

June 23, 2003

Mr. Csaba Laszlo
Minister of Finance
Ministry of Finance
Budapest
Republic of Hungary

Re: Grant for Institution Building for the Hungarian Office of Roma Affairs
IDF Grant No. TF052240

Dear Mr. Laszlo:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make to Republic of Hungary (the Recipient) a grant in an amount not exceeding three hundred forty seven thousand dollars (US\$347,000) (the Grant).

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-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.

By an agreement between the Recipient and the European Commission, the European Commission has agreed to make available to the Recipient an amount of €4,780,000 to assist financing the Hungarian Office of Roma Affairs on the terms and conditions set forth in the EU PHARE Twinning Program (HU/IB/2002/S)/04) and EU Anti-discrimination Program (2002/000-315.01.02). This assistance will be complementary to the Grant.

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-Agreement. Upon receipt by the Bank of the copy of this Letter-Agreement countersigned by you, this Letter-Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: _____
Shigeo Katsu
Regional Vice President
Europe and Central Asia Region

AGREED:

REPUBLIC OF HUNGARY

By _____
Name: Csaba Laszlo
Title: Minister of Finance
Date: _____

Purposes, Terms, and Conditions of the Grant

1. Purposes and Activities

1.1. The purpose of the Grant is to support the Recipient in strengthening the new Office of Roma Affairs (ORA) to enable the Government of the Recipient to improve its overall capacity to formulate and implement a Mid-Term Strategy (MTS) and the Long-Term Strategy (LTM) for Roma and to improve effectiveness and accountability of Roma projects and policies.

The components and the activities (the Activities) for which the Grant is given are as follows:

(a) Capacity Building for Policy Development Component

Provision of technical assistance to help strengthen the ORA and to develop its capacity for inter-sectoral policy making including: (i) provision of training to the staff of ORA as well as to staff in other ministries of the Recipient in policy formulation and analysis related to ethnic issues and conflict resolution; (ii) provision of assistance in formulating specific policies in, among others, health, labor markets, environment and social issues; (iii) study tours for ORA's staff and staff from other ministries of the Recipient within Hungary to the regions with large Roma populations; (iv) provision of assistance in development of community improvement programs and implement related pilots; (v) visits to institutional Roma Offices in other countries to assess different organizational models; (vi) workshops and seminars with other ministries of the Recipient and Non-Governmental Organizations; and (vii) provision of office equipment for the ORA.

(b) Analysis, Monitoring and Evaluation Component

Provision of technical assistance to the staff of ORA and staff in other Ministries to: (i) prepare the background studies and analysis to facilitate the work of the Interdepartmental Committee (an inter-ministry entity of the Recipient in charge of co-ordinating programs and measures related to Roma population within the public sector) and the Council of Roma Issues (a consultative entity under the chairmanship of the Recipient's Prime Minister) in the area of health status; determinants of unemployment; education and discrimination in public services; and (ii) provide training and consultation on monitoring and evaluation techniques and technical assistant on formulation thereof for a Monitoring Unit (MU) within the ORA which will monitor the local implementation and effect of the MTS and LTS on governmental and other public programs.

(c) Public Awareness and Communications Component

Provision of technical assistance to the ORA to: (i) support public relations and ensure effective interaction with the public and the media focusing on the communication of the work and achievement of the ORA and other ministries of the Recipient on issues related to the Roma population; (ii) provide training in order to develop the communication and interpersonal skills of Roma persons regularly appearing in media and the staff of the ORA; (iii) develop an official internet web page of the ORA; and (iv) develop a strategy of the ORA to communicate and coordinate the work of media leaders in Roma minority issues.

2. Implementation Generally

2.1. The Recipient, through ORA, shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that

purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank's representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable the Bank's representatives to visit the territory of the Republic of Hungary 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

3.1. Except as the Bank shall otherwise agree, procurement of the consultants' services and goods 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 opened by the Bank on its books in the name of the Recipient (the Grant Account), 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 Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

<u>Category</u>	<u>Amount of the Grant Allocated (in U.S. Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services	192,000	86%
(2) Training	134,400	100%
(3) Goods	20,600	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
TOTAL	347,000 =====	

For the purposes of this paragraph, the term:

(a) “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) “local expenditures” means expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures; and

(c) “training” means expenditures incurred on account of training of staff of the ORA and offices responsible for Roma affairs in relevant ministries and local municipalities of the Recipient, including: reasonable and necessary travel expenses in the Recipient’s territory and Europe of participants in training and study tours, as well as lodging and per diem, registration fees, costs of training materials, and other expenses directly related to the training and study tour activities.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals from the Grant Account shall be made: (i) for payments made for expenditures prior to the date of signature of this Letter 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 from the Grant Account shall be made after a date three years from the date of countersignature of this Letter Agreement by the Recipient (the Closing Date). 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 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 categories in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such category, the Bank may, by written notice to the Recipient, reallocate to such category an amount of the Grant then allocated to another category 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: (a) 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 (b) 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. To facilitate the carrying out of the Activities, the Recipient may open and maintain a special deposit account (the Special Account) in Euro in the Treasury 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 Attachment II to this Annex.

4.6. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms under contracts costing less than the equivalent of US\$50,000; (b) services of individual consultants under contracts costing less than the equivalent of US\$25,000; (c) goods under contract costing less than US\$100,000; and (d) training, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.7. Withdrawals of the proceeds of the grant shall be made in U.S. dollars. However, the Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with US dollars 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 Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

5. Accounts and Audits

5.1. The Recipient shall:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the resources and expenditures related to the Activities, including records and accounts for all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure.

(b) retain, until at least one year after the date on which the last withdrawal from the Grant Account was made, all records and accounts referred to in subparagraph (a) above, including records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure.

(c) enable the Bank's representatives to examine such records and accounts and furnish to the Bank such other information concerning said records and accounts as the Bank shall from time to time reasonably request.

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: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient has failed to comply with any of the obligations herein specified; or (d) 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 notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account and shall cancel any amount of the Grant remaining unwithdrawn: (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, regarding the implementation of the Activities within seven months after the notification by Bank to the Recipient of the approval of the Grant.

Procurement

Section I. Consultants' Services

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

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 provisions 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 for policy development and capacity building, analysis and monitoring, estimated to cost less than US\$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 audit estimated to cost less than US\$15,000 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 Public awareness campaigns and communication, analysis and evaluation, policy development and capacity building under paragraph 1 (a, b and c) 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 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

(b) for public awareness campaign under paragraph 1.1 (c) of the Annex 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.

4. Training

Training activities and study tours related to the project shall be procured up to an aggregated amount of US\$134,400 in accordance with procedures acceptable to the Bank as follows: (i) prior to commencement of training and study tour the ORA shall furnish the Bank for its approval every 3 months the list of trainees, place, period, estimated cost of training/tour, the content of each training, all consistent with project objectives; (ii) select trainers and trainees according to a transparent process and criteria agreed with the Bank; and (iii) furnish the Bank a report of such scope and details as the Bank shall reasonably request, on the result of each training and the benefits derived.

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 updated from time to time) 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 US\$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 each contract for the employment of individual consultants to be selected on a sole-source basis, or estimated to cost the equivalent of US\$25,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference irrespective of the amount of the contract 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.

Section II. Procurement of Goods

Goods shall be procured: (a) 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 (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word “bids”, in such paragraph 4, shall be read as “quotations”.¹

¹ In a few cases, other procedures may apply.

Special Account

1. For the purposes of this Attachment:
 - (a) the term "eligible categories" means the categories set forth 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 the amount of €70,000 to be withdrawn from the Grant Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Attachment II.
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 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 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, 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

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

Thereafter, withdrawal 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.