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**CONFORMED COPY**

**CREDIT NUMBER 3814-TON**

# **Development Credit Agreement**

**(Health Sector Support Project)**

**between**

**KINGDOM OF TONGA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 24, 2003**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated September 24, 2003, between the KINGDOM OF TONGA (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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

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

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

(a) “Asbestos Survey Report” means the report adopted by the Borrower on April 7, 2003, satisfactory to the Association, referred to in paragraph 9 of Schedule 4 to this Agreement for managing and monitoring environmental impacts under Part C.1 of the Project, and as such report may be amended from time to time with the prior agreement of the Association.

(b) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(c) “Fiscal Year” means the twelve (12)-month period corresponding to any of the Borrower’s fiscal years, which period commences on July 1 and ends on June 30 in each calendar year.

(d) “Ministry of Health” means the Borrower’s Ministry of Health, and any successor thereto.

- (e) “Ministry of Works” means the Borrower’s Ministry of Works.
- (f) “National Health Accounts Steering Committee” means the committee established by the Ministry of Health on May 31, 2002, and to be maintained by the Borrower in accordance with paragraph 1 (b) of Schedule 4 to this Agreement.
- (g) “Project Management Unit” means the unit established within the Borrower’s Ministry of Health on February 3, 2003, and to be maintained by the Borrower in accordance with paragraph 4 of Schedule 4 to this Agreement.
- (h) “Project Steering Committee” means the committee established by the Ministry of Health on May 31, 2002, and to be maintained by the Borrower in accordance with paragraph 1 (a) of Schedule 4 to this Agreement.
- (i) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.
- (j) “Vaiola Hospital” means the public hospital located in the Borrower’s capital.
- (k) “Vaiola Hospital Masterplan” means the masterplan which sets forth the parameters for the carrying out of Part C.1 of the Project, to be adopted by the Borrower, satisfactory to the Association, in accordance with paragraph 8 (a) of Schedule 4 to this Agreement, as said masterplan may be revised from time to time with the prior agreement of the Association.
- (l) “Working Group” means each group established by the Ministry of Health on December 14, 2002; January 23, 2003; or May 6, 2003; and to be maintained by the Borrower in accordance with paragraph 3 (a) of Schedule 4 to this Agreement, and “Working Groups” means, collectively, all of said Working Groups.
- (m) “Sub-working Group” means the group established by the Ministry of Health on May 31, 2002, and to be maintained by the Borrower in accordance with paragraph 3 (b) of Schedule 4 to this Agreement.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eight million Special Drawing Rights (SDR8,000,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in the National Reserve Bank of Tonga (its Central Bank) or in a commercial bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, 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 Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing January 15, 2014, and ending July 15, 2043. Each installment to and including the installment payable on July 15, 2023, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as

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

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

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

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

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

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and public health and safety practices, and environmental and social standards acceptable to the Association, 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 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. 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 designed to ensure the continued achievement of the Project's objectives; and

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

## **ARTICLE IV**

### **Financial Covenants**

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

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report 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 procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set forth in paragraphs 13 and 14 of Schedule 4 to this Agreement, 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 Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Effective Date; Termination**

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

(a) the services of an implementation coordinator, a procurement officer, and a Project accountant, all with qualifications and experience and terms of reference satisfactory to the Association, and selected in accordance with paragraph 4 of Part C of Section II of Schedule 3 to this Agreement, have been retained for purposes of assisting the Project Management Unit in the carrying out of procurement, accounting, disbursement, and financial management of Project activities in accordance with paragraph 4 (b) of Schedule 4 to this Agreement;

(b) the Borrower has established a financial management system for the Project within the Ministry of Health, satisfactory to the Association, in accordance with paragraph 5 (a) of Schedule 4 to this Agreement; and

(c) the Borrower has adopted a financial management manual for the Project, acceptable to the Association, in accordance with paragraph 5 (b) of Schedule 4 to this Agreement.

Section 5.02. The following is specified as additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Asbestos Survey Report has been duly adopted by the Borrower and is legally binding upon the Borrower in accordance with its respective terms and the applicable laws of the Borrower.

Section 5.03. 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 VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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



For the Borrower:

Ministry of Finance  
Vuna Road, Nuku 'alofa  
Kingdom of Tonga

Facsimile: 676-26-011

For the Association:

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

Cable address:  
INDEVAS  
Washington, D.C.

Telex:  
248423 (MCI) or  
64145 (MCI)

Facsimile:  
(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 Dubai, United Arab Emirates, as of the day and year first above written.

KINGDOM OF TONGA

By /s/ Siosuia T.T. 'Utoikamanu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Xian Zhu

Authorized Representative

**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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	4,250,000	84%
(2) Goods	980,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 95% of local expenditures for other items procured locally

(3)	Consultants' services	1,840,000	90% for individual consultants and 100% for consulting firms
(4)	Training and workshops	380,000	100%
(5)	Incremental operating costs	160,000	100%
(6)	Unallocated	<u>390,000</u>	
	TOTAL	<u>8,000,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term "Incremental operating costs" means reasonable expenditures directly related to the Project, incurred by the Borrower (which expenditures would not have been incurred absent the Project), for: (i) bank charges relating to the Special Account; and (ii) the operation of the Project Management Unit, including costs for communication, technology support, office consumables, transportation, and travel per diem of Project staff, but excluding salaries and allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR190,000 may be made in respect of Categories (2), (3), (4), and (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after February 3, 2003.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods costing less than \$100,000 equivalent per contract; (b) contracts for the employment of consulting firms costing less than \$100,000 equivalent per contract; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent per contract; (d) training and workshops; and (e) incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Borrower in improving the performance of its

health sector by supporting selected reforms to said health sector, including: (i) the development and implementation of appropriate health financing policies, and health information systems; and (ii) the improvement of the administrative, functional and technical quality of health facilities.

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 Health Care Financing

Strengthening the capacity of the Ministry of Health in: (1) planning resource needs for the health sector; (2) financing primary health care and preventive services; and (3) developing options to finance health services and implementing the selected option, including the provision of technical assistance, training, and the carrying out of studies and workshops.

Part B: Improving Health Information Management

Improving the information database for policy and management decisions in the Ministry of Health and at Vaiola Hospital, and community-based data collection and management of selected non-communicable diseases by:

1. Establishing a Health Information Center within the Ministry of Health to collect, store, back up, analyze, and disseminate health related data throughout the Ministry of Health, including the provision of technical assistance, training, and equipment.
2. Strengthening information management and developing a hospital information system for Vaiola Hospital by improving information processes, collection, storage and use of medical records, including the provision of technical assistance, training, and equipment.
3. Strengthening the monitoring and management of selected non-communicable diseases by piloting a community-based program for identification and treatment of diabetes and hypertension and improving referral links between the community and the diabetes clinic at Vaiola Hospital, including the provision of technical assistance, training, and equipment.

Part C: Improving the Quality of Vaiola Hospital

Improving the administrative, technical and functional efficiency of Vaiola Hospital by:

1. Rehabilitation and extension of Vaiola Hospital, including equipment.
2. Strengthening the capacity of Vaiola Hospital in hospital management through the development and implementation of management and human resource policies, including the provision of technical assistance and training.
3. Strengthening health care waste management by preparing, adopting and implementing a health care waste management policy and a health care waste management plan, including the provision of technical assistance, training, and equipment, including vehicles.

Part D: Project Management and Coordination

1. Strengthening the capacity of the Ministry of Health in carrying out day-to-day management, monitoring and coordination of Project activities, procurement, accounting, disbursement, and financial management; liaison and reporting activities; including the provision of technical assistance and training.
2. Carrying out of annual audits of the accounts and financial statements of expenditures relating to the Project.

\* \* \*

The Project is expected to be completed by September 30, 2008.

**SCHEDULE 3**

**Procurement**

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

1. International or National Shopping

Goods estimated to cost less than: (a) \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures; and (b) \$50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures; all up to an aggregate amount not to exceed \$320,000 equivalent, and in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Procurement from UN Agencies

Goods to be procured in accordance with paragraph 1 of Part C of this Section may, with the Association's prior agreement, be procured from Inter Agency Procurement Services Office, World Health Organization, or United Nations Children's Funds, in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) all contracts for works; and (ii) each contract for goods estimated to cost \$100,000 equivalent or more; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for goods: (i) estimated to cost less than \$100,000 equivalent and procured under paragraph 1 (a) of Part C of this Section; and (ii) estimated to cost less than \$50,000 equivalent and procured under paragraph 1 (b) of Part C of this Section; the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set

forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

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

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

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

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

#### 1. Quality-based Selection

Services for: (a) the design and supervision of the renovation works of the Vaiola Hospital under Part C of the Project, and (b) the carrying out of health care financing under Part A of the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

#### 2. Least-cost Selection

Services for the carrying out of audits under Part D.2 of the Project estimated to cost less than \$53,000 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.

#### 3. Single Source Selection

Services for the carrying out of financial management, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines, or selected on a sole-source basis if the provisions of paragraph 5.4 of the Consultant Guidelines are met, subject to prior approval of the Association.

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

**SCHEDULE 4**

**Implementation Program**

Project Management



1. The Borrower shall maintain:

(a) the Project Steering Committee headed by the Minister of Health and comprising representatives of the Borrower's Ministry of Health, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Works, Crown Law Department, Central Planning Department, and Department of Statistics, with terms of reference satisfactory to the Association and assigned with funds and resources as shall be necessary to undertake the overall coordination of Project implementation and achieve the Project objectives; and

(b) the National Health Accounts Steering Committee headed by the Director of Health and comprising representatives of the Borrower's Ministry of Health, Ministry of Finance, Department of Statistics, and Central Planning Department, with terms of reference satisfactory to the Association and assigned with funds and resources as shall be necessary to assist the Sub-working Group in the carrying out of its respective activities under the Project.

2. The Borrower shall retain, until completion of the Project, the following staff, all with qualifications and experience and terms of reference satisfactory to the Association:

(a) a Project director within the Ministry of Health for purposes of carrying out the overall management of the Project, heading the Project Management Unit, and acting as executive secretary to the Project Steering Committee; and

(b) three (3) implementation managers within the Ministry of Health, one of said implementation managers for purposes of managing the carrying out of Part A of the Project, one of said implementation managers for purposes of managing the carrying out of Part B of the Project, and one of said implementation managers for purposes of managing the carrying out of Part C of the Project, and all of said implementation managers shall report to the Project director.

3. The Borrower shall maintain:

(a) for purposes of assisting the respective implementation manager within the Ministry of Health in managing the carrying out of Parts A, B, and C of the Project, three (3) Working Groups, one (1) for the carrying out of Part A of the Project, one (1) for the carrying out of Part B of the Project, and one (1) for the carrying out of Part C of the Project, respectively; and

(b) for purposes of assisting in the carrying out of Part A of the Project, one (1) Sub-working Group.

4. The Borrower shall:

(a) maintain a Project Management Unit within the Ministry of Health, until completion of the Project, headed by the Project director with qualifications and experience and terms of reference satisfactory to the Association, assigned with qualified staff in adequate numbers, including an administrative assistant, and provided with such powers, responsibilities, organization and funding as shall be required to enable it to carry out the day-to-day management, monitoring and coordination of Project activities, including procurement, accounting, disbursement, and financial management; and

(b) retain an implementation coordinator, a procurement officer, and a Project accountant, within the Project Management Unit, until completion of the Project, all with qualifications and experience and terms of reference satisfactory to the Association, to be selected in accordance with paragraph 4 of Part C of Section II of Schedule 3 to this Agreement, for purposes of assisting the Project Management Unit in the carrying out of procurement, accounting, disbursement, and financial management of Project activities.

5. (b) The Borrower shall:

(a) establish, and thereafter maintain until completion of the Project, a financial management system for the Project within the Ministry of Health, acceptable to the Association;

(b) prepare, adopt, and thereafter implement, a financial management manual for the Project, acceptable to the Association; and

(c) not amend, revise, cancel, waive or abrogate any provisions of the financial management manual without the prior agreement of the Association.

6. The Borrower shall, by February 28, 2004, retain the services of:

(a) an independent auditor with qualifications and experience and terms of reference satisfactory to the Association, to be selected in accordance with the provisions of paragraph 2 of Part C of Section II of Schedule 3 to this Agreement, for purposes of carrying out the audits provided for in Section 4.01 of this Agreement, until completion of the Project; and

(b) a procurement advisor with qualifications and experience and terms of reference satisfactory to the Association, to be selected in accordance with the provisions of paragraph 4 of Part C of Section II of Schedule 3 to this Agreement, for purposes of assisting the Project Management Unit in preparing procurement documents, conducting bidding processes, and training staff of said Project Management Unit in project management and procurement.

#### Project Implementation

7. For purposes of the carrying out of the Project, the Borrower shall by April 30/September 30 of each calendar year, commencing April 30, 2004, until completion of the Project, prepare and furnish to the Association, for its review and approval an annual work plan for the Project activities to be carried out during the following Fiscal Year.

8. For purposes of the carrying out of Part C of the Project, the Borrower shall, prepare and furnish to the Association for its review and approval:

(a) by January 31, 2004, the Vaiola Hospital Masterplan and, thereafter, finalize and adopt such masterplan, as said masterplan may be revised from time to time with the prior agreement of the Association; and

(b) by March 31 of each calendar year, commencing March 31, 2004, until completion of the Project, a rolling two-year plan for the redevelopment activities for the Vaiola Hospital, such plan to be based on the Vaiola Hospital Masterplan and, thereafter, finalize and

adopt such plan.

9. The Borrower shall: (a) carry out Part C.1 of the Project in accordance with the provisions of the Asbestos Survey Report, and (b) not amend, revise, cancel, waive or abrogate the provisions of the Asbestos Survey Report without the prior agreement of the Association.

10. The Borrower shall take all such action as shall be necessary to ensure that budgetary funds allocated for the health sector shall be increased from twelve percent (12%) of the total recurrent budget in Fiscal Year 2004 to: (a) in Fiscal Year 2005, twelve and a half percent (12.5%) of said total recurrent budget; (b) in Fiscal Year 2006, thirteen percent (13%) of said total recurrent budget; (c) in Fiscal Year 2007, thirteen and a half percent (13.5%) of said total recurrent budget; and (d) in Fiscal Year 2008, fourteen percent (14%) of said total recurrent budget.

11. The Borrower, through the Ministry of Health, shall take all such action as shall be necessary to ensure that budgetary funds allocated for maintenance of Vaiola Hospital shall be increased from five percent (5%) of said budgetary funds in Fiscal Year 2004 to: (a) in Fiscal Year 2005, seven percent (7%) of said budgetary funds; (b) in Fiscal Year 2006, eight percent (8%) of said budgetary funds; (c) in Fiscal Year 2007, ten percent (10%) of said budgetary funds; and (d) in Fiscal Year 2008, twelve percent (12%) of said budgetary funds.

12. The Borrower shall, until completion of the Project, maintain within its Ministry of Health the following staff, all with qualifications and experience and terms of reference satisfactory to the Association:

- (a) a health care waste management officer;
- (b) an information technology manager;
- (c) a health planning officer;
- (d) a policy/national health accounts analyst;
- (e) a health statistics officer; and
- (f) a senior hospital engineer.

#### Monitoring and Reports

13. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, 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 March 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, 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, by July 31, 2006, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, 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.

14. Notwithstanding the provisions of paragraph 13 of this Schedule, and except as provided for in paragraph 13 (b) above, the Borrower shall, by September 30, May 31 and November 30 of each calendar year, commencing May 31, 2004, until completion of the Project, prepare and furnish to the Association, for its review and comments progress reports in form and substance satisfactory to the Association.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 \$720,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$360,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR3,000,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**SCHEDULE 6**

**Performance Indicators**

Indicators	Targets
	End of the Borrower's Fiscal Year
	FY 04FY 05FY 06FY 08
Resource allocation targets for the proportion of MOH	

resources allocated to primary and preventive care	11%	-----	15%	20%
Proportion of MOH revenues from non-government sources	2.50%	-----	5%	8%
Bed occupancy rate at Vaiola Hospital	45.60%	-----	47.80%	50.20%
Increased number of diagnosed diabetics and hypertensives receiving treatment in the community	Baseline data completed	-----	Baseline plus 10%	Baseline plus 20%
Proportion of poor exempted from user fees	-----Baseline data completed	Baseline plus 3%	Baseline plus 10%	
Waste management targets met according to schedule	Baseline data completed	Annual target met	Annual target met	Annual target met
Maintenance targets met according to schedule	Baseline data completed	Annual target met	Annual target met	Annual target met



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To: