

CONFORMED COPY

CREDIT NUMBER 2674 LA

(Health System Reform and Malaria Control Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 4, 1995

CREDIT NUMBER 2674 LA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 4, 1995, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

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

WHEREAS: (B) Part C of the Project will be carried out by the Borrower's Province of Savannakhet ("Savannakhet") with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Savannakhet the portion of the proceeds of the Credit allocated to said Part C as provided in this Agreement;

WHEREAS: (C) Part D of the Project will be carried out by the Borrower's Province of Sekong ("Sekong") with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Sekong the portion of the proceeds of the Credit allocated to said Part D as provided in this Agreement;

WHEREAS: (D) The Borrower intends to obtain from the Government of Belgium ("Belgium") a grant in kind in an amount

equivalent to two million dollars (\$2,000,000) to assist in financing Part E (1) of the Project on terms and conditions set forth in an agreement (the "Belgium Grant Agreement") to be entered into between Belgium and the Borrower; and

WHEREAS: (E) 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, and in each of the Savannakhet Project Agreement between the Association and Savannakhet, and the Sekong Project Agreement between the Association and Sekong, both of even date herewith.

NOW THEREFORE the parties hereto hereby agree as follows.

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the "General Conditions") constitute an integral part of this Agreement.

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

(a) "Boloven" means the Boloven Plateau in the Province of Champassak, under the local administration of the Borrower;

(b) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's, Savannakhet's and Sekong's financial years, which period commences on October 1 and ends on September 30 in each calendar year, and the term "Fiscal Years" means collectively each of said Fiscal Year;

(c) "IECs" means the information, education and communications materials for promoting the use of basic health services, controlling malaria and promoting the rational and cost-effective use of drugs within the Borrower's territory, referred to in Part B of the Project;

(d) "IHE" means the Borrower's national Institute of Health Education, established and operating under the general oversight responsibility of the MOH (as such term is defined hereinafter) pursuant to Ministerial Order No. 540/MOH, dated September 3, 1990;

(e) "IMPE" means the Borrower's Institute of Malaria, Parasitology and Entomology, established and operating under the general oversight responsibility of the MOH pursuant to Ministerial Order No. 897/MOH, dated December 21, 1990;

(f) "Kip" means the unit of currency of the Borrower;

(g) "Luang Prabang" means the Borrower's Province of Luang Prabang, under the local administration of the Borrower;

(h) "Malaria Control Program" means the Borrower's national program covering the period 1995-2001, for controlling malaria in the following eight (8) provinces of the Borrower: Luang Prabang, Luang Namtha, Bokeo, Savannakhet, Saravane, Sekong, Champassak and Attapeu;

(i) "MOH" means the Borrower's Ministry of Health, organized pursuant to the Borrower's Prime Ministerial Decree No. 145/PM, dated December 2, 1989;

(j) "PCU" means the Project Coordination Unit to be established and thereafter maintained by the Borrower within MOH, pursuant to the provisions of Section 3.04 and Section 6.01 (a) of this Agreement;

(k) "Project Implementation Plan" means the implementation plan referred to in Section 3.02 (a) of this Agreement;

(l) "Project Performance Plan" means the time-based action plan setting forth the performance indicators and standards of achievement for the timely carrying out of the Project, referred to in Section 3.02 (b) of this Agreement;

(m) "Savannakhet" means the Borrower's Province of Savannakhet, under the local administration of the Borrower;

(n) "Savannakhet Health Plan" means Savannakhet's 1994-2001 health plan, and related financing plan, strategy and investment (capital and recurrent) time-table therefor, for reforming, reorganizing and strengthening Savannakhet's health care system so as to improve the planning, quality and efficiency of the delivery of basic health care services within Savannakhet;

(o) "Savannakhet Project Agreement" means the agreement between the Association and Savannakhet, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Savannakhet Project Agreement;

(p) "Saysomboune" means the Borrower's Special Zone of Saysomboune (comprising the following five districts: Saysomboune; Hom, Longsane; Thathom; and Phoune), which is under the central administration of the Borrower and has been established as a special economic zone pursuant to the Borrower's Decision No.27/PBCCP dated June 6, 1994;

(q) "Sekong" means the Borrower's Province of Sekong, under the local administration of the Borrower;

(r) "Sekong Health Plan" means Sekong's 1994-2001 health plan, and related financing plan, strategy and investment (capital and recurrent) time-table therefor, for reforming, reorganizing and strengthening Sekong's health care system so as to improve the planning, quality and efficiency of the delivery of basic health care services within Sekong;

(s) "Sekong Project Agreement" means the agreement between the Association and Sekong, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Sekong Project Agreement; and

(t) "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 this Agreement, an amount in various currencies equivalent to twelve million and nine hundred thousand Special Drawing Rights (SDR12,900,000).

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 the Banque pour le Commerce Exterieur Lao 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 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing July 1, 2005 and ending January 1, 2035. Each installment to and including the installment payable on January 1, 2015, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded seven hundred and ninety dollars (\$790) in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase

in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall:

(a) Carry out Parts A, B, E and F of the Project through MOH, cause Savannakhet to carry out Part C of the Project and perform in accordance with the provisions of the Savannakhet Project Agreement all the obligations of Savannakhet therein set forth, and cause Sekong to carry out Part D of the Project and perform in accordance with the provisions of the Sekong Project Agreement all the obligations of Sekong therein set forth, in all cases: (i) with due diligence and efficiency; and (ii) in conformity with appropriate administrative, economic, financial, health, medical and environmental practices; and

(b) Take or cause to be taken all action, including the provision of funds (including foreign exchange), facilities, services and other resources, necessary or appropriate to enable Savannakhet and Sekong to perform their respective obligations under the Savannakhet Project Agreement and the Sekong Project Agreement, respectively, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) Without any limitation or restriction upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out, or cause to be carried, the Project in accordance with the Project Implementation Plan set forth in Schedule 5 to this Agreement.

(b) The Borrower shall: (i) prepare, based on performance indicators acceptable to the Association, a project performance action plan (the Project Performance Plan) which shall set forth, inter alia, the performance indicators and standards of achievement for determining the timely and proper carrying out of the Project, and for measuring the progress achieved in attaining its objectives; (ii) at all times take, or cause to be taken, all action necessary for the prompt and due diligent implementation of the Project Performance Plan and the attainment of its objectives; and (iii) not amend, abrogate or waive any part of the Project Performance Plan, except as the Association shall otherwise agree in advance.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) Prepare 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, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

(b) Afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) Thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 3.04. (a) The Borrower shall establish and thereafter maintain within MOH, until completion of the Project, a Project Coordination Unit with membership, functions and terms of reference which shall be at all times acceptable to the Association. The PCU shall be headed by a qualified Project director acceptable to the Association, and shall be staffed by qualified personnel in adequate numbers (including, but without limitation, two (2) deputy Project Directors, an accountant and a procurement advisor).

(b) The PCU shall be vested at all times with such responsibilities, funds, staff and such other necessary resources as shall be required to enable it to undertake the general oversight and overall national supervision, management and coordination of the implementation of the Project, including the procurement of all goods, works and services necessary therefor.

(c) The Borrower shall cause the PCU to prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association for review and comment not later than June 30 and December 31 in each Fiscal Year a report on the progress achieved in carrying out the Project and all financial expenditures incurred in connection therewith.

Section 3.05. (a) Without any restriction or limitation upon any of the provisions of the General Conditions, this Agreement, the Savannakhet Project Agreement or the Sekong Project Agreement, not later than June 30, 1998, the Borrower shall carry out, based on terms of reference acceptable to the Association, a comprehensive mid-term review of the progress achieved to date by each of the Borrower, Savannakhet and Sekong in the carrying out their respective parts of the Project in accordance with the Project Performance Plan; and

(b) Promptly thereafter, and taking into account the Association's recommendations on the basis of the findings of the mid-term review, the Borrower shall take, or cause to be taken, all actions necessary to achieve the objectives of the Project.

Section 3.06. For the purposes of assisting it in carrying out the Malaria Control Program, the Borrower shall cause IMPE to appoint and employ, based on terms of reference satisfactory to the Association, personnel teams for implementing the provincial components of the Malaria Control Program within each of the provinces referred to in Section 1.02 (h) of this Agreement.

Section 3.07. Not later than January 01, 1995, the Borrower shall:

(a) Cause MOH to establish, based on terms of reference and procedural and administrative modalities acceptable to the Association, regional malaria control centers in each of Savannakhet and Luang Prabang, which centers shall be charged with the responsibility of coordinating and supervising the regional implementation of the Malaria Control Program subject

to the overall technical oversight authority of IMPE; and

(b) Cause MOH to employ and, thereafter, assign to IMPE duly qualified personnel with functions, responsibilities and terms of employment satisfactory to the Association for the purposes of assisting in supervising the overall regional implementation of the Malaria Control Program.

Section 3.08. (a) The Borrower shall take, or cause to be taken, all action required on its part to enable each of Savannakhet and Sekong to carry out, promptly and with due diligence, the Savannakhet Health Plan and the Sekong Health Plan, respectively.

(b) Not later than March 31 in each Fiscal Year, the Borrower shall exchange views: (i) with the Association and Savannakhet on the progress achieved in implementing the Savannakhet Health Plan and on any necessary modifications thereof; and (ii) with the Association and Sekong on the progress achieved in implementing the Sekong Health Plan and on any necessary modifications thereof.

(c) Immediately thereafter, the Borrower shall take all action required, and shall cause each of Savannakhet and Sekong to take all action required on each of their part, to promptly carry out the Savannakhet Health Plan and the Sekong Health Plan, respectively, and to achieve their respective objectives, taking into account the Association's recommendations pursuant to the exchange of views referred to in Sub-paragraphs (b)(i) and (ii) hereinabove.

Section 3.09. The Borrower shall ensure that the technical assistance activities under the Project at all times shall be carried out in accordance with an overall technical assistance plan and related program for the provision of required consultants' services which shall be satisfactory to the Association and in conformity with the provisions of Section 3.14 of this Agreement.

Section 3.10. The Borrower shall promptly take all action necessary to ensure that:

(a) The sales proceeds of all drugs financed out of the proceeds of the Credit shall be retained at the origin by the entities which originally sold and received said sales proceeds; and

(b) Each of said entities shall establish a revolving fund, on terms and conditions and according to a methodology satisfactory to the Association, in which said sales proceeds shall be duly deposited for further purchases of drugs.

Section 3.11. 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) in respect of Parts C of the Project shall be carried out by Savannakhet pursuant to Section 2.05 of the Savannakhet Project Agreement, and in respect of Part D of the Project shall be carried out by Sekong pursuant to Section 2.05 of the Sekong Project Agreement.

Section 3.12. For purposes of carrying the pilot basic health services activities under Part F of the Project, the Borrower shall:

(a) Prepare, based on terms of reference satisfactory to the Association, an action plan for preparing and appraising said activities, which plan shall include, inter alia, a sustainable financing plan as well as a set of proposed measures for identifying and remedying any adverse impact these activities

might have on the environment or on any persons affected thereby, including indigenous people;

(b) Afford the Association a reasonable opportunity to exchange views with the Borrower, together with representatives of Boloven and Saysomboune, on said action plan and, taking into account the Association's views thereon, prepare and furnish to the Association for its approval a detailed implementation program; and

(c) Thereafter, carry out Part F of the Project on the basis of said implementation program with due diligence and efficiency and in accordance with appropriate practices.

Section 3.13. The Borrower shall promptly take all action necessary to ensure that at all times: (a) any adverse environmental impact of the Project, or any part thereof, is effectively mitigated in a manner which is acceptable to the Association; and (b) measures are adopted and carried out for the resettlement, relocation and rehabilitation of all persons, including indigenous people, involuntarily displaced as a result of the Project, or any part thereof, all in accordance with procedures, methodology and guidelines acceptable to the Association.

Section 3.14. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the departments or agencies of the Borrower responsible for carrying out Parts A, B, E and F of the Project.

(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 four (4) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

- (ii) retain, until at least one (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) Savannakhet shall have failed to perform any of its obligations under the Savannakhet Project Agreement;

(b) Sekong shall have failed to perform any of its obligations under the Sekong Project Agreement;

(c) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Savannakhet or Sekong will be able to perform any of their respective obligations under the Savannakhet Project Agreement or the Sekong Project Agreement.

(d) The Belgium Grant Agreement shall have failed to become effective by June 30, 1995, or such later date as the Association may agree upon; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Association, that adequate funds for Part E (1) of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(e) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Belgian Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Belgium Grant Agreement.

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

Section 5.02. (a) Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the events specified in Paragraphs (a),

(b), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety (90) days after notice thereof shall have been given by the Association to the Borrower.

(b) The event specified in paragraph (e) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii).

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) That the PCU shall have been established pursuant to the provisions of Section 3.04 of this Agreement; and

(b) That the Borrower shall have prepared and furnished to the Association, for its review and approval, the Project Performance Plan.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) That the Savannakhet Project Agreement has been duly authorized or ratified by Savannakhet, and is legally binding upon Savannakhet in accordance with its terms; and

(b) That the Sekong Project Agreement has been duly authorized or ratified by Sekong, and is legally binding upon Sekong in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Articles III, IV and V of this Agreement shall cease on the date on which this Agreement shall terminate, or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Minister of Finance
Ministry of Finance
Post Office Box No. 46
Vientiane
Lao People's Democratic Republic

Cable address:

Telex:

MINFINANCE
VIENTIANE

4369
MOF LS

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT).

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

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Bounlith Khennavong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works under the Project (except Part F thereof)	2,800,000	90%

(2) Civil works under Part F of the Project	700,000	90%
(3) Goods under the Project (except Part F thereof)	5,000,000	100% of foreign expenditures, 100% of local expenditures (except factory cost) and
(4) Goods under Part F of the Project	300,000	85% of local expenditures for other items procured locally
(5) Incremental operational and maintenance costs	1,700,000	80%
(6) Consultants' services, auditing services and training	1,700,000	100%
(7) Unallocated	700,000	
TOTAL	12,900,000	

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 "incremental operational and maintenance costs" means payments made for expenditures on account of the operation and maintenance of health services vehicles, buildings and equipment, and the supervision of health services personnel under the Project, but excluding any salaries of any personnel.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; or (b) payments made for expenditures under Categories (2) and (4) of the table set forth in Paragraph 1 of Schedule 1 to this Agreement, in respect of Parts F (1), (2) and (4) of the Project, unless the Association shall have approved the action plan and implementation program referred to in Sections 3.12 (a) and (b) of this Agreement, respectively.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works not exceeding the equivalent of one hundred thousand dollars (\$100,000); (b) goods not exceeding the equivalent of one hundred thousand dollars (\$100,000); (c) consulting firms not exceeding the equivalent of one hundred thousand dollars (\$100,000); (d) individual consultants not exceeding the equivalent of fifty thousand dollars (\$50,000); and (e) all training and incremental operational and maintenance costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The overall objective of the Project is to help improve the general health status of the Borrower's population, by assisting the Borrower in inter alia: (i) mobilizing, allocating and using cost effectively the resources devoted to the delivery of health services to its population; (ii) reducing the cases of malaria transmission within its territory; (iii) strengthening its institutional capability to formulate and implement national malaria control policies and programs; (iv) reforming the ability of Savannakhet and Sekong to deliver effective basic health services to their respective residents; and (iv) developing and promoting appropriate means for the rational and cost-effective use of health care services throughout its territory.

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: Provincial Malaria Control Program

1. Carrying out of a Malaria Control Program in the following eight (8) provinces of the Borrower: Luang Prabang, Luang Namtha, Bokeo, Savannakhet, Saravane, Sekong, Champassak and Attapeu.
2. Carrying out of a community mobilization action plan in respect of the Malaria Control Program to promote individual protection, to be carried out under Paragraph 1 hereinabove.
3. Training of provincial and village health personnel in the early detection of febrile and suspected malaria cases, vector control and the early treatment of presumptive malaria cases.

Part B: Health Education Program

1. Provision of technical assistance services to strengthen the capabilities of IHE, and of the Borrower's related departments, agencies and units at the national, provincial and district levels, to effectively: (i) disseminate, manage and implement the IECs; and (ii) develop, deliver and assess the impact of public messages and associated information on behavior changes and health knowledge.
2. Provision of local training, fellowships abroad and regional study tours to selected IHE personnel in connection with the strengthening of the capabilities of IHE under Paragraph 1 hereinabove.
3. Provision of goods, vehicles, communication equipment and office furniture to IHE and the provincial health education agencies of Savannakhet, Sekong and Luang Prabang in respect of the foregoing.
4. Public dissemination and implementation of IECs throughout the Borrower's territory.

Part C: Basic Health Services Delivery in Savannakhet

1. Provision of preventive, curative and promotive health care service packages to the populations of the districts of Savannakhet.
2. Rehabilitating and upgrading: (i) at least two (2) existing district hospitals in Savannakhet to the level of inter-district hospitals; (ii) a provincial hospital in Savannakhet; and (iii) at least four (4) district hospitals in Savannakhet.
3. Constructing and equipping forty-eight (48) rural health centers in Savannakhet.

4. Strengthening the capabilities of Savannakhet's provincial hospital in diagnostic imaging, clinical laboratory, outpatient specialty care and emergency medical services.

5. Provision of civil works and related goods (including drugs, medical supplies and vehicles), equipment and materials in respect of the provision of the services and works referred to in Paragraphs 1, 2, 3 and 4 hereinabove.

6. Carrying out of a time-based action plan for: (i) the cost effective and timely financing and supply, at both the provincial and district levels, of essential drugs; (ii) the proper administration of related financial management and data base systems; and (iii) the rational and sustainable cost-effective use of such drugs.

7. Provision of on-the-job training and technical assistance services to provincial health personnel, so as to strengthen Savannakhet's capabilities to deliver basic health services to all its residents.

Part D: Basic Health Services Delivery in Sekong

1. Provision of preventive, curative and promotive health care packages to the populations of the districts of Sekong.

2. Rehabilitating and upgrading: (i) the provincial hospital in Sekong; and (ii) the Thateng district hospital in Sekong.

3. Constructing and equipping five (5) rural health centers in Sekong.

4. Provision of civil works and related goods (including drugs, medical supplies and vehicles), equipment and materials in respect of the provision of the services and works referred to in Paragraphs 1, 2, and 3 hereinabove.

5. Carrying out of a time-based action plan for: (i) the cost effective and timely financing and supply, at both the provincial and district levels, of essential drugs; (ii) the proper administration of related financial management and data base systems; and (iii) the rational and sustainable cost-effective use of such drugs.

6. Provision of on-the-job training and technical assistance services to provincial health personnel, so as to strengthen Sekong's capabilities to deliver basic medical services to all its residents.

Part E: Institutional Strengthening

1. Provision of technical assistance services to: (a) the Borrower to assist it in carrying out the Malaria Control Program under Part A of the Project; and (b) to Savannakhet and Sekong to assist each of them in carrying out their respective Parts C and D of the Project.

2. Provision of technical assistance services to the PCU to strengthen its capacity for day-to-day supervision of the implementation of the Project.

Part F: Pilot Basic Health Services Delivery in Boloven and Saysomboune

1. Carrying out, on a pilot basis, a basic health services program in Boloven, including the provision of works for: (a) constructing three (3) district hospitals; and (b) constructing or rehabilitating, as the case may be, ten (10) health centers.

2. Carrying out, on a pilot basis, a basic health services program in Saysomboune, including the provision of works for:

(a) constructing an inter-district hospital; (b) constructing three (3) district hospitals; and (c) constructing or rehabilitating, as the case may be, four (4) health centers.

3. Provision, on a pilot basis, of: (a) technical assistance services in respect of the foregoing; and (b) training and technical assistance services to provincial health personnel, so as to strengthen Boloven's and Saysomboune's capabilities to deliver basic medical services to their residents.

4. Provision of goods (including drugs, medical supplies and vehicles), equipment and materials in respect of carrying out the activities referred to in Paragraphs 1, 2 and 3 hereinabove.

* * * * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines"), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of Paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1. of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period, if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers and Contractors

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

2. In the procurement of works in accordance with the

procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Local Competitive Bidding Procedures

(a) Contracts for works estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000), up to an aggregate amount not to exceed the equivalent of seven hundred thousand dollars (\$700,000), may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(b) Contracts for goods estimated to cost up to an aggregate amount not to exceed the equivalent of thirty thousand dollars (\$30,000) may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Local Shopping

Contracts for equipment and supplies estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) per contract, up to an aggregate amount not to exceed the equivalent of seven hundred thousand dollars (\$700,000), may be procured on the basis of comparison of price quotations obtained from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Pre-qualification

Bidders for the works under paragraph C.1. above shall be pre-qualified as described in paragraph 2.10 of the Guidelines.

Part E: Procurement Practices

Without any limitation or restriction upon any of the provisions of the Guidelines, the Borrower shall ensure, in respect of the procurement of works in accordance with the procedures referred to in Part A hereof, that:

1. All tender documents shall be made available in the English language, as well as in the Lao language;
2. Foreign bidders shall not be required to have local agents;
3. No prior registration of foreign bidders shall be required;
4. No preference shall be granted on the basis of: (a) national origin of the bidder, except as provided in paragraphs 2.55 and 2.56 of the Guidelines, and paragraphs 1 through 4 of Appendix 2 thereto; (b) the legal nature of the bidder; or (c) any financial facilities offered by a bidder, such as export credit or suppliers' credit;
5. The opening of bids shall take place in public and in the presence of all bidders wishing to attend, including foreign bidders; and
6. Awards shall be made to the lowest evaluated bidder, irrespective of the bidder's national origin.

Part F: Review by the Association of Procurement Decisions

1. Review of pre-qualifications: with respect to the pre-qualification of bidders as provided in Part D hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

With respect to: (i) all contracts awarded pursuant to the provisions of Part A hereof; and (ii) each contract for goods estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or more per contract, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two (2) conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

3. With respect to each contract to be awarded pursuant to the provisions of Part C hereof the Borrower, shall furnish to the Association for its review and approval a draft of the negotiated contract, and shall furthermore furnish to the Association two conformed copies of each such contract promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account or to making the first payment out of the Special Account in respect of such contract.

4. The figure of fifteen percent (15%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants: (a) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (b) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines").

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) each; or (b) contracts for the employment of consulting individuals estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) each. However, this exception to prior Association review shall not apply to: (i) the terms of reference for such contracts; (ii) single source selection of firms; (iii) assignments of a critical nature as reasonably determined by the Association; (iv) amendments to contracts for consulting firms raising the contract value to the equivalent of one hundred thousand dollars (\$100,000) or more; or (v) amendments to contracts for the employment of consulting individuals raising the contract value to the equivalent of fifty thousand dollars (\$50,000) or

more.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 six hundred thousand dollars (\$600,000) 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 three hundred thousand dollars (\$300,000) until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered by the bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of five million dollars (\$5,000,000).

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit into the Special Account of an amount or amounts determined by the Association to be required to pay for Eligible Expenditures during the four (4) months following the date of each such request, which amount shall 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 Association shall have determined to be so required.

(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, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

Schedule 5

Project Implementation Plan

Without limitation or restriction upon any of the other provisions of this Agreement, the Project shall be carried out in accordance with the Project Implementation Plan set forth hereinbelow:

1. Overall Project Implementation Arrangements. The Borrower shall carry out: (a) Parts A, B, E and F of the Project through the MOH, IMPE and IHE, as required; and (b) Parts C and D of the Project through the provincial health services departments of Savannakhet and Sekong. Overall day-to-day supervision and coordination of Project implementation will be the responsibility of the PCU.

2. Project Implementation Unit. Throughout the duration of the Project, the PCU shall be maintained with the necessary resources and shall be headed, at all times, by a Project director to be assisted by two (2) Project deputy directors (comprising a Lao national and an expatriate), an accountant, a procurement manager and support staff in appropriate numbers. The responsibilities of the PCU shall include: (a) monitoring and reporting on the progress achieved in Project implementation; (b) ensuring that the procurement of works, goods and services, to be financed out of the proceeds of the Credit, is carried out in a timely manner and with due efficiency; (c) ensuring that all proposals and requests for the counterpart funding necessary for the Project are submitted in accordance with the Borrower's, Savannakhet's and Sekong's budgetary timetable and related procedures therefor; (d) maintaining Project records and accounts, in respect of Parts A, B, E and F of the Project; (e) consolidating all Project accounts; (f) managing the operation of the Special Account; (g) preparing Credit disbursement applications for submission to the Association; and (h) arranging for the timely auditing of Project accounts, statements of expenditures and the Special Account.

3. Project Monitoring and Evaluation. The PCU shall be responsible for monitoring and reporting, on a regular basis, on the progress achieved in Project implementation. Project reporting requirements shall include: (a) semi-annual Project progress reports; (b) annual Project performance reports; and (c) the Project completion report. The PCU shall prepare the semi-annual reports in a simple descriptive and tabular form to compare actual accomplishments against agreed upon implementation schedules and the Project Performance Plan. Annual Project performance reviews will be conducted jointly by representatives of the Borrower, Savannakhet, Sekong and the Association not later than June 30 in each Fiscal Year, and a comprehensive mid-term review shall be carried out not later than June 30, 1998.

4. Implementation of Malaria Control Program. The director of IMPE shall be responsible for implementing the malaria control component of the Project, and in such capacity will report to the Project director. A central implementation team, consisting of the IMPE director, four (4) IMPE division chiefs, the IMPE administrator, the PCU manager and two (2) expatriate

specialists, will be responsible for the technical, supervisory, and logistic support required by the network of provincial, district and village stations under that component. The two (2) regional directors will be accountable to the IMPE director for the implementation of the Malaria Control Program in the concerned provinces assigned to their regions. Provincial health directors will be responsible for the implementation of the Malaria Control Program in their respective provinces, and shall organize a provincial implementation team for that purpose.

5. Provincial Basic Health Services Delivery. The provincial basic health services components of the Project (Parts C and D of the Project) shall be carried out by the respective provincial health services departments of Savannakhet and Sekong. In each of Savannakhet and Sekong, a Project steering committee, to be chaired by the Provincial Vice-Governor, will provide policy guidance and general oversight on Project implementation within each province. The membership of each steering committee shall include representatives of the corresponding provincial bureau of finance, bureau of construction and health services department. Day-to-day implementation will be carried out by the responsible units within the provincial health services department. Representatives of the provincial hospital, district health services, pharmacy, malaria control, primary health care and health education units in each of Savannakhet and Sekong will meet regularly, as a technical support group, to ensure that the various activities to be implemented under the Project are being duly coordinated within the framework of the Savannakhet Health Plan and the Sekong Health Plan.

