



**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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January 21, 2002

Mr. Ivan Miklos  
Deputy Prime Minister  
Ministry of Finance  
Ul. Stefanovicova 5  
810 05 Bratislava  
P.O. Box 82  
Slovak Republic

Re: SLOVAK REPUBLIC: Japanese Grant No. TF 051354  
(Preparation of the Social Development Fund Project)  
Letter of Agreement

Dear Mr. Miklos,

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement, as administrator of grant funds provided by Japan, to make a grant in an amount not exceeding three hundred twenty-seven thousand two hundred eighty dollars (\$327,280) (the Grant) to the Slovak Republic (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter of Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please note that it is the Bank's policy to make publicly available this Letter of Agreement and any information related thereto, after this Letter of Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter of Agreement, confirms its consent to such disclosure.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter of Agreement. Upon receipt by the Bank of the copy of this Letter of Agreement countersigned by you, this Letter of Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By



Roger Grawe

Country Director

Central Europe and the Baltic States

Europe and Central Asia

CONFIRMED AND AGREED:

SLOVAK REPUBLIC

By : \_\_\_\_\_

Name: \_\_\_\_\_

Title : \_\_\_\_\_

Date : \_\_\_\_\_

## **Purposes, Terms, and Conditions of the Grant**

### 1. Purposes and Activities

1.1. The purposes of the Grant are to assist the Recipient in the preparation of the Social Development Fund Project, which has as main objective the reduction of poverty in marginalized communities through the financing of sub-projects under a demand-driven social development fund (SDF) (the Project). The activities (the Activities) for which the Grant is given are as follows:

(a) Community-driven sub-projects, which is estimated to cost \$61,140 equivalent, entailing the definition of a methodology for identification of community-driven sub-projects to be financed under the SDF in the poorest localities of the Recipient's territory, and, in particular, Roma settlements, specifically focusing on defining the selection criteria for the said sub-projects and that for the communities, the development of an operational manual defining the procedures for applying the said criteria, and the definition of the content of the sub-projects through the carrying out of consultations with stakeholders at all levels.

(b) Community capacity building, estimated to cost \$65,320 equivalent, encompassing the preparation of community facilitators to help communities identify and prepare sub-projects, including the carrying out of an assessment of the needs of the communities likely to benefit from the Project so as to determine their level of capacity and training needs and define the role of community facilitators with a view to inform the beneficiaries about the Project, develop proposals for eligible sub-projects, and assist with their implementation and monitoring, including development of job descriptions for facilitators and the carrying out of workshops for them.

(c) Establishment of the SDF framework, estimated to cost \$152,820 equivalent, entailing the definition of a suitable institutional arrangement and procedures for the SDF mechanism on the basis of relevant comparative international experience of variations on social development fund designs, including the carrying out of discussion workshops with central and local government officials and the development of procurement, financial management and project design tools and contribution to the operational manual referred to under subparagraph (a) above.

(d) Studies, estimated to cost \$33,000 equivalent, which are identified as necessary to complete the preparation of the Project, including beneficiary assessments and feasibility studies on topics identified during the stakeholder consultations and those focusing on feasibility of sub-projects, capacity needs of different communities, and institutional arrangements.

(e) Carrying out of the audit required pursuant to the provisions of paragraph 5.1 (b) of this Annex, estimated to cost \$15,000 equivalent.

### 2. Implementation Generally

2.1. The Recipient shall: (i) through its Ministry of Labor, Social Affairs and Family, carry out the Activities with due diligence and efficiency; (ii) promptly provide the funds, facilities, services and other resources required for that purpose; (iii) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; (iv) from time to time, exchange views with the Bank's representatives on the progress and results of the Activities; and (v) take all necessary measures required to enable the Bank to visit the territory of the Recipient for

purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Activities a report, in form and substance satisfactory to the Bank, on the results and impact of the Activities.

### 3. Procurement and Consultants' Services

3.1. Except as the Bank shall otherwise agree, procurement of the goods and selection and employment of the consultants' services required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

### 4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account (the Grant Account) opened by the Bank on its books in the name of the Recipient, and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

<u>Item</u>	<u>Amount of the Grant Allocated in Dollars</u>	<u>% of Expenditures to be Financed</u>
(1) Consultant's services	294,000	100% <sup>1</sup>
(2) Local training, workshops and stakeholder consultations	14,780	100%
(3) Goods factory expenditures for	18,500	100% of foreign expenditures, 100% of local expenditures (ex- cost) and 85% of local other items procured locally
<b>TOTAL</b>	<u>327,280</u>	

<sup>1</sup> Subject to receiving clearances of TFO, LOA and RPA

For purposes of this paragraph:

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

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

(c) the term "foreign consulting firm" means a consulting firm which is registered or incorporated in the territory of any country other than that of the Recipient;

(d) the term "foreign individual consultant" means an individual consultant who is a national of a territory of any country other than that of the Recipient;

(e) the term "local consulting firm" means a consulting firm which is registered or incorporated in the territory of the Recipient;

(f) the term "local individual consultant" means an individual consultant who is a national of the territory of the Recipient; and

(g) the term "local training and workshops" means the local expenditures incurred to finance the organization of local workshops, and comprising the rent of the facilities, accommodations and per diem for attendees of the said workshops, training materials and supplies for the workshops, cost of local transportation of participants and translation costs of training and workshops materials.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter of Agreement by the Bank; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

(b) No withdrawals shall be made from the Grant Account after June 30, 2004 or such later date that the Bank shall establish by notice to the Recipient (the Closing Date), provided that, except in special circumstances, the Closing Date shall not be extended beyond the expected date of Bank approval of financing for the Project. However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by the Bank within four (4) months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in the Bank's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, the Bank may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in the Bank's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (i) signed on behalf of the Recipient by the Minister of Finance or such other person as he or she shall have authorized in writing; and (ii) accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) services of consulting firms costing less than \$50,000 equivalent; (ii) services of individual consultants costing less than \$25,000 equivalent, except those referred to in paragraph 2 (b) (i) of Part D, Section II, of Attachment I hereto; and (iii) goods, excluding the contract referred to in paragraph all under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter of Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

4.7. To facilitate the carrying out of the Activities, the Recipient may open and maintain in Euro a special deposit account (the Special Account) in the National Bank of Slovakia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

## 5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank

such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Bank's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## 6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (i) the Recipient has failed to comply with any of its obligations herein specified; or (ii) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (i) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (ii) if the Recipient shall have failed to take action, satisfactory to the Bank, within six (6) months after the effective date hereof, to carry out the Activities; or (iii) if the Bank has decided, at any time after consultation with the Recipient, to withdraw its support to the Project; or (iv) if the Recipient has withdrawn its request for the Bank's assistance in financing the Project.

**Procurement and Consultants' Services**

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with: (i) 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 (ii) the following provisions of Section I of this Attachment.

Part B: National Shopping

Goods shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any requests for price quotations to, the proposed procurement plan for the Activities shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

- (a) With respect to the first contract for goods, the following procedures shall apply:
- (i) prior to the selection of the supplier, the Recipient shall provide to the Bank a report on the comparison and evaluation of quotations received;
  - (ii) prior to the execution of the contract, the Recipient shall provide to the Bank 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 this Section.

### Part B: Quality- and Cost-based Selection

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.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Least-cost Selection

Services for the audit under paragraph 1.1 (e) of the Annex estimated to cost less than \$15,000 equivalent per contract may be procured under a contract 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 other studies under paragraphs 1.1 (a) and (d) of the Annex 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: (i) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (ii) tasks under paragraphs 1.1 (a), (b) and (c) of the Annex that meet the requirements set forth in paragraph 5.4 of the Consultant Guidelines, 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 Bank.

Part D: Review by the Bank 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 Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 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: (i) the first two contracts for the employment of individual consultants, regardless of the cost thereof; (ii) each contract for the employment of individual consultants to be selected on a sole source basis; and (iii) each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and terms of reference and terms of employment of the consultants 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. 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; provided, however, that prior review and approval by the Bank of the terms of reference and short lists of consultants for all such contracts shall apply.

**Special Account**

1. For the purposes of this Attachment:
  - (a) the term "eligible items" means the items set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;
  - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant; and
  - (c) the term "Authorized Allocation" means an amount equivalent to \$100,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
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) The Recipient shall furnish to the Bank a request or requests for a 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
    - (b)
      - (i) For replenishment of the Special Account, the Recipient 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 Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant Account under the eligible items, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.
4. For each payment made by the Recipient out of the Special Account, the Recipient 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 Attachment, 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 Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said paragraph 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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