

CONFORMED COPY

CREDIT NUMBER 3980-NEP
GRANT NUMBER H125-NEP

Development Financing Agreement

(Health Sector Program)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 29, 2004

**CREDIT NUMBER 3980-NEP
GRANT NUMBER H125-NEP**

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated November 29, 2004, between KINGDOM OF NEPAL (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received: (i) the Borrower's Health Sector Strategy: An Agenda for Change (HSS), dated December 2003; the Borrower's Health Sector Program – Implementation Plan (NHSP-IP); and a letter of health sector policy, dated July 26, 2004 (the Policy Letter), jointly articulating the objectives, policies, strategy and program for the health sector (collectively referred to hereinafter as the "Health Sector Program" or "HSP"); and (ii) the Borrower's commitment to the execution of said HSP;

(B) 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;

(C) the Borrower intends to obtain funds (the DFID Grant) from Department for International Development (DFID), a government department of the United Kingdom, to assist in financing the Project on the terms and conditions set forth in an agreement (the DFID Agreement) to be entered into between the Borrower and DFID;

(D) the Borrower, the Association and the DFID have agreed to enter into a Joint Financing Arrangement, which makes general arrangements for the processing of applications for withdrawal of the proceeds of the financing to be provided severally by DFID and the Association, and any other agencies or organizations intending to participate in the financing of the HSP, and providing for common procedures on monitoring, procurement, financial management, disbursement, cooperation and exchange of information related thereto;

(E) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 5 to this Agreement (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “AWPB” means an Annual Work Plan and Budget, an operational plan prepared on a Fiscal Year basis and prepared and approved in accordance with paragraph 3 of Schedule 4 to this Agreement;

(b) “FAR” means the Borrower’s Financial Administration Regulations, 2056 (1999), as amended from time to time;

(c) “FE Account” means the foreign exchange account referred to in Section 2.02(b) of this Agreement;

(d) “Fiscal Year” or “FY” means the twelve month period corresponding to any of the Borrower’s fiscal years, which period commences and ends in mid July of each calendar year;

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

(f) “Health Care Waste Management Plan” means the Borrower’s health care waste management plan to be complied with in the carrying out of the Project;

(g) “HSP Procurement Manual” means the procurement manual to be prepared by MOH for procurement of works, goods and services in the health sector, and which will be based on the Borrower’s FAR, to provide operational guidelines to staff responsible for procurement at the village, district and department levels;

(h) “Implementation Plan” means the NHSP-IP 2004, which provides the operational framework for the Annual Work Plan and Budget of the Five Year Health Sector Program;

(i) “JFA” or “Joint Financing Arrangement” means the arrangement referred to in Recital D of the Preamble of this Agreement, to be entered into by the Pooling Donors (as hereinafter defined) and the Borrower, providing for common procedures on

monitoring, procurement, financial management, disbursement, cooperation and exchange of information in connection with the HSP;

(j) “MOH” means the Borrower’s Ministry of Health or any successor thereto;

(k) “Nepal Rastra Bank” means the central bank of the Borrower established and operating pursuant to the provisions of the Borrower’s Nepal Rastra Bank Act, 2058 (2001);

(l) “Nepalese Rupee” and the sign “NRs” mean the currency of the Borrower;

(m) “Pooling Donors” means the Association, DFID and any other national or international agencies or organizations which may join the JFA in accordance with its terms, in order to pool their funds for the financing of the HSP;

(n) “Pooled Funds” means the Pooling Donors’ Credit, Loan or Grant, as the case may be;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated July 2004 covering the initial twelve (12) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 12 month periods (or longer) of Project implementation;

(p) “Report Based Disbursements” means withdrawal of funds from the Financing Account using the method referred to in Part A.4 of Schedule 1 to this Agreement; and

(q) “VCDP” means Vulnerable Communities Development Plan, prepared by the Borrower in consultation with the local communities in the Project area and describing a program of actions, measures and policies designed to maximize the benefits accruing to *dalits* and disadvantaged *janajati* (indigenous people) under the HSP.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to six million nine hundred thousand Special Drawing Rights (SDR 6,900,000) (the Credit); and

(b) an amount in various currencies equivalent to twenty seven million three hundred thousand Special Drawing Rights (SDR 27,300,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in each case, in accordance with the provisions of Schedule 1 to this Agreement for: (i) 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 and to be financed out of the proceeds of the Financing; or (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by the Borrower to meet the reasonable cost of goods, works and services required under an AWPB to be financed out of the proceeds of the Financing.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a foreign exchange account (FE Account) in Nepal Rastra Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the FE Account shall be made in accordance with the provisions of Part B of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be January 15, 2010, 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: (i) 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; and (ii) a commitment charge on the amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate 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 (60) 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 the Grant Account (as the case may be), or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the

provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

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

(b) Whenever: (i) the Borrower's per capita Gross National Product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOH with due diligence and efficiency and in conformity with appropriate health, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project, as and when applicable, and as relevant, in accordance with the JFA, the HSP Procurement Manual, the Procurement Plan, the Implementation Plan, the Health Care Waste Management Plan, the VCDP, and other provisions specified in the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of Financing shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.04. The Borrower shall ensure that the annual budget allocated to MOH shall not be less than 5% of the total of the Borrower's national budget for each Fiscal year.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

(c) For all expenditures with respect to which withdrawals from the Financing Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements), 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 (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Financing 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 reports and statements of expenditures are included in the audit for each fiscal year (or other period agreed to by the Association) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 4.01 above, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the HSP, both cumulatively and for the period covered by said report, consistent with the existing government's financial management system;
- (ii) describes output-and-outcome-based physical progress in HSP implementation, on an annual basis; and
- (iii) sets forth the status of procurement under the HSP, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after the end of the first Fiscal Year trimester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first Fiscal Year trimester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after each subsequent Fiscal Year trimester, and shall cover such Fiscal Year trimester.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely that the DFID Agreement shall have been terminated or the right of the Borrower to withdraw proceeds of the DFID Grant shall

have been suspended; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the HSP are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Development Financing Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the DFID Agreement has been executed and delivered and all conditions precedent to their effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of this agreement, have been fulfilled.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Borrower, is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Singha Durbar
Kathmandu
Nepal

Facsimile:

(977-1)4259-891

For the Association:

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

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

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

KINGDOM OF NEPAL

By /s/ Bhanu Prasad Acharya

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in (SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in (SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Eligible expenditures under each AWPB	6,900,000	27,300,000	Percentage of such Eligible Expenditures as the Association may determine for each FY from time to time
TOTAL	<u>6,900,000</u>	<u>27,300,000</u>	

2. For the purposes of this Schedule the term “Eligible Expenditures” includes all expenditures for goods, works and consultants’ services provided under the HSP, and all recurrent costs incurred under the HSP.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 3,500,000 may be made on account of payments made for expenditures before that date but after July 16, 2004;

(b) payments made for expenditures under any AWPB, until the annual allocation and disbursement targets for such AWPB shall have been agreed during annual reviews; and

(c) payments made for expenditures for goods, works or consultants' services supplied under a contract which the Association or any national or international financing institution or agency, other than the Pooling Donors, shall have financed or agreed to finance under any other credit, loan or grant.

4. The Borrower may request withdrawals from the Financing Account to be made on the basis of reports specified in Part B.2 of this Schedule to be submitted to the Association, in form and substance satisfactory to the Association, in accordance with the provisions of Part B of this Schedule (Report Based Disbursements).

B. FE Account

1. After the Association has received evidence satisfactory to it that the FE Account has been opened in accordance with Section 2.02 (b) of this Agreement, withdrawals from the Financing Account under Category (1) set forth in the table in paragraph 1 of this Schedule shall be deposited by the Association into the FE Account in accordance with the provisions of this Part B.

2. Each request for withdrawal from the Financing Account shall be made on the basis of the reports referred to in Part A.4 of this Schedule, such reports to include the FMR and other information as the Association shall specify by notice to the Borrower; provided, however, that in the case of the first request for withdrawal submitted to the Association, before any withdrawal has been made from the Financing Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the two (2) trimester period of the fiscal year.

3. Upon receipt of each request for withdrawal of an amount of the Financing, the Association shall, on behalf of the Borrower, withdraw from the Financing Account and deposit into the FE Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part B.2 of this Schedule applicable to such withdrawal request, is required to be deposited in order to finance Eligible Expenditures during the eight-month period following the date of such reports.

4. Amounts deposited by the Association into the FE Account shall be used exclusively to make payments for Eligible Expenditures. For each payment made by the Borrower out of the FE Account using Financing proceeds, 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 Part B.1 of this Schedule, the Association shall not be required to make further deposits into the FE Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part B.2 of this Schedule adequately provide the information required for Report Based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Financing Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the FE Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Report Based Disbursements.

6. The Association shall not be required to make further deposits into the FE Account in accordance with the provisions of Part B.1 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Financing Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the FE Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

7. (a) If the Association determines at any time that any payment out of the FE Account using Financing proceeds was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the FE Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the FE 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 determines at any time that any Financing proceeds on deposit in the FE Account will not be required to cover payments for Eligible Expenditures during the six (6) month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such proceeds.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 7 shall be credited to the Financing Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project, which is an integral part of HSP, is to expand access to, and increase the use of, essential health care services, especially by underserved populations.

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: Strengthening Service Delivery

1. Increasing access to essential health care services, in a phased manner, through:
 - (a) the carrying out of a program to provide essential health care services including, *inter alia*, undertaking and promoting behavior change communication to increase accessibility to, and use of, essential health care services;
 - (b) the carrying out, through local level relevant agencies, of a multi-sectoral approach to promote safer motherhood through establishing and gradually improving basic and comprehensive emergency obstetric care services in the Borrower's territory, including awareness programs about the life threatening complications, and improved transport and financial protection for the poor;
 - (c) strengthening the child healthcare system including, *inter alia*, expanding the national immunization program, maternal nutrition, and integrated management of childhood illness; and
 - (d) strengthening communicable disease control program, including vector borne disease control program.
2. Strengthening the decentralization of health services measures and improving the local-level management.
3. Developing and implementing a strategy for strengthening partnership with non-governmental organizations and the private sector, through:
 - (a) the capacity-building of MOH in project implementation and monitoring including, *inter alia*, developing specific modalities of partnership at central and district levels, working guidelines, contracting models, regulatory framework and training;
 - (b) design and implementation of new service provider agreements; and

- (c) carrying out of large-scale pilot initiatives.

Part B: Sector Management and Capacity Building

1. Provision of goods and technical advisory services for the carrying out of a series of sub-programs to improve the management of the health sector and each of the agencies concerned through clarifying the roles and functions of each agency, resolving role conflicts and removing functional gaps.
2. Provision of goods and technical advisory services for the carrying out of a program to develop the function of asset management in the public health sector.
3. Provision of goods and technical advisory services for the carrying out of a program to improve the deployment, utilization, efficiency and management of human resources.
4. Provision of goods and technical advisory services for the carrying out of a program to improve the collection, analysis and use of information in the management of the sector, including the introduction of a management reporting system.

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The Project is expected to be completed by July 15, 2009.

SCHEDULE 3

Procurement

Section I. General

Part A: General

A. Except as the Association shall otherwise agree all goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of the Borrower's Financial Administration Regulations (FAR) and with the provision of this Section I.

B. All consultants' services shall be procured in accordance with the provisions of the FAR.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Goods estimated to cost the equivalent of \$500,000 or more shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004.

Section III. Review by the Bank of Procurement Decisions

A. Prior review:

Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$500,000 or more.

2. Consultants' Services Provided by Firms and Individuals

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to (i) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$250,000 or more; and (ii) each contract for consultants' services provided by individuals estimated to cost the equivalent of \$50,000 or more.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Paragraph A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Paragraph A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Overall Project Implementation and Coordination

1. The Borrower shall cause MOH to be responsible, at the central level, for the overall coordination, monitoring, evaluation and reporting on the Project, including, *inter alia*, overseeing the Health Sector Program, reviewing, approving, and coordinating, in consultation with the Pooling Donors, the implementation of the AWPB.

Annual Work Plan and Budget and Joint Annual Review

2. The Borrower shall, no later than two (2) weeks prior to the joint annual review meeting to be held no later than October 31 of each year, furnish to the Association, an annual report summarizing the status of key indicators, relevant surveys, special studies and the health sector project expenditure review.

3. The Borrower shall cause MOH, not later than June 15 of each year, or such later date as the Association may agree, to prepare and furnish to the Association an Annual Work Plan and Budget for the following FY, for its review and approval. Each such AWPB shall: (i) have been prepared in consultation with and based on data collected from the various stakeholders of the Project; (ii) include fully costed proposed activities for each output, linked with performance targets of the Project; (iii) include a description of how proposed activities shall be integrated into the existing structure and with ongoing activities at all levels; (iv) be in line with the HSP; and (v) include a draft Medium-term Expenditures Framework for the next FY.

Progress Reports and Mid-Term Review

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed with the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 1, 2007 a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed under the Project, and on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, not later than February 1, 2008, or such later date as the Association shall reasonably request, the report referred to in paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.;

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.;

17. “Financing” means, collectively, the Credit and the Grant.;

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. Financing Accounts. The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “including any development financing agreement or development grant agreement” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”.

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied pro rata to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”