Development Credit Agreement

(Broad Based Access to Financial Services Project)

between

REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 15, 2004
CREDIT NUMBER 3903-NI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 15, 2004, between the Republic of Nicaragua (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

(b) “Financial Services Access Policy” means the Borrower’s policy on financial services stated in the Borrower’s National Development Plan published in September 2003;

(c) “FNI” means Financiera Nicaragüense de Inversiones, the Borrower’s second-tier investment financial company, established pursuant to Law No. 289, published in the Official Gazette No. 76 on April 27, 1998;
(d) "Inclusion Strategy" means a plan of activities and procedures to be adopted by the Project to ensure the participation of beneficiaries with limited or no access to financial services and to be included in the Operational Manual;

(e) "MFIs" means micro-finance institutions, be they subject to regulatory supervision by the Borrower or not;

(f) "MHCP" means Ministerio de Hacienda y Crédito Público, the Borrower’s Ministry of Finance and Public Credit;

(g) "Micro-finance Technical Assistance Agreement" means the agreement between the Technical Assistance Management Firm and an MFI, referred in Section 3.01 (c) (i) of this Agreement;

(h) "Operational Manual" means the manual referred to in Section 3.02 (a) of this Agreement;

(i) "PCU" means the Borrower’s Project coordination unit referred to in Section 3.04 of this Agreement;

(j) "SECEP" means Secretaría de Coordinación y Estrategia de la Presidencia, the Borrower’s Secretariat of Coordination and Strategy of the Presidency;

(k) "SIBOIF" means Superintendencia de Bancos y de Otras Instituciones Financieras, the Borrower’s Superintendency of Banks and Other Financial Institutions, established pursuant to Law 316 of September 29, 1999 published in the Official Gazette No. 196 on October 14, 1999;

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

(m) "Support Service Provider" means a finance-related local industry firm referred to in Part C.3 of the Project;

(n) "Support Service Provider Agreement" means an agreement, between the Technical Assistance Management Firm and a Support Service Provider, referred in Section 3.01 (c) (ii) of this Agreement;

(o) "Supplemental Letter" means the letter from the Borrower to the Association, containing the Project’s monitoring and evaluation indicators;

(p) "Technical Assistance Facility Management Agreement" means the agreement between SECEP and the Technical Assistance Management Firm, referred in Section 3.01 (b) of this Agreement;
(q) "Technical Assistance Facility Management Firm" means the firm referred to in Section 3.01 (b) of this Agreement; and

(r) "UCRESEP" means Unidad de Coordinación del Programa de Reforma del Sector Público, the Borrower's Public Sector Reform Program Coordination Unit.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to four million eight hundred thousand Special Drawing Rights (SDR 4,800,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2009 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 January 15 and July 15 in each year.

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

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (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 Part A of the Project through SIBOIF, Part B of the Project through FNI, Parts C, D and E.1 of the Project through SECEP and Part E.2 of the Project through UCRESEP with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of carrying out Part C of the Project, the Borrower, through SECEP, shall enter into a technical assistance facility management agreement (the Technical Assistance Facility Management Agreement) with a firm (the Technical Assistance Facility Management Firm) selected under terms and conditions satisfactory to the Association.

(c) The Technical Assistance Facility Management Firm shall enter into: (i) a micro-finance agreement (the Micro-Finance Technical Assistance Agreement) with unsupervised and supervised MFIs for the purpose of carrying out Parts C.1 and C.2, respectively, of the Project; and (ii) a support service provider agreement (the Support Service Provider Agreement) with Support Service Providers for the carrying out of Part C.3 of the Project, all under terms and conditions satisfactory to the Association.

(d) The Borrower shall, through SECEP: (i) exercise its rights and carry out its obligations under the Technical Assistance Facility Management Agreement in such a manner as to protect the interests of the Association and the Borrower and to accomplish the purposes of the Credit; and (ii) except as the Association shall otherwise agree, not
amend, abrogate, assign, waive or fail to enforce the Technical Assistance Facility Management Agreement or any provision thereof.

(e) The Borrower, through SECEP, shall ensure that the Technical Assistance Facility Management Firm causes all parties to each Micro-Finance Technical Assistance Agreement and Support Service Provider Agreement to carry out their obligation under each such agreement so as to protect the interests of the Association and the Borrower and accomplish the purposes of the Credit and, except as SECEP shall otherwise agree, not amend, abrogate, assign, waive, or fail to enforce any such agreement or provision thereof.

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

(i) detailed administrative, financial management and procurement procedures;

(ii) a sample model procurement documents to be used for consultants, works and goods during Project implementation;

(iii) a procurement plan for Project implementation, including timetables;

(iv) terms of reference for the hiring of the Technical Assistance Facility Management Firm;

(v) the eligibility criteria for supervised and unsupervised MFIs to benefit from Parts C.1 and C.2 of the Project;

(vi) the eligibility criteria for Support Service Providers to benefit from Part C.3 of the Project;

(vii) a sample model of a Micro-Finance Technical Assistance Agreement;

(viii) a sample model of a Support Service Provider Agreement;

(ix) the subsidiary agreement to be entered into SECEP and SIBOIF for the implementation of Part A of the Project;
(x) the subsidiary agreement to be entered into SECEP and FNI for the implementation of Part B of the Project;

(xi) the subsidiary agreement to be entered into SECEP and UCRESEP for the implementation of Part E (ii) of the Project; and

(xii) the Inclusion Strategy.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall prevail.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

(i) management coordination and implementation of the Project; and

(ii) monitoring and progress reporting of the Project;

(b) The Borrower, through SECEP, shall:

(i) ensure that the PCU is staffed, at all times during the execution of the Project by core professional staff (including at least a Project coordinator and an administration officer), in numbers and with experience and qualifications acceptable to the Association and operating under terms of reference satisfactory to the Association, and selected in accordance with transparent procedures satisfactory to the Association, all as prescribed in the Operational Manual;

(ii) ensure that the PCU is provided with adequate facilities, satisfactory to the Association, to carry out its responsibilities; and

(iii) consult with the Association on any substitution of the PCU’s staff prior to such substitution.
(c) The Borrower shall ensure that UCRESEP provides the PCU with the following services:

(i) processing of documentation required for disbursement of the Credit proceeds and for procurement of goods, works and services under the Project; and

(ii) preparation and maintenance of records, accounts and financial statements referred to in Article IV of this Agreement.

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

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

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

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

(a) maintain policies, systems and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the results framework and monitoring indicators set forth in the Supplemental Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about July 15 of each year during the implementation of the Project, starting in 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out an annual work plan recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, on or about October 30 of each year during the implementation of the Project, starting in 2005, or such later date as the Association shall request, the reports referred to in paragraph (b) of this Section, and, thereafter, carry out the annual work plans referred to in paragraph (b) of this Section and take all other measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said
reports and the Association's views on the matter (the first of said annual work plans shall detail the actions to be carried out under Part A.1 of the Project).

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

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

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

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

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

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

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

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

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

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

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

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the PCU has been established and duly staffed in a manner acceptable to the Association;

(b) that the Operational Manual has been approved by the Association and put into effect;
(c) that a procurement plan for Project implementation, including, but not limited to, a detailed plan for the first year of Project implementation has been approved by the Association; and

(d) that the Inclusion Strategy, has been finalized in a manner satisfactory to the Association.

Section 5.02. The date September 13, 2004, 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 Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Facsimile: (505) 222-3033
For the Association:

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

<table>
<thead>
<tr>
<th>Cable address:</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
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<tr>
<td>INDEVAS</td>
<td>248423 (MCI)</td>
<td>(202) 477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
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</table>
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Managua, Nicaragua, as of the day and year first above written.

REPUBLIC OF NICARAGUA

By/s/Eduardo Montiel
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/Amparo Ballivian
Acting Regional Vice President
Latin America and the Caribbean
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>8,000</td>
<td>87%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>350,000</td>
<td>100% of foreign expenditures and 87% of local expenditures</td>
</tr>
<tr>
<td>(3) Consultants’ services (including audits)</td>
<td></td>
<td>100% of foreign expenditures and 91% of local expenditures</td>
</tr>
<tr>
<td>(a) Part C</td>
<td>900,000</td>
<td></td>
</tr>
<tr>
<td>(b) Other</td>
<td>2,880,000</td>
<td></td>
</tr>
<tr>
<td>(4) Training</td>
<td>235,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operational Costs</td>
<td>65,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>362,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,800,000</td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

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

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

(c) the term “operating costs” means reasonable expenditures, which would not have been incurred absent the Project, for: (i) salaries of incremental staff of PCU and UCRESEP; and (ii) consumables, utilities costs, and maintenance and operation of equipment provided under the Project; and

(d) the term “training” means costs related to the provision of training, such as domestic and foreign travel, room, board and per diem and other administrative expenses incurred by trainees in connection with their training and capacity building activities, carrying out of workshops and dissemination activities, training facility and equipment rentals, preparation, production and publication of instructional materials, including audiovisual materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR480,000 may be made on account of payments made for expenditures before that date but after November 5, 2003; and (b) payments made for expenditures for Part C of the Project, under Category 3 (a) of the table in paragraph 1 of this Schedule, unless the Technical Assistance Facility Management Firm has been hired in a manner satisfactory to the Association.

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 $150,000 equivalent per contract; (b) works costing less than $150,000 equivalent per contract; (c) for services of individual consultants costing less than $50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than $100,000 equivalent per contract; and (e) training and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.
**SCHEDULE 2**

**Description of the Project**

The objective of the Project is to assist the Borrower to improve access to financial services provided by MFIs for low-income households and micro and small businesses.

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: Regulation and Supervision of Microfinance and Credit Information**

Support SIBOIF to enable it to improve regulations and supervision practices when overseeing micro-finance operations of commercial banks, finance companies and second-tier financial institutions, through activities that include the remodeling of a computer center and technical assistance to bolster:

1. regulation and supervision of micro-finance;
2. supervision information system upgrading;
3. private credit reporting; and
4. financial services consumer protection.

**Part B: Institutional Strengthening**

Support FNI in the:

1. evaluation of risk of MFIs;
2. installation of an MFI credit risk system; and
3. identification of sources of financing for micro-finance activities.

**Part C: Outreach Expansion Support Services**

Support SECEP to:

1. assist the transformation of unsupervised MFIs into supervised financial institutions;
2. assist the increased outreach of financial cooperatives and supervised financial institutions with micro-finance activities; and

3. provide technical assistance and other support for finance-related local industries (including private providers of ratings, information technology, and external audits).

Part D: Monitoring Access to Financial Services

Support SECEP to:

1. monitor the demand and supply for financial services;

2. strengthen the Financial Services Access Policy, based on the results of monitoring activities;

3. strengthen the legal, regulatory and supervision framework for financial cooperatives and micro-finance associations; and

4. design a financial services monitoring unit.

Part E: Project Coordination

1. Support SECEP to strengthen the PCU to carry out its responsibilities under the Project, through the provision of technical assistance, training, audits, operating costs and (as necessary) equipment.

2. Support UCRESEP to carry out its responsibilities under the Project (including its financial and procurement responsibilities) through the provision of technical assistance, training, audits, operating costs and (as necessary) equipment.

* * *

The Project is expected to be completed by June 30, 2009.
SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

   (a) Goods estimated to cost less than $150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

   (b) Works estimated to cost less than $150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Shopping

   Goods estimated to cost less than $25,000 equivalent per contract may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

   Goods, including acquisition of software, which must be purchased from the original supplier to be compatible with existing equipment and costing $50,000
equivalent or less in the aggregate, may, with the Association's prior agreement, be
procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than $50,000 equivalent per contract may be
procured under lump-sum, fixed-price contracts awarded on the basis of quotations
obtained from three (3) qualified domestic contractors in response to a written invitation.
The invitation shall include a detailed description of the works, including basic
specifications, the required completion date, a basic form of agreement acceptable to the
Association, and relevant drawings, where applicable. The award shall be made to the
contractor who offers the lowest price quotation for the required work, and who has the
experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

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

(b) With respect to each contract pursuant to Part C.2, C3 and C.4 above, the
following procedures shall apply:

(i) prior to the execution of the first contract under shopping
procedures (C.2 and C.4 above), the Borrower shall provide to
the Association the draft request for quotations prior to issuing
the invitation and a report on the comparison and evaluation of
quotations received prior to signature of contract or to issuance
of the purchase order;

(ii) prior to the execution of any contract procured under direct
contracting procedures, the Borrower shall provide to the
Association a letter justifying the request for direct contracting, a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants’ services shall be procured in accordance with the provisions of Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under Part E of the Project estimated to cost less than $200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
2. **Selection Based on Consultants’ Qualifications**

   Services for the Project (other than for audits) estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. **Individual Consultants**

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

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

1. **Selection Planning**

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

2. **Prior Review**

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

   (b) With respect to each contract for the employment of consulting firms estimated to cost between $50,000 and $100,000 equivalent, the terms of reference shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

   (c) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of $50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, letter of justification for sole source and draft contract, terms of reference and terms of employment of the consultants shall be
furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. **Post Review**

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

1. For the purposes of this Schedule:

   (a) the term "eligible Categories" means Categories (1) through (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, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

   (c) the term "Authorized Allocation" means an amount equivalent to $500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

   (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of
the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

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

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

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

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

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

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