

**CONFORMED COPY**

**CREDIT NUMBER 3902 STP  
GRANT NUMBER H088 STP**

# **Development Financing Agreement**

**(Social Sector Support Project)**

**between**

**DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 24, 2004**

**CREDIT NUMBER 3902 STP  
GRANT NUMBER H088 STP**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated June 24, 2004, between DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received from the Borrower its national strategies for education, health, malaria and HIV/AIDS, describing a program designed to improve the delivery of basic health and education services in the country (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower has requested that the Association assist in the financing of the Program through a grant and a credit; and the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and the Grant 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), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “AFAP” means *Agência Fiduciária e Administrativa do Projecto*, the Project’s Fiduciary and Administrative Agency established pursuant to the Borrower’s Decree No. 12/03, to perform administrative and fiduciary tasks for the Project;

(b) “AWP” or “Annual Work Program” means each of the annual work program of activities included in Parts A, B, and C of the Project, as such term is defined in detail in Paragraph A.2 (d) of Schedule 1 to this Agreement;

(c) “CSO” means a Civil Society Organization established and operating under the laws of the Borrower, including rural or urban communities, grass-root organizations, religious and cultural organizations, professional and non-professional associations, private enterprises, non-governmental organizations, and community-based associations involved in initiatives to support Parts A.2, B.2, and C.2 of the Project and which have met the eligibility criteria set out in the PIM (as hereinafter defined) and the requirements of Schedule 4 to this agreement and, as a result, have received or are entitled to receive a Subgrant (as hereinafter defined) through a Subproject Agreement (as hereinafter defined) for the carrying out of a Subproject (as hereinafter defined);

(d) “CDI Subproject” means a community driven development project under Parts A. 2, B. 2, and C. 2 of the Project and further described under Section V of Schedule 4 to this Agreement;

(e) “Dobras” means the currency of the Borrower;

(f) “Eligible Categories” means categories set forth in Part B.2 of Schedule 1 to this Agreement;

(g) “Eligible Expenditures” means the expenditures referred under Part B.2 of Schedule 1 to this Agreement;

(h) “ESMF” means Environmental and Social Management Framework dated February 6, 2004, adopted by the Borrower in form and substance satisfactory to the Association, describing mitigation measures in the event of an environmental and/or social impact of the Project, as the same may be updated from time to time with the approval of the Association, and referred to in Paragraphs 14 and 15 of Schedule 4 to this Agreement;

(i) “FAPM” means the Financial and Administration Procedural Manual that sets out the financial management arrangements, organization structure (including internal audit functions), staffing, standard accounting forms, books, and ledgers for the implementation of activities under the Project and as referred to in paragraph 1 of Schedule 4 to this Agreement;

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

(k) “Fiscal Year” or “FY” means the Borrower’s fiscal year, which runs from January 1 through December 31 of the same year;

(l) “Financing Account” means the deposit account referred to in paragraph 3 of Schedule 6 to this Agreement;

(m) “Financing Agreement” means the agreement between AFAP and a Participating Ministry (as hereinafter defined) referred to Paragraph 10 of Schedule 4 to this Agreement, which sets forth, *inter alia*, the responsibilities and obligations of each party with respect to the carrying of the AWP;

(n) “FONG” means “*Federação das Organizações Não-Governamentais*” a non-governmental organization established and operating pursuant to the laws of the Borrower, which represents several non-governmental organizations operating in the Borrower’s territory;

(n) “Initial Deposit” means the deposit referred to in Section 3.05 (b) of this Agreement;

(o) “HCWMP” means Health Care Waste Management Plan referred to in Paragraphs 14 and 15 of Schedule 4 to this Agreement, and adopted by the Borrower on February 4, 2004;

(p) “MOEC” means The Ministry of Education and Culture of the Borrower or any successor thereto;

(q) “MOH” means The Ministry of Health of the Borrower or any successor thereto;

(r) “MOPF” means the Ministry of Planning and Finance of the Borrower or any successor thereto;

(s) “Participating Ministries” means MOEC and MOH;

(t) “PCMC” means Project Coordination and Monitoring Committee established under the Borrower’s Decree No. 17/GPM/2002, as amended by decree No. 05/GPM/04 dated March 10, 2004, to oversee the Project preparation and implementation;

(u) “PIM” means the Project Implementation Manual referred to in Section 1, paragraph 1 of Schedule 4 to this Agreement, adopted by the Borrower, setting forth, all procedures and arrangements governing the implementation of the Project, such as procurement and disbursement procedures, and the terms, conditions, and procedures pertaining to the carrying out of AWP’s and CDI Subprojects, as the same may be amended from time to time, and such term shall include any schedules, tables and annexes to the PIM;

(v) “Project Account” means the account referred to in Section 3.05 (a) of this Agreement;

(w) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on October 10, 2003 and on behalf of the Borrower on October 17, 2003;

(x) “RPF” means Resettlement Policy Framework adopted by the Borrower in form and substance satisfactory to the Association, describing mitigation measures in the event of an environmental and/or social impact of the Project, as the same may be updated from time to time with the approval of the Association, referred to Section VII, Paragraph 14 and 15 of Schedule 4 to this Agreement;

(y) “Second Generation Account” means the accounts referred to in Part B.8 of Schedule 1 to this Agreement;

(z) “Special Account A” means the special deposit account referred to in Part B.1(a) of Schedule 1 to this Agreement;

(aa) “Special Account B” means the special deposit account referred to in Part B.1(b) of Schedule 1 to this Agreement;

(bb) “Special Account C” means the special deposit account referred to in Part B.1(c) of Schedule 1 to this Agreement;

(cc) “Special Accounts” means Special Account A, Special Account B and Special Account C;

(dd) “Subgrant” means a grant made or proposed to be made by FONG to a CSO out of the proceeds of the Grant to finance a CDI Subproject;

(ee) “Subproject Agreement” means the agreements to be entered into between FONG and a CSO for the purposes of carrying out a CDI Subproject pursuant to conditions set forth in Section V of Schedule 4 to this Agreement; and

(ff) “Subsidiary Agreement” means the agreement to be entered into between AFAP and FONG pursuant to Section 3.01 (c) of this Agreement, and such term includes all schedules to the Subsidiary Agreement.

## **ARTICLE II**

### **The Financing**

Section 2.01. The Association agrees to:

(a) lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three million and four hundred thousand Special Drawing Rights (SDR 3,400,000) (the Credit); and

(b) make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement an amount in various currencies equivalent to one million one hundred thousand Special Drawing Rights (SDR 1,100,000) (the Grant).

Section 2.02. (a) (i) 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 works under AWP, goods and services required for Parts A, B, and D.1 of the Project and to be financed out of the proceeds of the Credit; and

(ii) The amount of the Grant may be withdrawn from the Grant 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: (i) works, goods and services under the AWP; (ii) goods and services required for Parts C and D.2 of the Project and to be financed out of the proceeds of the Grant; and (iii) on account of withdrawals made in accordance with a Subproject Agreement to meet the reasonable costs of works, goods and services required for a Subproject under Parts A.2,

B.2 and C.2 of the Project in respect of which withdrawal from the Grant Account is requested; and

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

Section 2.03. The Closing Date shall be June 30, 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: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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, 2014 and ending May 1, 2044. Each installment to and including the installment payable on May 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three 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 of the Credit 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 objective 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, education, health, environmental and technical 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.

(c) The Borrower shall cause AFAP to enter into a Subsidiary Agreement with FONG, on terms and conditions satisfactory to the Association (the Subsidiary Agreement), whereby the technical and fiduciary responsibilities for CDI Subprojects under Parts A, B and C of the Project shall be fully vested into FONG including the management of the Special Account C.

(d) cause AFAP to exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Development Financing Agreement, and, except as the Association shall otherwise agree, the Borrower shall cause AFAP not to assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

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 Financing 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 to continued achievement of the objective of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by AFAP.

Section 3.05. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) establish a project account managed by the AFAP (the Project Account); (b) deposit therein an initial amount to cover the six months of the Project expenditures (the Initial Deposit); thereafter, deposit into such account, on a quarterly basis, sufficient funds to pay for the counterpart financing obligation of the Borrower for expenditures under the Project estimated by the Borrower, after consultation with the Association, to be required for the subsequent quarter; and (c) shall only withdraw funds from the project account to pay for expenditures under the Project not to be financed from the Financing Accounts.

## **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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraphs 2 and 3 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 Financing, 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 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 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) Decree No. 17/GPM/2002, as amended by decree No. 05/GPM/04 dated March 10, 2004, of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the function of PCMC with respect to the carrying out of the Project;

(b) Any Financing Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the function of Participating Ministries with respect to the carrying out of the Project; and

(c) An extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower for the Project shall have: (i) adopted the PIM; (ii) adopted the FAPM; and (iii) established a financial management system, satisfactory to the Association;

(b) the Borrower shall have made the Initial Deposit in the Project Account referred to in Section 3.05 of this Agreement;

(c) AFAP shall have appointed an accountant and a monitoring and evaluation specialist with qualifications and on terms and conditions satisfactory to the Association;

(d) FONG shall have appointed a procurement specialist with qualifications and on terms and conditions satisfactory to the Association;

(e) the Borrower shall have appointed for the Project an external auditor with qualifications and on terms and conditions satisfactory to the Association;

(f) AFAP and FONG shall have entered into a Subsidiary Agreement; and

(g) The Financing Agreements shall have been concluded.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministério de Planeamento e Finanças  
São Tomé  
República Democrática de São Tomé e Príncipe

Facsimile:

239-2-22182  
239-2-22372

For the Association:

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

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

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

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

By /s/ Domingos Augusto Ferreira  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. David Craig  
Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Financing**

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant 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>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods for Part D.1	140,000		100% of foreign expenditures; 95% of local expenditures
(2) Consultants Services and audits:			
(a) Part D.1	280,000		95%
(b) Part D.2		50,000	98%
(3) Training and Workshops:			100%
(a) Part D.1	140,000		
(b) Part D.2		70,000	
(4) Annual Work Programs:			100% of amounts disbursed
(a) Part A	1,140,000		
(b) Part B	1,000,000		
(c) Part C		350,000	
(5) Sub-grants		510,000	100% of amounts disbursed

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Operating Costs:			
(a) Part D.1	140,000		95%
(b) Part D.2		70,000	100%
(7) Project Preparation Advance	280,000		Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	280,000	50,000	
<b>Total</b>	<b>3,400,000</b>	<b>1,100,000</b>	

2. For the purposes of this Schedule, the terms:

(a) “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) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office supplies, vehicle operation and maintenance, communication and insurance costs, reasonable Special Accounts banking charges, rental expenses, office maintenance costs, office equipment maintenance, utilities, documents duplication/printing, consumables, travel cost and per diem for Project staff for travel linked to the implementation of the Project and salaries of contractual staff for the Project, but excluding salaries of officials of the Borrower’s civil service; and

(d) “AWP” or “Annual Work Program” means each of the annual work program of activities included in Parts A, B, and C of the Project to be carried out in each

Fiscal Year, as agreed upon between the Borrower and the Association and financed on the basis of a result-based Financing Agreement entered between AFAP and each of the Participating Ministries, such AWP to comprise goods, works, training, workshops, consultant services, and incremental operating costs for Participating Ministries which includes performance incentives to directorates in the implementation of their work program and based on the criteria defined in the PIM, and hardship allowances for education and health staff working under especially challenging circumstances as defined in the PIM, as well as monitoring and supervision costs as regulated in the PIM.

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.

4. The Association may require withdrawals from the Credit and Grant Account to be made on the basis of statements of expenditure for contracts: (a) for works costing less than \$200,000 equivalent each; (b) for goods costing less than \$150,000 equivalent each; (c) for consulting firms costing less than \$100,000 equivalent each; (d) for individual consultants and audits costing less than \$50,000 equivalent each; (e) under Subgrants costing less than \$50,000 each; and (f) for training, workshops and Operating Costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Financing Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-Based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Financing Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

**B. Special Accounts**

1. The Borrower may, for the purposes of depositing the amount of the:

- (a) Credit allocated from time to time to Categories (1), (2a), (3a), (4a), (4b), and (6a) set forth in Part A.1 of this Schedule, open and maintain in Dollar a separate special deposit account (Special Account A) to be managed by AFAP;
- (b) Grant allocated from time to time to Category (4c) set forth in Part A.1 of this Schedule, open and maintain in Dollars a

separate special deposit account (Special Account B) to be managed by AFAP; and

- (c) Grant allocated from time to time to Category (2b), (3b), (5), and (6b) set forth in Part A.1 of this Schedule, open and maintain in Dollars a separate special deposit account (Special Account C) to be managed by FONG;

in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

2. For the purposes of this Schedule, the terms:

- (a) "Eligible Categories" means for Special Account A, categories (1), (2a), (3a), (4a), (4b), and (6a); for Special Account B category (4c); and for Special Account C category (2b), (3b), (5) and (6b) set forth in the table in Part A.1 of this Schedule;

- (b) "Eligible Expenditures" means expenditures referred to in Section 2.02 of this Agreement;

3. After the Association has received evidence satisfactory to it that the respective Special Accounts have been opened, withdrawals from the Financing Accounts of amounts to be deposited into the respective Special Account shall be made as follows:

- (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

- (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

4. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the respective 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 Part B.3 of this Schedule, the Association shall not be required to make further deposits into the respective Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-Based Disbursements;

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

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

6. The Association shall not be required to make further deposits into the respective Special Account in accordance with the provisions of Part B.3 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Financing Accounts pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the respective Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

7. (a) If the Association determines at any time that any payment out of the respective Special Accounts was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Accounts (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the respective Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the respective Special Accounts will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 respective Special Account.

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

8. Upon completion of a financial management system review, to be found satisfactory by the Association, to evaluate the financial management system in place in each Participating Ministry, the Borrower may additionally open and maintain in Dobras, for the benefit of each Participating Ministries, a Second Generation Account of Special Account, each in a commercial bank and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and or attachment, and to be managed in accordance with the PIM.

9. (a) The Borrower shall withdraw from Special Account A and deposit into each Second Generation Account funds to assist the Participating Ministries to pay for operating expenses. Such withdrawals and deposits shall be in amounts sufficient to assist each Participating Ministries in the manner contemplated in Schedule 1 to this Agreement, to pay for such operating expenses in due course, provided that, at no time, shall the Borrower cause the amount held in any Second Generation Account to exceed \$20,000 equivalent.

(b) Any withdrawal from any Second Generation Account must be justified to the Borrower by the same documentation and other evidence regarding eligible expenditures required pursuant to paragraph B.4 of this Schedule.

(c) If the Association or the Borrower shall have determined at any time that any amount outstanding in any Second Generation Account will not be required to cover further payments for Eligible Expenditures, the relevant Participating Ministry shall, promptly upon notice from the Association or the Borrower, refund to Special Account A such outstanding amount.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-Based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account A pursuant to paragraph B.2 of Schedule 1 to this Agreement.

2. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$200,000 to be withdrawn from the Grant Account and deposited into the Special Account B pursuant to paragraph B.2 of Schedule 1 to this Agreement.

3. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$200,000 to be withdrawn from the Grant Account and deposited into the Special Account C pursuant to paragraph B.2 of Schedule 1 to this Agreement.

4. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Accounts 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 respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Financing Account and deposit into the respective Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 Financing Accounts, and deposit into the respective 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 respective Special Account for Eligible Expenditures. Each such

deposit into the respective Special Account shall be withdrawn by the Association from the Financing Accounts, under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total un-withdrawn amount of the Financing minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Financing Accounts of the remaining un-withdrawn amount of the Financing 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-Based Disbursements**

1. Withdrawals from the Financing Accounts shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Financing Accounts under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Financing, the Association shall, on behalf of the Borrower, withdraw from the Financing Accounts and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total un-withdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Financing Accounts of the remaining un-withdrawn amount of the Financing 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to contribute to improving the delivery of basic health and education services with a focus on greater and equitable access, better quality, and improved local governance.

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:            Delivery of Basic Education Services

1.        Support to the MOEC to improve management and integration of the six years primary education system, through, *inter alia*:

(a)       Policy and institutional reforms and capacity building activities as detailed in the relevant AWP.

(b)       Carrying out of activities related to the improvement of access and equity to basic education services, including educational planning, financial and personnel management, and school construction, extension and/or rehabilitation, as detailed in the relevant AWP.

(c)       Carrying out of activities related to the improvement of the quality of basic education services, including pre-service and in-service teacher training, curriculum reform, provision of performance incentives and hardship allowances, and provision of textbooks and pedagogical material, as detailed in the relevant AWP.

2.        Provision of Subgrants for CDI Subprojects in basic education, such CDI Subprojects to include rehabilitation of schools, construction of classrooms, literacy programs and vocational training.

all through the provision of technical advisory services and training, the acquisition of goods and equipment and execution of works for construction, extension and rehabilitation of facilities as approved in the relevant AWP.

Part B: Delivery of Basic Health Services

1. Support to the MOH to strengthen the delivery of basic health services at the district level through, *inter alia*:

(a) Carrying out of activities related to the improvement of access and equity to basic health services including establishment of clinical maternity services, construction, extension and rehabilitation of health centers, as detailed in the relevant AWP.

(b) Carrying out of activities related to the improvement of the quality of basic health services, including capacity building for sectoral management, training of health personnel, provision of performance incentives and hardship allowances, revision of training curricula, and establishing a basic health information system, as detailed in the relevant AWP.

2. Provision of Subgrants for CDI Subprojects in basic health, such CDI Subprojects to include rehabilitation, extension and construction of health posts, latrines, water and sanitation infrastructure, canal clearing and information campaigns.

all through the provision of technical advisory services and training, the acquisition of goods and equipment and execution of works for construction, extension and rehabilitation of facilities as approved in the relevant AWP.

Part C: Cross-sectoral Social Issues: HIV/AIDS and Malaria

1. Support to the public sector in implementing the Borrower's National Program to combat HIV/AIDS and Malaria through, *inter alia*:

(a) Carrying out of activities to strengthen the performance of the Borrower's National HIV/AIDS Program, as detailed in the relevant AWP for health.

(b) Carrying out of activities to strengthen the institutional capacity of the Borrower's *Centro Nacional de Endemia* to better coordinate the national multi-sectoral response to Malaria and case management as detailed in the AWP for health.

2. Provision of Subgrants for CDI Subprojects to combat HIV/AIDS and Malaria, such CDI Subprojects to include grass-root media and sensitization, voluntary counseling and testing, information campaigns for HIV/AIDS and Malaria, production and distribution of bed-nets, and environmental improvements such as garbage removal and clearing of mosquito breeding sites.

all through the provision of technical advisory services and training, the acquisition of goods and equipment and execution of works for construction, extension and rehabilitation of facilities as approved in the relevant AWP.

Part D: Program Management and Implementation Support

1. Support to AFAP to meet the Borrower's administrative and fiduciary responsibilities and to the PCMC for overall supervision of the Project implementation by carrying out and implementing a coordination, management, monitoring and evaluation framework for Parts A, B and C of the Project, through the provision of technical advisory services and training, the acquisition of goods, equipment and vehicles, and the execution of works for facility rehabilitation, all in accordance with the PIM.

2. Support FONG to meet the Borrower's fiduciary responsibilities by carrying out and implementing a coordination, management, monitoring and evaluation framework with respect to CDI Subprojects, through the provision of technical advisory services and training, the acquisition of goods, equipment and vehicles, and the execution of works for facility rehabilitation, all in accordance with the PIM.

\* \* \*

The Project is expected to be completed by December 31, 2008.

### **SCHEDULE 3**

#### **Procurement**

Section I.      Procurement of Good 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 the following provisions of this Section.

Part B:        International Competitive Bidding

1.        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.

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

(a)      Grouping of contracts under an AWP

To the extent practicable: (i) contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each; and (ii) contracts for works under an AWP shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b)      Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured and/or assembled in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works under an AWP estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines under contracts awarded on the basis of: (a) national shopping procedures, if available locally; or (b) international shopping procedures, if not available locally.

3. Direct Contracting

Drugs and Condoms under Part C of the Project may be procured, with the Association's prior agreement, from the Fundo Nacional de Medicamentos of São Tomé and Príncipe in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Drugs and condoms under Part C and goods, may be procured from the Inter-Agency Procurement Services Office of the United Nations (IAPSO), the United Nations International Children's Fund (UNICEF), the United Nations Fund for Population Activities (UNFPA), and the World Health Organization (WHO), in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for CDI Subprojects may, pursuant to paragraph 3.15 of the guidelines, be procured in accordance with procedures acceptable to the Association and defined in the Project Implementation Manual.

6. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, 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 under AWP 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

With respect to: (a) each contract for goods or works estimated to cost respectively the equivalent of \$150,000 and \$200,000 or more; (b) the first three contracts for goods regardless of the amount; and (c) all contracts under Subgrants estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 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 Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision 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 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for contracts of routine nature, such as financial audits and supervision of works, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services of firms estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services provided by: (a) FONG; and (b) *Instituto Pedagógico de Cabo Verde*, with the Association's prior agreement, may be procured under contracts awarded 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 shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, terms of reference and the short list of all consulting assignments 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 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 the consulting firms estimated to cost the equivalent of US\$100,000 or more and each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix I to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, 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.

(c) Notwithstanding the provisions of sub-paragraphs (a) and (b) above, the terms of reference and the short list for the employment of all consultants shall be furnished to the Association for its prior review and approval.

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**

#### Section I: General Provision

1. The Borrower shall implement the Project in accordance with the procedures, guidelines, timetables and criteria set forth in the PIM, FAPM, ESMF, RPF and HCWMP and, except as the Association shall otherwise agree, the Borrower shall not amend, or waive any provision thereof.

#### Section II: Reviews, Supervision, and Coordination

2. The Borrower shall:

(a) Maintain in AFAP and cause the Participating Ministries and FONG to 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 5 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, for the first time on September 30, 2005, or such later date as the Borrower and the Association shall agree upon, and thereafter in regular intervals of twelve months until the completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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. In particular the report shall contain a detailed assessment of: (i) achievements under the Project; (ii) approved CDI Subprojects; and (iii) the quality and timeliness of the reports furnished in accordance with Section 4.02 of this Agreement;

(c) Review said report in a meeting with the Association (the Annual Review), at a date 30 days following the submission of the report referred to in subparagraph (b) of this paragraph, or such later date as the Association and the Borrower shall agree upon. The Borrower shall invite representatives of the Participating Ministries and FONG to participate, and take all actions it considers necessary to ensure the participation of representatives CSOs and the donor community in such Annual Review. Thereafter, the Borrower shall take, or cause to be taken, 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 said report and the Association's view on the matter and in accordance with the PIM; and

(d) Prepare, through the Participating Ministries and with support of the appropriate technical advisors, quarterly progress reports on the implementation of the AWP, such Reports to be presented to the PCMC and the Association.

3. Midterm Review

The Borrower shall:

(a) By June 30, 2007, or such other date as the Borrower and the Association shall agree upon, carry out jointly with the Association, a midterm review (Midterm Review). The Borrower shall invite representatives of participating ministries and FONG to participate, and take all actions it considers necessary to ensure the participation of representatives CSOs and the donor community in such Midterm Review. Such Midterm Review shall cover the progress achieved in the implementation of the Project under an agenda encompassing the agenda of the Annual Reviews.

(b) No later than one month prior to the Midterm Review, the Borrower shall furnish to the Association, for its review and comments, a report, in such detail, as the Association shall reasonably request, on the implementation of the Project in preparation of said Midterm Review.

(c) Following such Midterm Review, the Borrower shall act promptly and diligently in order to take, or cause to be taken, any corrective action deemed necessary by the Association to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon between the Borrower and the Association in furtherance of the objectives of the Project and in accordance with the PIM.

Section III: Institutional Framework

4. Overall Project Management and Coordination. The Borrower shall maintain the PCMC throughout Project implementation, chaired by the Minister of Planning and Finances and including members as set forth in the Borrower's Decree No. 17/2002, as amended on March 10, 2004, to oversee the Project preparation and implementation. The PCMC's functions shall be maintained as set forth in said amended Decree comprising, *inter alia*: (a) oversight of the Borrower's Program and its implementation through the Project; and (b) monitor project performance in achieving its objectives as set forth in Schedule 5 of this Agreement.

5. Technical Implementation Arrangements for the Public Sector. Except as the Association shall agree otherwise, the Borrower, throughout Project implementation, shall fully integrate, in a form satisfactory to the Association, the Project implementation

functions into the structures of its: (a) MOEC for the education sector of the Project; and (b) MOH for the health Sector of the Project, under the control and authority of the Minister of the respective Ministry. The Borrower shall ensure that each Ministry shall carry out its functions and role with support of the appropriate technical advisor, in a timely fashion and in accordance with the requirements of the respective Financing Agreement and the PIM.

6. Fiduciary and Administrative Implementation for the Public Sector. The AFAP, headed by a Coordinator, externally recruited by the Borrower, and authorized by a Decision of the Minister of Planning and Finance of the Borrower dated March 10, 2004, to act on behalf of the Borrower, shall provide administrative and fiduciary services to the Participating Ministries, ensuring that fiduciary needs of the Participating Ministries and their implementing agencies are adequately met in a timely fashion. The AFAP staff shall include a financial management specialist, a procurement specialist, an accountant, and a monitoring and evaluation expert. The AFAP shall carry out all such other functions in relationship to the Project as set forth in the PIM.

7. Technical and Fiduciary Implementation for Community-driven Initiatives. FONG, as the umbrella organization for NGOs, is responsible for the management and coordination of CDI Subprojects implemented by CSOs. FONG shall: (a) ensure that the procedures agreed with the Association for access and utilization of Subgrants are complied with; (b) develop an eligibility criteria, satisfactory to the Association, to make a positive list of demand driven initiatives to ensure that the local initiative to be supported under the Project shall have the highest potential impact on health and education outcomes; and (c) include in its staff a Permanent Secretary, a technical advisor, a procurement specialist, an accountant, and a monitoring and evaluation specialist, all to be recruited with qualifications and on terms of reference satisfactory to the Association.

#### Section IV: Annual Work Programs

8. Annual Work Programs shall be prepared in form and substance satisfactory to the Association, and furnished to it on or about September 30 of each year, for activities related to the carrying out of the Project by Participating Ministries in respect Parts A, B, and C of the Project, and in accordance with the eligibility criteria, procedures and guidelines set forth in the PIM.

9. The Borrower undertakes that, unless the Association shall agree otherwise, Annual Work Programs shall be elaborated, approved, carried out and monitored in accordance with the procedures and other provisions set forth or referred to in the PIM and the following paragraphs.

10. The Borrower shall cause AFAP to enter into a Financing Agreement with each Participating Ministry with respect to each Annual Work Program, under terms and conditions set forth or referred to in the PIM and which shall include, *inter alia*, the following:

(a) The obligation of the Participating Ministry: (i) to carry out the Financing Agreement with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Financing Agreement;

(b) The requirement that the goods, works and services to be financed from the proceeds of the Credit or Grant shall be: (i) procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) used exclusively in the carrying out of the respective Financing Agreement; and.

(c) The covenant that Borrower reserves the right to:

(i) Inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, and sites included in the Financing Agreement, the operations thereof and any relevant records and documents;

(ii) Obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial conditions of the Participating Ministry pertaining to the carrying out of the Annual Work Program; and

(iii) Suspend or terminate the right of any Participating Ministry, as the case may be, to use the proceeds of the Financing by the Participating Ministry, to perform any of its obligations under the Financing Agreement; and

(d) The Borrower shall cause AFAP to exercise its rights under each Participating Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Development Financing Agreement, and, except as the Association shall otherwise agree, the Borrower shall cause AFAP not to assign, amend, abrogate or waive any of the Participating Agreements or any provision thereof.

Section V: CDI Subprojects

11. CDI Subprojects under Parts A.2, B.2 and C.2 of the Project, shall be carried out by and for Beneficiaries in accordance with the eligibility criteria, procedures and guidelines set forth in the PIM, and financed through a Subgrant.

12. The Borrower undertakes that, unless the Association shall agree otherwise, CDI Subprojects shall be elaborated, approved, carried out and monitored in accordance with the procedures and other provisions set forth or referred to in the PIM.

13. FONG shall enter into a Subproject Agreement with each Beneficiary with respect to each CDI Subproject, under terms and conditions set forth or referred to in the PIM and which shall include, *inter alia*, the following:

(a) The obligation of the Beneficiary: (i) to carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Subproject;

(b) The requirement that the goods, works and services to be financed from the proceeds of the Grant shall be: (i) procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) used exclusively in the carrying out of the respective Subproject; and

(c) The covenant that Borrower reserves the right to:

(i) Inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, and plants included in the Subproject, the operations thereof and any relevant records and documents;

(iii) Obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and

(iii) Suspend or terminate the right of any Beneficiary to use the proceeds of the Grant upon failure by the Beneficiary to perform any of its obligations under the Subproject Agreement.

Section VI: ESMF, RPF and HCWMP

14. Except as the Association shall otherwise agree, the Borrower shall:

(a) Carry out or cause the Project to be carried in accordance with the environmental (including health care waste management), social and resettlement guidelines, rules and procedures defined in the ESMF, RPF (including the preparation and implementation of the appropriate action plans for compensation or resettlement, as the case may be, in accordance with the RPF, said plans to be in form and substance satisfactory to the Association) and HCWMP; and

(b) Not amend or waive, or permit to be amended or waived, the ESMF or the RPF, or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project.

15. The Borrower shall ensure that: (a) all measures necessary for the carrying out of the ESMF and the RPF are taken in a timely manner; and (b) the progress reports referred to in Section II of this Schedule shall include adequate information on monitoring the measures defined in the ESMF, RPF and HCWMP.

**Schedule 5**

**Performance Indicators**

For the purposes of this Agreement, the performance indicators to be used for the Project implementation are as follows:

	<b>By Midterm</b>	<b>Closing Date</b>
<b>Education</b>		
1. Survival rate from grades 1 to 6	53%	65%
2. Transition rate from grades 4 to 5	65%	75%
<b>Health</b>		
3. Immunization rate for Measles	88%	95%
4. Proportion of pregnant women receiving antenatal care	70% (4 visits)	95% (4 visits)
5. Increase in % of births attended by a skilled birth attendant	75%	85%
6. Proportion of primary school children receiving de-worming treatment	65%	95%
<b>Multi-sectoral Issues</b>		
7. HIV prevalence among pregnant women	Below 5%	Below 5%
8. Correct knowledge of transmission of HIV amongst women	35%	70%
9. Incidence of Malaria in children <5 years (per 1000)	1000	650
<b>CDI Subprojects</b>		
10. % of disbursements made under Category 5 of the table set forth in Schedule 1 to this Agreement (Subgrants)	30%	100%
11. Successful implementation of CDI Subprojects	60%	90%

## **SCHEDULE 6**

### **Modifications to the General Conditions**

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

1. Section 1.01 is amended to read:

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

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

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

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

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

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

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

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

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

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

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

7. Section 3.01 is modified to read as follows:

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

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

9. Section 6.05 is amended to read as follows:

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