

CONFORMED COPY

CREDIT NUMBER 2059 LSO

(Second Population, Health and Nutrition Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 9, 1989

CREDIT NUMBER 2059 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 9, 1989, between KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Borrower has requested from the Republic of Ireland (Ireland) a grant in an amount approximately equivalent to \$2,600,000 (the Irish Grant) to assist in financing part of the Project on terms and conditions set forth in an agreement (Irish Grant Agreement) to be entered into between the Borrower and Ireland;

(C) the Borrower has requested from the European Economic Community (EEC) a grant in an amount approximately equivalent to \$3,200,000 (the EEC Grant) to assist in financing part of the

Project on terms and conditions set forth in an agreement (the EEC Grant Agreement) to be entered into between the Borrower and EEC;

(D) the Borrower and the Overseas Development Administration of the United Kingdom intend to enter into a memorandum of understanding (the ODA Memorandum of Understanding) for the purposes of making available goods and services to the Borrower with a value of about \$1,300,000 (the ODA Grant) to assist in financing part of the Project on terms and conditions set forth in the ODA Memorandum of Understanding; 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, with the last sentence of Section 3.02 deleted (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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "MOH" means the Borrower's Ministry of Health;

(c) "MOA" means the Borrower's Ministry of Agriculture;

(d) "AIDS" means the Acquired Immune Deficiency Syndrome;

(e) "HPSU" means the Health Planning and Statistics Unit in MOH;

(f) "HSA" means a Health Service Area;

(g) "IEC" means Information, Education and Communication of health and population activities;

(h) "LPPA" means the Lesotho Planned Parenthood Association;

(i) "TB" means Tuberculosis;

(j) "PMU" means the Project Management Unit within MOH;

(k) "PHAL" means the Private Health Association of Lesotho;

(l) "RCIP" means the Rural Clinics Improvement Project within the Borrower's Ministry of Interior;

(m) "STD" means Sexually Transmitted Diseases;

(n) "VHW" means a Village Health Worker;

(o) "QEII Hospital" means the Queen Elizabeth II Hospital in Maseru;

(p) "NHTC" means the Borrower's National Health Training Center;

(q) "PAC" means the Project Advisory Committee established by the Borrower to review Project Implementation;

(r) "LADB" means the Lesotho Agricultural Development Bank;

(s) "M" means Maloti, the Borrower's currency; and

(t) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated July 5, 1988, and August 3, 1989, and March 1, 1989, and June 22, 1989, respectively, between the Borrower and the Association.

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 this Agreement, an amount in various currencies equivalent to nine million four hundred thousand Special Drawing Rights (SDR 9,400,000).

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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a 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 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1995, 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 cancelled; 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.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (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 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below,

the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing January 1, 2000, and ending July 1, 2029. Each installment to and including the installment payable on July 1, 2009, 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 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 the Project, except for Part D.3 through its Ministry of Health with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon any of its other obligations, the Borrower shall cause LADB to carry out Part D.3 of the Project, with due diligence and efficiency and in accordance with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part D.3 of the Project.

(c) The Borrower shall make available the proceeds of the Credit allocated to Part D.3 to LADB, under arrangements satisfactory to the Association.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. 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 3.03. The Borrower shall continue to maintain the PMU, composed of a Project Manager, Administrative Assistant, Assistant Accountant and Secretary, in accordance with terms of reference and with qualifications satisfactory to the Association.

Section 3.04. The Borrower shall: (a) continue to operate the Imprest Account for the upgrading of rural clinics under the control of the Director of RCIP; and (b) at all times, maintain a minimum balance of M 250,000, in said account.

Section 3.05. The Borrower shall, commencing April 1, 1991, fund directly payments for treatment (hospitalization and drugs) of TB patients in PHAL hospitals.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for 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;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section 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 proce-

dures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Other Covenants

Section 5.01. (a) The Borrower shall take all measures as shall be necessary to achieve recoveries in its health services equivalent to at least: (i) 12% of MOH's recurrent expenditures by June 30, 1990; and (ii) 15% of MOH's recurrent expenditures by June 30, 1992.

(b) The Borrower shall by March 31, 1990, adopt a plan, satisfactory to the Association, for increasing the utilization of private doctors and nurses in government hospitals.

Section 5.02. The Borrower shall by March 31, 1990, implement a program, acceptable to the Association: (a) giving target revenue collection levels for its district health facilities; and (b) providing incremental resources and other incentives to institutions which achieve or exceed their targets.

Section 5.03. The Borrower shall by March 31, 1990, finalize a memorandum of understanding with PHAL, satisfactory to the Association, covering subvention levels and other planned benefits for PHAL institutions, as well as PHAL obligations for service delivery, financial and other reporting and minimum staffing levels.

Section 5.04. The Borrower shall by: (a) June 30, 1990, complete a hospital efficiency study for QEII Hospital and eight other district hospitals, in accordance with terms of reference satisfactory to the Association; and (b) April 1, 1991, commence implementation of a phased plan satisfactory to the Association to strengthen financial management and achieve unit-cost targets in its hospitals.

Section 5.05. (a) The Borrower shall by December 31, 1990, complete a study of the efficiency and financing of drug expenditures, covering procurement, distribution, stock management and prescribing practices.

(b) The Borrower shall by: (i) April 1, 1991, following discussions with the Association, commence implementation of a reform program for improved efficiency and equity of drug procurement and supply; and (ii) April 1, 1992, ensure that there are adequate budgetary allocations for drug supplies for its rural clinics.

Section 5.06. The Borrower shall by June 30, 1990, implement a bonding arrangement satisfactory to the Association for retaining health personnel trained on government scholarships.

Section 5.07. The Borrower shall by: (a) December 31, 1989, establish and staff the posts of Manpower Department head and manpower planning and development officer; and (b) December 31, 1990, develop an optimal staffing pattern and alternative scenarios for health manpower expansion, redeployment and retention.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified:

(a) Subject to subparagraph (b) of this paragraph, the right of the Borrower to withdraw the proceeds of the Irish Grant, the

EEC Grant or the ODA Grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(b) Subparagraph (a) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or premature ending is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Association has been notified that all conditions precedent to the initial disbursement of the Irish Grant, EEC Grant and ODA Grant, other than the effectiveness of this Agreement, have been fulfilled; and

(b) the Borrower has appointed the Project Manager and Administrative Assistant referred to in Section 3.03 of this Agreement.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representatives of the Borrower; Addresses

Section 8.01. The Minister at the time responsible for Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 395
Maseru 100
Lesotho

Cable address:

FINMIN
Maseru

Telex:

4330 LO
4367 LO

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 2033
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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

KINGDOM OF LESOTHO

By /s/ T. W. van Tonder
 Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Gillette
 Acting Regional Vice President
 Africa

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:

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|---|--|--|
| (1) Civil Works: | | 100% |
| (a) for Parts A, C, E and F of the Project | 1,100,000 | |
| (b) for Part B of the Project | 600,000 | |
| (2) Vehicles, furniture, equipment and supplies | 2,600,000 | 100% of foreign expenditures and 90% of local expenditures |
| (3) Consultants' services | 1,500,000 | 100% |
| (4) Training and workshops | 1,100,000 | 100% |
| (5) Nutrition Activities Fund | 100,000 | 50% of LADB loans |

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|----------|--|----------------------------------|
|----------|--|----------------------------------|

| | | | | |
|-----|--|--|-----------|---|
| (6) | (a) | HSA Development Fund under Part A.7 of the Project | 200,000 | 100% |
| | (b) | PHAL Support Funds for TB Treatment | 200,000 | 100% |
| (7) | Salaries: | | | |
| | (a) | for PMU staff | 100,000 | 100% |
| | (b) | incremental MOH posts | 100,000 | 100% up to March 31, 1992; 70% up to March 31, 1993; 30% up to March 31, 1994; and 0% thereafter |
| (8) | Refunding of Project Preparation Advance | | 400,000 | Amount due pursuant to Section 2.02 (c) of this Agreement |
| (9) | Unallocated | | 1,400,000 | |
| | TOTAL | | 9,400,000 | |

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; and

(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.

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;

(b) payments for expenditures under Category (1) (b) until the Borrower has undertaken the actions specified in Sections 5.01 (b), 5.02 and 5.03;

(c) payments for expenditures under Category (6) (a) until the Borrower has undertaken the actions specified in Section 5.01 (a) (i); and

(d) payments for expenditures under Category (5) (a) until terms and conditions for the loans satisfactory to the Association are agreed upon between the Borrower and LADB.

SCHEDULE 2

Description of the Project

The objectives of the Project are to introduce financial and institutional policy reforms within the Borrower's health sector to achieve the following objectives: (i) slow the pace of population growth; (ii) strengthen the health system in both rural and urban areas; (iii) reduce the spread of tuberculosis and sexually-transmitted diseases; (iv) lower the rate of malnutrition in children and mothers; and (v) strengthen support systems for

sector planning, financial, personnel and health information management and manpower development.

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

Part A: Rural Health Services

1. Upgrading of fourteen existing clinics and construction of one new clinic in remote areas.
2. Establishment of Primary Health Care teams in each HSA, development of a course for Public Health Nurses at NHTC, and provision of vehicles for six mountain HSAs.
3. Development of a preventive maintenance program for HSA facilities.
4. Provision of raw materials for the manufacture of drugs for rural clinics by the Lesotho Pharmaceutical Corporation.
5. Development of facility-based inventory and budget systems to improve drug ordering by the clinics.
6. Carrying out of a study of options for increased efficiency and self-financing of the drug system.
7. Establishment of an HSA Development Fund to provide resources to each HSA to carry out locally-defined priority activities.

Part B: Urban Health Services

1. Establishment of three Filter Clinics in Maseru and one in Maputsoe, including the construction of on-site accommodation for five staff members for each clinic and the provision of a multi-purpose vehicle and an ambulance for Maseru and an ambulance for Maputsoe.
2. Upgrading of the QEII Hospital in Maseru through infrastructure improvement, provision of equipment and the introduction of a new organizational structure and improved management practices.
3. Carrying out of a training program to enhance the skills of hospital medical, technical and administrative staff.
4. Carrying out a hospital efficiency study for QEII and eight district hospitals.
5. Carrying out of a study to examine options for the size, functions, and phased establishment of a new national referral hospital.

Part C: Family Planning

1. Training of key health personnel in family planning.
2. Undertaking of workshops for national leaders to develop consensus around a population policy.
3. Conducting seminars for MOH, PHAL and NGO officials in the management of population/family planning programs.
4. Expansion of Lesotho Planned Parenthood Association's effort to train and deploy community-based distributors.
5. Training and equipping of VHWS in two or three pilot areas.
6. Establishment of a Youth Counselling Center at Maputsoe.
7. Provision of contraceptives for MOH and LPPA.

Part D: Food and Nutrition

1. Provision of fellowships for masters-level training in applied human nutrition to two MOH staff members, and provision of training for nutrition assistants and supervisors.
2. Provision of two vehicles to enhance mobility of supervisory personnel in Qachas Nek, Quthing and MOH headquarters.
3. Provision of credit to women's groups through the LADB for the purchase of diesel-power grain mills.
4. Creation of nutritionist positions, one in the Family Health Division of MOH and the other in the field.
5. Establishment of a nutritional surveillance system.

Part E: Disease Control

1. Tuberculosis Control

(a) Provision of TB drugs through the Lesotho Pharmaceutical Corporation and establishment of an improved system for monitoring drug supply and consumption.

(b) Strengthening of the Disease Control and Environmental Health Division at MOH Headquarters to support the TB Control Program.

(c) Provision of improved treatment of TB in-patients at PHAL facilities.

(d) Assignment of at least one public health assistant in each HSA to be responsible for primary health care activities with emphasis on TB control. Provision of appropriate training, on-site accommodation and motorcycles to support above activities.

(e) Undertaking an independent annual evaluation of the TB control program and the carrying out of the following studies: a tuberculosis survey; a drug sensitivity survey; and a pilot six-month trial on multi-drug supervised ambulatory chemotherapy.

2. STD/AIDS Control

(a) Establishment of a pilot scheme for treating and counselling STD/AIDS patients in three HSAs, including the training of personnel, provision of transport, drugs and equipment, and the remodelling of existing hospital and clinic facilities.

(b) Provision of equipment for the central laboratory at QEII Hospital and laboratories in the Butha Buthe and Mohales Hoek hospitals.

(c) Carrying out of operational research on high risk groups.

(d) Modification of the existing MOH screening and disease reporting system to better capture STD/AIDS cases.

Part F: Institutional Development

1. Financial Management: (a) Development of a system for facility-based budgeting, cost control, and expenditure and revenue monitoring in MOH, through the training of MOH financial and other relevant officers.

(b) Provision of computer equipment to automate MOH's financial information system.

2. Health Planning: Better definition of the scope of work of HPSU and improvements in its planning skills, through the provision of technical assistance, training, and computer equipment.

3. Health Information: Strengthening of MOH's Statistics Unit through the provision of training, technical assistance, and computer and office equipment.

4. Manpower Planning and Development: Establishment of a Manpower Department in MOH, including a computerized personnel information system, through the provision of training, technical assistance and equipment.

5. District/HSA Management: Establishment and training of a new cadre of District Health Service Administrator and a Unit for District Operations Management in MOH headquarters to coordinate the DHSAs.

6. Information, Education and Communication: Strengthening the Health Education Unit of MOH in its specialist function for PHN-related IEC activities, through provision of a small recording studio, funds for design, production and dissemination of printed IEC materials, training and technical assistance.

7. National Health Training Center: Support to NHTC's five year development plan including infrastructure improvements, provision of equipment and supplies, instructors and fellowships.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost the equivalent of \$50,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Lesotho may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost less than the equivalent of \$200,000 and goods estimated to cost less than the equivalent of \$50,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items estimated to cost less than the equivalent of \$20,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Civil works under Part A.1 of the Project, may be carried out

by the Borrower's own forces through the Rural Clinics Implementation Project.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost more than the equivalent of \$100,000 or more and for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

1. The PMU within MOH shall have overall responsibility for Project Coordination. PMU shall be headed by a Project Manager, who shall report directly to the Principal Secretary, MOH. The PMU shall, inter alia: (a) organize and supervise the drafting of annual work plans and progress reports for various Project components; (b) consolidate such work plans and progress reports for review by PAC; (c) organize quarterly meetings of PAC; (d) monitor overall Project implementation and assist in removing bottlenecks; (e) maintain overall Project accounts; and (f) assist in the recruitment of consultants.

2. The Borrower shall establish and maintain a Project Advisory Committee, composed of managers of all the Project components and subcomponents. The committee shall meet quarterly to review implementation of the Project and discuss future work plans.

3. The Borrower shall: (i) by February 15 in each year furnish to the Association the annual work plan for the following year; (ii) by June 30 in each year, prepare the annual progress report for the previous year; and (iii) within eight weeks of the end of each quarter, furnish to the Association progress reports on all the Project components.

4. The Borrower shall within twelve months of the Effectiveness Date furnish to the Association terms of reference for the evaluation studies on the following Project components: (a) family planning; (b) food and nutrition; and (c) disease control.

Rural Health Services

5. The upgrading and construction of rural clinics shall be undertaken by RCIP. Selection of sites for new and upgraded clinics shall be the responsibility of HPSU, in accordance with established criteria.

6. Primary health care teams shall be formed in each HSA by redeploying health assistants to HSA-level and training additional public health nurses. In addition, the Borrower shall develop a course for public health nurses at NHTC.

7. The Borrower shall create up to eight posts for District Health Service Administrators. The Borrower shall appoint a head for the Operations Management Unit within MOH.

8. The Borrower shall establish an HSA Development Fund Review Committee to assess HSA micro-project proposals and monitor their progress. The members of the Committee shall be the Project Manager, MOH headquarters staff, and representatives from the Ministry of Finance, the Ministry of Planning and the PHAL Secretariat. Each HSA shall be allocated about \$20,000 in HSA Development Fund resources. Prior to the start of each financial year, each HSA shall submit to the Committee through HPSU, a comprehensive proposal for each micro-project, in accordance with a standard format. Each HSA shall submit to the Committee periodic progress reports on their micro-projects including an accounting for funds expended.

Urban Health Services

9. The Borrower shall, in order to improve the quality and accessibility of urban PHN services and promote decongestion of QEII and Leribe Hospitals, create three filter clinics in Maseru and one in Maputsoe. The Borrower shall ensure that the sites for the Filter Clinics are secured and that it makes available for filter clinics construction, funds earmarked for clinics under the Urban Sector Reorientation Project, (Credit 1898-LSO).

10. The Borrower shall establish a Management Board at QEII Hospital, consisting of, inter alia, department heads, MOH representatives and the local community representatives. The Board shall advise the Hospital Superintendent on policies relating primarily to planning, monitoring and evaluation, coordination and hospital finances. The Borrower shall redeploy one personnel officer from MOH headquarters to QEII Hospital.

11. To assist hospital officials in the implementation of the organizational and management reforms at QEII Hospital, a technical assistance team shall be employed headed by a team leader, who shall serve as senior advisor to the Medical Superintendent, and including advisers for maintenance and nursing services.

12. The Borrower shall strengthen the Manpower Development Division in MOH by appointing a second training officer for at least two years, to handle QEII hospital-based and other training. The Borrower shall develop and furnish an annual training plan to the Association for its review. The Borrower shall furnish the

first such plan to the Association within four months after the QEII Hospital management team is in place and thereafter furnish such annual training plans by December 31, in each year.

Food and Nutrition

13. The Borrower shall cause LADB to provide credit to active women's groups in Qachas Nek and Quthing Districts for diesel-powered mills under the following terms. Credit funds shall provide 50% of the loans extended to women's groups as identified by the Borrower's Child Nutrition and Household Food Security Project. Women's groups participating shall agree to set aside 10% of their profits to be used for local nutrition efforts by said groups.

14. The Borrower shall by April 1, 1990, create a nutritionist post within MOH.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 SDR 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 a deposit or deposits 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 made 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment 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; (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 paragraph 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.

