

CONFORMED COPY

CREDIT NUMBER 3376-LSO

Development Credit Agreement

(Health Sector Reform Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 21 , 2000

CREDIT NUMBER 3376-LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 21, 2000, between KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated November 9, 1999, from the Borrower describing a program of actions, objectives and policies designed to strengthen and reform the Borrower's health sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of 10 years, the proceeds of such Credits to be utilized by the Borrower for implementing the Program;

(C) the Borrower intends to obtain from the African Development Bank (AfDB) financing in an amount equivalent to three million four hundred thousand dollars (\$3,400,000) (the AfDB Financing) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and AfDB (the AfDB

Agreement);

(D) the Borrower intends to obtain from the European Union (EU) a grant in an amount equivalent to three hundred and sixty thousand dollars (\$360,000), (the EU Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and EU (the EU Grant Agreement);

(E) the Borrower intends to obtain from the Republic of Ireland (Ireland) a grant in an amount equivalent to one million three hundred thousand dollars (\$1,300,000), (the Ireland Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and Ireland (the Ireland Grant Agreement);

(F) the Borrower intends to obtain from the United Nations Children's Fund (UNICEF) a grant in an amount equivalent to one million five hundred and ninety thousand dollars (\$1,590,000), (the UNICEF Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and UNICEF (the UNICEF Grant Agreement);

(G) the Borrower intends to obtain from the World Health Organization (WHO) a grant in an amount equivalent to three million seven hundred and thirty thousand dollars (\$3,730,000), (the WHO Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and WHO (the WHO Grant Agreement);

(H) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "Activities" means the activities to be carried out by a Beneficiary, under Part D of the Project, in the prevention or mitigation of the HIV/AIDS epidemic;

(b) "Beneficiary" means any one of the churches, industries, CBOs and other entities or groups participating in the fight to reduce HIV transmission and mitigate the impact of HIV/AIDS which meets the

criteria specified in the Project Implementation Plan and to which or for whose benefit a Grant is made or proposed to be made for the Activities;

(c) "CBOs" means community-based organizations participating in the Project;

(d) "CHAL" means the Christian Health Association of Lesotho, established and operating pursuant to the laws of the Borrower;

(e) "Estates Management Unit" means the Estates Management Unit referred to under Part B.4 of the Project;

(f) "Finance Unit" means the Borrower's Finance Unit in MOHSW;

(g) "Financial Manager" means the Financial Manager referred to in paragraph 4 (b) (ii) of Schedule 4 to this Agreement;

(h) "Fiscal Year" or "FY" means the Borrower's fiscal year which runs from April 1 through March 31 of the year next following;

(i) "Grant Agreement" means the agreement referred to in paragraph 6 of Schedule 4 to this Agreement;

(j) "Grants" means the grants referred to in Part D of the Project;

(k) "HPSU" means the Borrower's Health Planning and Statistics Unit in MOHSW;

(l) "Implementing Agency" means the Implementing Agency referred to in paragraph 5 of Schedule 4 to this Agreement;

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

(n) "Maloti" means the currency of the Borrower;

(o) "MOHSW" means the Borrower's Ministry of Health and Social Welfare;

(p) "NGOs" means non-governmental organizations operating under the laws of the Borrower;

(q) "NHTC" means the Borrower's National Health Training College;

(r) "Operations Manager" means the Operations Manager referred to in paragraph 4 (b) (i) of Schedule 4 to this Agreement;

(s) "Procurement Adviser" means the Procurement Adviser referred to in paragraph 4 (b) (iii) of Schedule 4 to this Agreement;

(t) "Procurement Unit" means the Procurement Unit in MOHSW referred to in paragraph 4 (a) (iii) of Schedule 4 to this Agreement;

(u) "Project Account" means the account referred to in Section

3.03 (a) of this Agreement;

(v) "Project Accounting Unit" means the Project Accounting Unit in MOHSW referred to in paragraph 4 (a) (ii) of Schedule 4 to this Agreement;

(w) "Project Implementation Plan" means the Project Implementation Plan referred to in paragraph 1 of Schedule 4 to this Agreement;

(x) "Project Management Report" means each report prepared in accordance with the provision of Section 4.02 of this Agreement;

(y) "Project Partners" means entities or other developmental organizations and agencies, including donors, participating in, or assisting the Borrower with, the carrying out of the Project;

(z) "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 July 29, 1999 and on behalf of the Borrower on October 7, 1999;

(aa) "Project Year" means the 12 month period beginning from the Effective Date and ending 12 months thereafter and each successive 12 month period following thereafter;

(ab) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(ac) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to four million nine hundred thousand Special Drawing Rights (SDR 4,900,000).

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

(c) 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 March 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing June 15, 2010 and ending December 15, 2039. Each installment to and including the installment payable on December 15, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain an account in Maloti in a commercial bank on terms and conditions satisfactory to the Association;

(b) promptly thereafter, deposit an amount equivalent to one hundred and fifty thousand dollars (\$150,000) into such account to finance the Borrower's counterpart contribution to the costs of the Project, as determined by the Borrower and the Association;

(c) promptly thereafter deposit into the Project Account monthly in advance, until the completion of the Project, such other amounts as the Borrower and the Association shall determine as the Borrower's monthly counterpart contribution to the costs of the Project; and

(d) use funds deposited in the Project Account exclusively to

finance expenditures under the Project.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, 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 Project Management Reports or statements of expenditure, the Borrower shall:

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such

expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than 18 months after the Effectiveness Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

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

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

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

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) that a situation has arisen which shall make it improbable

that the Program, or a significant part thereof, will be carried out; and

(b) Subject to paragraph (c) of this Section:

(i) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower (including the AfDB Financing, the EU Grant, the Ireland Grant, the UNICEF Grant and the WHO Grant) for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(c) Paragraph (b) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) 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. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has prepared and furnished to the Association (i) the Project Implementation Plan and a budget relating thereto; (ii) a chart of Project accounts; and (iii) a financial procedures manual for the Project, all in a form and substance satisfactory to the Association;

(b) the Borrower has installed an accounting system in form and substance satisfactory to the Association;

(c) the Borrower has appointed, in accordance with the provisions of Section II of Schedule 3 to this Agreement (i) the Operations Manager; (ii) the Financial Manager; and (iii) the Procurement Adviser; and

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

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 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:

Ministry of Finance
P.O. Box 395
Lesotho

Facsimile	Cable address	Telex:	
	FINMIN	4330 LO	266
310157			266
310622			

For the Association:

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

Facsimile:	Cable address:	Telex:
(202)4776391	INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)

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

KINGDOM OF LESOTHO

By /s/ Lebohang Kenneth Moleko
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed

out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works, equipment, furniture, vehicles, materials and other goods, consultants' services and training except for Part D of the Project:	2,700,000	
(a) Consultants' services and training		100%
(b) Other items		100% of foreign expenditures and 90% of local expenditures
(2) Materials and other goods, consultants' services, training and Grants for Part D of the Project:	1,500,000	
(a) Consultants' services, training and Grants		100%
(b) Other items		100% of foreign expenditures and 90% of local expenditures
(3) Refunding of Project Preparation Advance	300,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(4) Unallocated	400,000	
TOTAL	4,900,000	

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; and

(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.

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;

(b) expenditures under Category (2) unless (i) the Borrower has employed an agency satisfactory to the Association to assist in the carrying out of Part D of the Project; and (ii) with respect to any of the Activities, such Activity has been approved by the Association in accordance with, and subject to, the provisions of the Project Implementation Plan and the Grant Agreement, including the eligibility criteria and terms and conditions set forth in the Project Implementation Plan and the Grant Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) works under contracts not exceeding \$100,000 equivalent each; (b) goods under contracts not exceeding \$100,000 each; (c) consultants' services under contracts not exceeding in the case of: (i) consulting firms \$100,000 each, and (ii) individual consultants \$50,000 each; and (d) \$50,000 for training; all, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in achieving a sustainable increase in access to quality preventive, curative and rehabilitative health care services including (a) strengthening MOHSW's capacity to develop, carry out and monitor the Program; and (b) expanding the capacity of the public sector to respond to HIV/AIDS.

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: Financial Planning and Management

1. The strengthening and improvement of MOHSW's financial management and information systems, including (i) the provision of technical advisory services for the development and expansion of said systems; (ii) the establishment of unified financial management procedures to facilitate disbursements of proceeds of the Credit and other donor funds; (iii) training of the staff of MOHSW; and (iv) the acquisition for MOHSW of supportive information technology.

2. Development of a comprehensive integrated budget, including the production by MOHSW of a medium-term expenditure framework.

Part B: Planning and Monitoring

1. Strengthening the planning and monitoring capacity of MOHSW, including:

(i) its capacity to coordinate the annual workplans and budgets for the Program, and to monitor procurement under the Program efficiently; and

(ii) the installation in MOHSW of sound procurement procedures, functions and skills and the training of staff of MOHSW in such procedures.

2. (i) Strengthening of HPSU's capacity to conduct monitoring and evaluation functions under the Project, including (a) the monitoring and evaluation of health sector activities; and (b) training of health sector staff in new developments and procedures in the health sector, supervision and computerization.

(ii) The preparation of a monitoring and evaluation plan which will, inter alia, set out financial, programmatic and impact indicators for the health sector; and the production each year by HPSU of a comprehensive report on the status of the health sector reform program.

3. The elaboration and definition of the Borrower's District Health Package, including:

(i) the determination of the services to be included in the said package;

(ii) the development of criteria for prioritizing health sector strategies;

(iii) the determination of the most efficacious means of employing limited human and financial resources to address the major causes of morbidity and mortality in the Borrower's territory; and

(iv) the development of national standards for delivery of essential health services.

4. The establishment within MOHSW of an Estates Management Unit and strengthening of its capacity to (i) develop a long-term facilities plan; (ii) design and carry out a maintenance strategy for MOHSW; and (iii) carry out facilities planning and maintenance programs.

Part C: Human Resources Development

1. Development of a Human Resource Management Information System in MOHSW for use in (i) tracking terms of promotions, filling posts, preparation of short lists, structuring of benefits, postings, vacancy assessments, and study leave; (ii) assisting in the planning of training; and (iii) the improvement of staff data and statistics needed for human resource planning.

2 (i) Formulation of a strategic plan for human resource development; and

(ii) development and carrying out of a program to provide incentives for the retention of staff working in the health sector, including the provision of in-service training, staff housing, and other appropriate benefits to the said staff.

Part D: HIV/AIDS

Support for the Borrower's National AIDS Control Program, the National AIDS Council, and the AIDS Task Force, for:

(i) the formulation of the Borrower's National AIDS Strategic Plan;

(ii) the carrying out of the Activities aimed at reducing the transmission of HIV and mitigating the impact of HIV/AIDS being undertaken by (A) agencies of the Borrower; (B) NGOs; and (C) other private sector entities and CBOs;

(iii) the making of grants to NGOs, churches, industries, the private sector and CBOs involved in the fight to reduce HIV transmission and mitigate the impact of HIV/AIDS; and

(iv) the production of annual implementation plans for Part D of the Project.

Part E: Partnerships

1. Coordination of donor support, including (i) the carrying out of annual reviews with Project Partners; (ii) refinement of the program plan for the second phase of the Borrower's health sector reform program; and (iii) the development of common implementation procedures, systems and capacities.

2. (i) The analysis and determination of the most efficacious means of working out arrangements for cooperation between the Borrower and CHAL in order to achieve the Project's objectives.

(ii) Support for CHAL including the rehabilitation of CHAL's facilities.

3. Facilitating collaboration on health matters between agencies of the Borrower and those of the Republic of South Africa.

Part F: Planning for Second Phase Activities

1. The carrying out of preparatory and analytical activities for the second phase of the Program, including:

(i) the definition and assessment of strategic options for said second phase; and

(ii) the provision of training on health reform and sustainable financing necessary for the carrying out of the said options.

2. The formulation of proposals for piloting sustainable financing strategies for the health sector.

3. The provision of technical advisory services for (i) architectural design of health facilities; (ii) development of procurement plans and tender documents for proposed civil works, including staff housing, rehabilitation of CHAL hospitals, NHTC and Mohlomi Mental Hospital; and (iii) the structural and economic analysis required to determine the future role of Queen Elizabeth II Hospital, and plans for construction of a replacement referral hospital.

* * *

The Project is expected to be completed by September 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

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

2. National and International Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods which are not available locally estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured from the Inter-Agency Procurement Services of the UNDP in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

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

(b) With respect to each contract for goods to be procured under shopping procedures estimated to cost the equivalent of \$10,000 or more, the following procedures shall apply:

(i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-Based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits and services estimated to cost less than \$50,000 equivalent per contract, up to an amount not to exceed in the aggregate \$200,000, 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 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 3.7 of the Consultant Guidelines.

3. Individual Consultants

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

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals,

the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of (i) consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) individual consultants estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 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.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Plan and a related budget in form and substance satisfactory to the Association. The Project Implementation Plan shall, inter alia, set out, with respect to Part D of the Project: (i) the eligibility criteria and terms and conditions, satisfactory to the Association, for the provision of a Grant to any Beneficiary; and (ii) procedures and guidelines, satisfactory to the Association, applicable to the carrying out of the said Part of the Project.

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

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives

thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association and other Project Partners, no later than October 30 of each year, an annual health sector 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, the status of performance indicators as described in Schedule 6 to this Agreement, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association and Project Partners, no later than November 15 of each year or such later date as the Association shall agree, the report referred to in paragraph (b) of this Section. The review shall cover, among other things (i) the progress made in meeting the objectives of the Project; and (ii) the Borrower's overall performance in the execution of the Project. Thereafter, the Borrower shall take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

3. The Borrower shall

(a) no later than November 15, 2002, or such other date as the Borrower and the Association shall determine, carry out (jointly with the Association and the Project Partners) a midterm review and evaluation of progress made towards the achievement of the Project's objectives, including an evaluation of the progress achieved in meeting the targets agreed by the Borrower and the Association as necessary for the attainment of said Project objectives; and

(b) no later than June 30, 2003, submit to the Association an overall assessment of the results achieved in the execution of the Project and of the Borrower's readiness to move into the second phase of the Program.

4. The Borrower shall:

(a) establish, and thereafter maintain within MOHSW in form and with functions and resources satisfactory to the Association (i) a monitoring and evaluation unit; (ii) a project accounting unit; and (iii) a procurement unit;

(b) maintain within MOHSW the following specialists whose qualifications and experience shall at all times be satisfactory to the Association (i) an operations manager; (ii) a financial manager; and (iii) a procurement specialist/advisor; and

(c) ensure that budgetary, financial, staffing and procurement activities to be undertaken within the MOHSW units referred to in paragraph (a) above are carried out in consultation with the relevant staff of the Borrower's concerned ministries.

5. For purposes of Part D of the Project, the Borrower shall employ the Implementing Agency under contractual arrangements satisfactory to the Association to assist the Borrower in carrying out Part D of the Project.

6. The Borrower shall cause the Implementing Agency to carry out Part D of the Project in accordance with the following provisions:

(a) The Implementing Agency shall enter into an agreement with each Beneficiary on terms and conditions satisfactory to the Association, which shall include the following requirements:

(i) the Beneficiary carries out and operates the Activities for which the Grant is made with due diligence and efficiency and in accordance with sound technical, financial, managerial and health sector standards and practices;

(ii) the Beneficiary maintains adequate records for the Activities;

(iii) the Beneficiary procures goods, works and services to be financed out of the proceeds of the Grant at a reasonable price, account being taken also of other relevant factors such as (A) time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor; and (B) in the case of services, the quality of such services and the competence of the parties rendering the said services;

(iv) the Beneficiary uses the goods, works and services to be financed out of the proceeds of a Grant exclusively in the carrying out of the Activities;

(v) the Borrower reserves the right to inspect, by itself or jointly with representatives of the Association, if the Association shall so request, any goods, works, plants and constructions included in the Activities, the operation thereof, and any relevant records and documents;

(vi) the Beneficiary takes out and maintains with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;

(vii) the insurance referred to in subparagraph (vi) above shall, without any limitation upon the provisions of said subparagraph, cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(viii) the Beneficiary provides all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Activities; and

(ix) the Borrower suspends or terminates the right of the Beneficiary to the use of the proceeds of the Grant upon failure by such Beneficiary to perform its obligations under the Grant Agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 \$300,000 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 \$150,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of one million Special Drawing Rights (SDR1,000,000).

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

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

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

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

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

justified by said documents and other evidence.

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

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

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

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

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

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

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

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

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

(c) The Borrower may, upon notice to the Association, refund to

the Association all or any portion of the funds on deposit in the Special Account.

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

SCHEDULE 6

Performance Indicators

The Performance Indicators for the Project shall include the indicators set out below:

1. Budgetary allocations forecasts for MOHSW for FYs 2004, 2005, and 2006 have been made in accordance with health sector priorities indicated in the Borrower's medium-term expenditure framework.
 2. Financial data of quality acceptable to the Association have been produced not later than 60 days after the end of each fiscal year during the Project implementation period.
 3. Quarterly reports have been produced with respect to monitoring and evaluation activities carried out under the Project for each preceding quarter, not later than 45 days after the end of the said quarter.
 4. At least 80% of professional positions within MOHSW have not been left vacant for more than 3 months during the execution of the Program.
 5. At least 50% of funds granted to Beneficiaries for the carrying out of the activities referred to under Part D of the Project have been disbursed by the end of each Project Year.
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