreement;
- (iii) require that all goods and services shall be used exclusively in the carrying out of the Sub-Project; and
- (iv) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Challenge Fund Grant upon the failure by the Beneficiary to perform any of its obligations under the Sub-Grant Agreement.