

CONFORMED COPY

CREDIT NUMBER 3403-ER

Development Credit Agreement

(Integrated Early Childhood Development Project)

between

THE STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 2000

CREDIT NUMBER 3403-ER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 2000, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated May 10, 2000, from the Borrower describing a program of actions, objectives and policies designed to implement the Borrower's policies on early childhood development in an integrated manner (the Program) and declaring the Borrower's commitment to the execution of the Program.

WHEREAS (B) The Borrower intends to obtain from the Republic of Italy, through the Board of Italian Cooperation (Italy) a grant in an amount approximately five million US Dollars (\$5,000,000) to assist in financing part of the Project (the Italian Grant).

WHEREAS (C) 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 (D) 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 December 2, 1997), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine."; and

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "Action Plan" means the action plan referred to in paragraph 1 (d) of Schedule 4 to this Agreement;

(b) "Financial Management System" means the financial management system referred to in paragraph 4 (b) of Schedule 4 to this Agreement;

(c) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(d) "IMCI Program" means an integrated management of childhood illness program referred to in Part A.1 (a) of the Project;

(e) "Initial Deposit" means the initial deposit referred to in Section 3.03 of this Agreement;

(f) "MF" means the Borrower's Ministry of Fisheries;

(g) "Mid-Term Review" means the mid-term review referred to in paragraph 3 (a) of Schedule 4 to this Agreement;

- (h) "MOA" means the Borrower's Ministry of Agriculture;
- (i) "MOE" means the Borrower's Ministry of Education;
- (j) "MOH" means the Borrower's Ministry of Health;
- (k) "MOLG" means the Borrower's Ministry of Local Government;
- (l) "MOLHW" means the Borrower's Ministry of Labor and Human Welfare;
- (m) "Nakfa" means currency of the Borrower;
- (n) "Project Account" means the account referred to in Section 3.03 of this Agreement;
- (o) "Project Implementation Manual" means the Project Implementation Manual referred to in paragraph 1 (b) of Schedule 4 to this Agreement;
- (p) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (q) "Project Management Team" means the Project Management Team referred to in paragraph 4 (a) of Schedule 4 to this Agreement; and
- (r) "Special Account" means the account referred to in Section 2.02 (b) of 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 twenty-nine million Special Drawing Rights (SDR 29,000,000).

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 special deposit account in a bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2005 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 May 1 and November 1 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 May 1 and November 1 commencing November 1, 2010 and ending May 1, 2040. Each installment to and including the installment payable on May 1, 2020 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 administration, financial, health and education 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 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/Schedule 1 to the Project Agreement.

Section 3.03 The Borrower shall: (i) open and thereafter maintain, until completion of the Project, an account in a bank to be used exclusively to meet the costs of the Project not financed out of the proceeds of the Credit; (ii) deposit into the Project Account for each calendar quarter, no later than the first day of the calendar quarter, the amount of the Borrower's quarterly counterpart contribution to Project costs for such quarter, as determined by agreement between the Borrower and the Association; and (iii) deposit into the Project Account an initial amount of Nakfa 2,000,000.

Section 3.04. For the purposes of Section 9.07 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.

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 six (6) months after the end of each such year, 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 and 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 Project Management Reports or 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 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 Project Management Reports or 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than September 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

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 Borrower has put in place the Financial Management System for the Project in form and substance satisfactory to the Association;

(b) the Borrower has furnished to the Association the Project Implementation Manual in form and substance satisfactory to the Association;

(c) the Borrower has furnished to the Association the Action Plan for the first year of the Project in form and substance satisfactory to the Association; and

(d) the Borrower has paid into the Project Account the Initial Deposit.

Section 5.02. The date ninety days (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 the Borrower for the time being responsible for finance 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
P. O. Box 895
Asmara
Eritrea

Telex:

Facsimile:

127947

583492421150

291 1

For the Association:

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

Telex:

Facsimile:

477-6391

Cable address:

INDEVAS

Washington, D.C.

248423 (MCI) or

64145 (MCI)

(202)

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.

THE STATE OF ERITREA

By /s/ Semere Russom

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Oey Astra Meesook

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	5,180,000	90%
(2) Goods and vehicles	8,090,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' services, studies, and training/workshops	6,410,000	100%
(4) Grants under Part D.2 of the Project	5,560,000	100%
(5) Operating costs	2,740,000	70%
(6) Unallocated	1,020,000	
TOTAL	29,000,000	

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;

(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 "operating costs" means incremental expenditures incurred on account of Project implementation, management and monitoring including office consumables (including communication expenses), staff travel and associated subsistence allowances, office rental, office supplies and maintenance, fuel and vehicle maintenance, but excluding salaries of the Borrower's public service.

3. Notwithstanding the provision of paragraph 1 above, no withdrawals shall be made for: (a) expenditures prior to the date of this Agreement; and (b) expenditures under Category (4) unless the Association has approved the procedures and terms and conditions for Grants.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works and goods under contract not exceeding \$200,000 equivalent, (b) consultants' services (firms) under contracts not exceeding \$50,000, consultants' services (individuals) under contracts not exceeding \$25,000 equivalent, and (c) materials and other assets for the income generating activities, training and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower; and (d) the terms "Grant" means a grant made or proposed to be made to a host family taking care of children in need of special protection under

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) promote in the Borrower's territory the healthy growth and development of children under six years of age; (ii) expand access to, and improve the quality of, services that address the basic needs of the young; and (iii) develop and carry out programs that can: (A) provide the support required by orphans and children facing especially difficult circumstances, and (B) help to improve the health of children in the primary schools.

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: Improving Child Health

Reduction of childhood morbidity and mortality in the Borrower's territory by improving case management and preventive skills of health staff, assisting communities and caregivers to improve family child health care practices through:

1. The integrated management of childhood illnesses programs (IMCI Programs) provided at health facility and community levels.
2. Enhancement of child and maternal health through: (i) the acquisition of necessary drugs, medical equipment and supplies for the Borrower's health system; and (ii) the strengthening of the Borrower's capacity in procurement, storage and distribution mechanisms of the health system through training and acquisition of equipment.
3. The carrying out of environmental health measures to control childhood illnesses, including: (i) the promotion, maintenance and use of safe latrines; (ii) improved food safety and hygiene; (iii) construction, protection and handling of water points; (iv) prevention of ARI through indoor air pollution reduction measures; and (v) improved collaboration in the prevention of malaria and other vector borne diseases.
4. The carrying out of school health measures by the Borrower's Ministry of Health (MOH) in collaboration with its Ministry of Education (MOE), including: (i) the incorporation of key health concepts and messages into teacher training and school curricula as part of teacher training and life skills training; and (ii) the provision of primary eye care, oral health, ENT examinations, skin examinations and mental health care to be undertaken by trained health workers and technicians in nearby health facilities.
5. Improvement of IEC/communications for behavioral change focussed mainly on parents/caregivers, including: (i) carrying out a national and regional level advocacy campaign on child health and nutrition; (ii) development of relevant messages as a package together with other messages that deal with maternal health and nutrition including adolescent health, environmental health and HIV/AIDS; and (iii) capacity building for effective communication skills to be carried out at national, regional and sub-regional levels to improve interpersonal communication skills of both health workers and other partners involved in message dissemination, all through training, provision of technical

advisory services and acquisition of equipment.

6. The carrying out by the regional health offices under the regional Zoba administration of supervision, support, monitoring and evaluation and research under this Part A of the Project.

Part B: Improving Child and Maternal Nutrition

Improving the nutritional status of children under six years of age, and pregnant and nursing women through:

1. Strengthening the capacities of families and communities to improve the nutritional status of children, including the institutionalization of a community-based growth-monitoring system and parent/care provider education; and provision of therapeutic feeding for growth-faltering children.

2. Carrying out of measures to improve household food security in targeted households, including: (i) training for income generating activities to be supported by credit provided through MOA's credit window; (ii) improving food security and nutrition through the efforts of the Borrower's Ministry of Fisheries (MF) to promote increased consumption of fish; and (iii) designing of appropriate elements of a comprehensive strategy to address institutional and policy constraints as well as programmatic interventions.

3. Improving the capacity of the Borrower's Ministries to carry out this Part B of the Project, including strengthening the said Ministries' capacity for implementation and development of new approaches, all through the provision of technical advisory services and acquisition of equipment.

Part C: Improving Early Childhood Education and Care

Improving access to and the quality of early childhood education, primary school health environment; strengthening institutional capacity to undertake child care and early childhood education, and to supervise and monitor early childhood education at all administrative levels, especially of communities, including:

1. The provision of learning facilities, adequately trained teachers and staff; and development of non-formal early childhood programs, including: (i) the establishment of about 105 kindergartens in rural areas; (ii) training and provision of about 315 preschool teachers, about 735 teacher assistants, about 105 directors and about 250 community caregivers; and (iii) acquisition of learning materials and supplies.

2. The development of enhanced learning materials and teaching aids and provision of support to teachers to assist them in: (i) the adaptation of the early childhood education program to their own local situation; (ii) the introduction of innovations; and (iii) the development of their own supplementary learning materials and aids.

3. The carrying out of a school health and sanitation program, including: (i) the construction of deep pit latrines and garbage disposal areas in schools and centers; and (ii) the establishment in schools of a health and sanitation club to be used as effective tools for influencing the children in kindergarten centers and community.

4. Strengthening institutional capacity for the management and supervision of early childhood care and education, including: (i) the

establishment of mechanisms for the collection and analysis of data, and for a well-functioning MIS; (ii) the carrying out of a program to engage the participation of parents and communities in the management, control and financing of the early childhood education programs; and (iii) the strengthening of the relationship between parents, teachers, assistants, daycare providers and other early childhood development providers.

Part D: Support for Children in Need of Special Protection

Strengthening the traditional safety nets of child care and protection through community-based reintegration and psychosocial support for orphans and other seriously disadvantaged children, including:

1. Provision of psychosocial support for and the reintegration of about 32,000 orphans, including: (i) disabled, displaced and expelled orphans as well as abandoned and street children; (ii) establishment of about 10 community group homes for children who cannot be reunified with relatives; and (iii) the development of a program for the adoption of about 500 orphans.
2. Provision of Grants to support income-generating schemes for the benefit of about 12,000 host families.
3. Assisting communities to carry out community-based initiatives to support orphans, including the creation of awareness on the part of such communities about the need for the communities to develop and carry out community-based interventions to help the orphans.
4. Strengthening the capacity of personnel at the national, regional and community level involved in providing services to orphans, through training and acquisition of equipment.
5. Improving the Borrower's capacity in supervision, monitoring and evaluation of activities under this Part D of the Project, including the establishment of a computer base information system for use in: (i) monitoring the condition of the orphans and their families, (ii) documenting the progress of their reintegration, (iii) assessing the efficacy of the psychosocial interventions, (iv) carrying out of long-term follow-up studies to evaluate the program of assistance to the orphans, and (v) the carrying out of research into matters related to the orphans program.

Part E: Project Management, Evaluation and Strategic Communication

Assisting the Borrower in the carrying out of the overall management of the Project, including: (i) the advocacy for and creation of awareness in early childhood development issues in partnership with local authorities, women's groups, youth groups, workers' unions, employers' groups, schools, the health authorities, the agricultural extension personnel, the mass media (including radio and TV); and (ii) the integration of the early childhood development program evaluation/survey and research, all through the provision of technical advisory services, training and the acquisition of equipment.

* * *

The Project is expected to be completed by June 30, 2005.

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods 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 provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods (other than furniture acquired locally) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Furniture acquired locally estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Works estimated to cost more than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost the equivalent of \$30,000 or less per contract, up to an aggregate amount not to exceed \$900,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct contracting

Therapeutic feeding materials costing up to an aggregate amount not

exceeding the equivalent of \$2,000,000 and the materials and equipment for income generating schemes may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

A limited number of vehicles and office and school equipment, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured from IAPSO under contracts awarded in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Works estimated to cost the equivalent of \$50,000 or less per contract shall be procured in accordance with procedures acceptable to the Association.

6. Procurement of Small Works

Works estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 each contract for civil works estimated to cost the equivalent of \$200,000 or more and each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$30,000 or more, 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

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services of consultants to provide technical assistance services or training or capacity building services under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

The following services may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines, namely: (i) services to be provided under the Project by consultants at community level estimated to cost less than \$100,000 equivalent per contract; and (ii) services of all individual consultants.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for: (i) the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience; (ii) the employment of all other consultants (including consulting firms), the 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.

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

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, timetables and criteria required for the Project.

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. 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: (i) the carrying out by the Borrower of the Project; and (ii) 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 and September 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on: (i) 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 (ii) the achievement of the objectives thereof during the period following such date;

(c) review with the Association by May 31 and November 30 of each year, or such later date as the Association shall request, the report referred to in subparagraph (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; and

(d) The Borrower shall prepare and furnish to the Association no later than January 30th in each year of the Project an action plan (the Action Plan) including an annual work plan and budget and procurement plan in form and substance satisfactory to the Association.

3. (a) The Borrower shall, no later than December 31, 2002, carry out jointly with the Association, a mid-term review of the progress made in carrying out their respective Parts of the Project. The Mid-Term Review shall cover, among other things, the progress made in meeting the objectives of the Project; and (ii) the overall performance of the Borrower of the Project.

(b) The Borrower shall carry out, no later than one month after the completion of the Mid-Term Review the recommendations of the Mid-Term Review as agreed with the Association and set out in an action plan for the respective Parts of the Project satisfactory to the Association.

4. (a) The Borrower shall establish in the Ministry of Local Government a Project Management Team in form and with functions, staffing and resources satisfactory to the Association. The Project Management Team shall have responsibility for the overall coordination of Project activities and shall, to that end, be assisted and supported by MOE, MOH, MOLHW, MOA, Ministry of Information and the Ministry of Fisheries.

(b) The Project Management Team shall be responsible for the coordination and management at Headquarters of procurement under the Project, and its membership shall include: (i) a Project Manager, (ii) a Procurement Specialist, and (iii) a Project Financial Officer, all with qualifications and experience satisfactory to the Association. The Project Financial Officer shall assist in the development of a financial management system, in form and substance satisfactory to the Association, and in providing guidance and direction for the financial management operations of the Project.

(c) The Project Management Team shall be responsible for the development, with the assistance of consultants, of the following documents satisfactory to the Association, namely: (i) comprehensive manuals of procedures and adequate internal control mechanisms to be used to guide staff and minimize risks of errors and omissions; including statements and explanations of the Project's budgetary policies and

procedures; (ii) a dedicated account system to be used for the Project ; and (iii) a chart of accounts that will provide the availability of timely and reliable information required for the Project and consistency in account classification.

5. The Borrower shall establish local project management teams in form and with functions, resources and staffing satisfactory to the Association. The local project management shall be responsible for the coordination and management at regional levels of procurement under the Project.

6. In providing support to host families taking care of orphans and Part D.2 of the Project, the Borrower shall ensure that eligibility criteria for grants and income generating schemes are in accordance with the procedures laid down in the Project Implementation Manual.

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 \$2,000,000 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 \$1,000,000 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 SDR 4,500,000.

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 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.

SCHEDULE 6

Performance Indicators

The Borrower shall carry out the Project with the objective of achieving indicators set forth below:

A. Outcome/Impact Indicators

1. By June 2005, decline by 20% in case fatality in children from combined five major causes: malaria, ARI, diarrhea, measles and malnutrition in the project areas.
2. By June 2005, decrease by 20% in malnutrition (measured by prevalence of underweight children below six years of age, in the project areas.
3. By June 2005, decrease by 20% in repetition and drop-out rates between grade 1 and 2, in the project areas.
4. By June 2005, reunification of 32,000 orphans with their nearest relative.

B. Implementation Progress (monitored in July and December of each year)

1. Percentage of actual vs. projected disbursement by component.
2. Number of health workers trained in IMCI.
3. Number of health facilities stocked with essential IMCI drugs.
4. Numbers of mothers who received special training in food security and nutrition.
5. Number of kindergarten schools established, and the number of

children enrolled in the kindergarten schools.

6. Number of kindergarten teachers, assistants, directors and community care givers trained and inducted into the program.

7. Number of social workers trained.

8. Number of group homes established and the number enrolled in such homes.

9. Number of villages reached by the Project.

10. Number and percent of supervision and evaluation reports completed and submitted as planned.

