

CONFORMED COPY

CREDIT NUMBER 3140-ET

Development Credit Agreement

(Health Sector Development Program Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 30, 1998

CREDIT NUMBER 3140-ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 30, 1998, between the FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association):

WHEREAS: (A) the Association has received a letter, dated August 10, 1998, and a copy of the Borrower's Program Action Plan of October 1998 which describe a program of actions, objectives, and policies designed to strengthen the Borrower's health sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, as part of the Program, having undertaken to carry out the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Borrower intends to obtain from various Donors (as hereinafter defined) grants and loans to assist in the financing of the Program; 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 December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Birr" means the currency of the Borrower;

(b) "CJSC" means the Borrower's Central Joint Steering Committee, responsible for the overall coordination of the implementation of the Program;

(c) "DACD" means the Drug Administration and Control Department of MOH;

(d) "District" and "Zone" mean administrative subdivisions of the Borrower's territory;

(e) "Donors" means, collectively, the national or international agencies contributing funds or technical assistance for the Program, and "Donor" means each and every such agency individually;

(f) "Fiscal Year" or "FY" means the twelve-month period beginning July 8 of each Gregorian calendar year, and ending July 7 of the following Gregorian calendar year;

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

(h) "PHARMID" means the Borrower's Pharmaceutical and Medical Supplies Import and Wholesale Enterprise, established and operating pursuant to the laws of the Borrower;

(i) "Program Implementation Manual" or "PIM" means the manual referred to in Section 6.01 (a) of this Agreement, containing, inter alia, guidelines and procedures to be used for the purpose of implementation of the Program and Project, including financial, accounting, and disbursement procedures and guidelines, as the manual may be amended from time to time in consultation with the Association and the Donors, and such term includes any schedules to the PIM;

(j) "Region" means each of the Borrower's Regions listed in Article 47 of the Borrower's Constitution of December 8, 1994, and the Addis Ababa City

Administration and the Dire Dawa Provisional Council;

(k) "RG" means each of the governments of the Borrower's Regions;

(l) "RHB" means each of RG's Regional Health Bureaus;

(m) "RJSC" means each of the Regional Joint Steering Committees responsible for the coordination of the implementation of the Program in each Region;

(n) "Subprogram" means the part of the Program, included in the Project, to be agreed upon each Fiscal Year between the Borrower, the Association and the Donors; and

(o) "UNICEF" means the United Nations Children's Fund.

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 seventy five million one hundred thousand Special Drawing Rights (SDR 75,100,000).

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project described in Schedule 2 to this Agreement 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 National Bank of Ethiopia on terms and conditions satisfactory to the Association. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be January 7, 2003, 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 April 15 and October 15 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 semiannual installments payable on each April 15 and October 15, commencing April 15, 2009, and ending October 15, 2038. Each installment to and including the installment payable on April 15, 2018 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health 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. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Program of the departments or agencies of the Borrower responsible for carrying out the Program or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including the funds provided by the Donors, 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 seven months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request;

(iv) 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;

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

(vi) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) (ii) 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.

(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 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 ensure that such records and accounts are included in the annual audit referred to in paragraph (b) (ii) 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) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Program shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

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

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) 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 (B) adequate funds for the Program 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 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provisions of paragraph (b) (ii) 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 adopted the PIM in form and substance acceptable to the Association;

(b) The Borrower has adopted the action plan referred to in paragraph 10 of Schedule 4 to this Agreement, in form and substance acceptable to the Association;

(c) The Borrower has prepared standard bidding documents, acceptable to the Association, for the primary health care units to be constructed under the Project; and

(d) The Borrower has appointed the head of the Planning and Projects Department of MOH, and the heads of its planning and budgeting, program coordination and monitoring, and finance and procurement teams.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Minister of Finance
Ministry of Finance
PO Box 1905
Addis Ababa
Ethiopia

Telex:

21147

For the Association:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Berhane Gebre-Christos

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:

| Amount of the Credit Allocated (Expressed in | % of Expenditures |
|--|----------------------|
|--|----------------------|

| Category | SDR Equivalent) | to be Financed |
|---|---|--|
| (1) Works, drugs, medical supplies, vaccines, local contraceptives, furniture, equipment, vehicles, materials, contraceptives, and other goods, consultants' services, training and incremental operating costs for Subprograms | Up to 26,300,000 in the aggregate for FY98/99, and thereafter, such amount as may be allocated for each FY by the Association | 100% of foreign expenditures and 90% of expenditures for works, drugs, medical supplies, vaccines, furniture, vehicles, materials, and equipment. and other goods, and 100% for consultants' services, training and incremental operating costs, or such other percentage as the Association may determine from time to time |
| (2) Unallocated | 48,800,000 | |
| TOTAL | 75,100,000 | |

2. For the purposes of this Schedule:

(a) the term "incremental operating costs" means the incremental expenses incurred on account of Program implementation, management, monitoring, and auditing, including office supplies, vehicle and equipment operation, office rental, utilities, telecommunications, transport, travel, per diem and supervision costs but excluding salaries of officials of the Borrower's civil service;

(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 "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for good or services supplied from the territory of any country other than that 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) payments made for expenditures for a Subprogram, unless: (i) such Subprogram has been approved by the Association in accordance with, and subject to, the provisions of paragraph 6 of Schedule 4 to this Agreement; and (ii) the Borrower has submitted evidence satisfactory to the Association showing that: (A) its proposed annual budget for the Fiscal Year corresponding to the Subprogram is consistent with the objectives of the Program; and (B) the expenditures incurred in the previous Fiscal Year's Subprogram were made in compliance with the objectives of the Program.

(c) payments made for expenditures for goods, works, and services under a contract which any national or international financing institution or agency, other than the Association, shall have financed or agreed to finance under any other credit or grant.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) operating costs and training; (b) goods, under contracts not exceeding \$200,000 equivalent; (c) works, under contracts not exceeding \$2,000,000 equivalent; and (d) services of: (i) consulting firms not exceeding \$100,000 equivalent, and (ii) individual consultants not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in implementing Subprograms under the Program to develop a health system which provides comprehensive and integrated primary care health services, primarily based at community level health facilities.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objective:

The carrying out of Subprograms for:

Part A: Technical Quality of Primary Health Care Services

Improving the technical quality of primary health care services, through: (a) preparation and implementation of training programs designed to improve the technical skills of the Borrower's health personnel and staff of private and not-for-profit health services providers; (b) acquisition of medical equipment, furniture and supplies; and (c) establishment of: (i) licensing and certification systems for health services providers, and (ii) a patient referral system, including appropriate guidelines and procedures.

Part B: Access to Primary Health Care

Improving access to primary health care services, including: (a) the construction and equipping of primary health care units, and hospitals at the District and Zone levels, as well as at specialized hospitals; (b) the establishment of technical standards for health facilities, through the provision of technical advisory services; (c) the strengthening of the Borrower's medical equipment maintenance capacity, and its capacity to supervise the construction of health facilities, through the provision of technical advisory services and training; and (d) increasing private sector participation in the delivery of health services, through the provision of technical advisory services.

Part C: Human Resource Development

Increasing the number, and improving the productivity, of qualified health personnel through provision of training.

Part D: Pharmaceutical Sector

Improving the supply of, and access to, effective, safe and affordable good quality drugs, through: (a) the acquisition of drugs, (b) the strengthening of the Borrower's regulatory framework for quality control and drug prescription, including the development and enforcement of guidelines and standards designed to improve the prescribing behavior of health services providers; (c) the improvement of the Borrower's systems of procurement, distribution, storage and utilization of drugs; and (d) the strengthening of the capacity of DACD to effectively carry out its missions.

Part E: Information, Education, and Communication

Improving awareness of all segments of the Borrower's population about the importance of personal and environmental hygiene for the prevention of diseases, and building support for the improvement of health services, through the preparation and implementation of information, education and communication programs targeting, inter alia, planners, policy makers, managers, community leaders, and women's groups.

Part F: Health Sector Management and Information Systems

Strengthening the Borrower's health sector management and information systems with a view to establishing a well-managed, decentralized, and participatory health system, through: (a) the preparation and implementation of training programs designed to improve the skills of staff of MOH and RHBs, in policy formulation, planning, budgeting, administration, financial management, and Program implementation, monitoring, and evaluation; (b) the improvement of the Borrower's management information systems; and (c) the construction, rehabilitation, and equipping of offices of MOH and RHBs.

Part G: Monitoring, Evaluation and Applied Research

Strengthening the Borrower's capacity to monitor improvements in the delivery, quality, and financial performance of health services, and evaluate the impact, effectiveness, and cost-effectiveness of all components of the Program, through: (a) the establishment and operation of an integrated monitoring and evaluation system at all levels of the Borrower's health delivery system, and (b) the carrying out of scientific and applied research programs.

Part H: Financial Sustainability of the Health Sector

Improving the financial sustainability and efficiency of the Borrower's public health sector through: (a) improving the allocation of budgetary resources, including: (i) increasing the allocation of resources for preventive care and rural areas, (ii) focusing on health interventions with the largest health impact, (iii) clustering of health services for specific target groups, and (iv) tailoring of the supply of health services according to relative burden of disease patterns across Regions; (b) strengthening the operational efficiency of the public health system, including: (i) reorganizing and decentralizing health facilities, and strengthening their financial, accounting, reporting and cost-recovery systems, (ii) improving management of personnel, and (iii) restructuring PHARMID; and (c) generating additional sources of revenue for the health sector.

* * *

The Project is expected to be completed by July 7, 2002.

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 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, and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Drugs, medical supplies, vaccines, and contraceptives estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, which the Association agrees can only be purchased from a limited number of suppliers, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) (i) Goods, excluding drugs and medical supplies, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$15,000,000 equivalent, and (ii) drugs and medical supplies estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$2,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods, including drugs and medical supplies, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost \$75,000 equivalent or less per contract, and not to exceed \$5,000,000 in the aggregate, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three 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 successfully complete the contract.

6. Community Participation

Contracts for the construction of primary health care units in remote areas of the territory of the Borrower, estimated to cost \$75,000 equivalent or less per contract may, with the Association's prior agreement, be awarded to local communities in accordance with procedures acceptable to the Association.

7. Direct Contracting

Contracts for: (i) the extension of an existing contract for goods or works, (ii) the additional purchase from the original supplier of equipment, vehicles, and spare parts for the purpose of standardization; or (iii) the purchase of proprietary equipment, drugs and medical supplies may, with the Association's prior agreement, be awarded on the basis of direct contracting procedures in accordance with the provisions of paragraphs 3.7 of the Guidelines.

8. Procurement from UN Agencies

Vehicles and equipment estimated to cost \$50,000 equivalent or less per contract, may be procured from IAPSO, and UNICEF in accordance with the provisions of

paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for each Subprogram 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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (i) each contract for goods estimated to cost the equivalent of \$200,000 or more, and works estimated to cost the equivalent of \$2,000,000 or more, and (ii) the first two contracts for goods and works in each of the Borrower's Regions, regardless of their estimated cost.

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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

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 shortlist of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Single Source Selection

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

3. Individual Consultants

Services for consultants estimated to cost less than \$50,000 equivalent per contract may 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 each Subprogram shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms and non-governmental organizations estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2 (a)) 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms and non-governmental organizations estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, 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 \$100,000 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 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall implement the Program in accordance with the procedures set out in the PIM and, except as the Association shall otherwise agree, the Borrower shall not amend, or waive any provision thereof if, in the opinion of the Association and the Donors, such amendment, or waiver may materially and adversely affect the implementation of the Program.

2. (a) MOH shall be responsible for: (i) the overall implementation of the Program, and (ii) the implementation of activities under the Program which fall within the jurisdiction of the Borrower's central departments and agencies; and (b) RHBs shall be responsible for the implementation of the parts of the Program to be carried out in their respective Regions, with the assistance of MOH.

3. (a) CJSC shall be responsible for the overall supervision, monitoring, and coordination of the implementation of the Program, including overseeing the health sector policy reform, coordinating the sector-wide Subprograms, mobilizing resources for the implementation of the Program, approving work plans under the Program, and coordinating the assistance from Donors to the Program; and (b) RJSCs shall be responsible for the supervision, monitoring and coordination of the implementation of the Program at the regional level, including allocating resources for the

implementation of the Program and approving work plans under the Program. The Borrower shall maintain CJSC until the completion of the Program, with composition and terms of reference acceptable to the Association, and cause its RGs to maintain the RJSCs for their respective Regions, until the completion of the Program, with composition and terms of reference acceptable to the Association.

Performance Indicators and Annual Review

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of the Program and the achievement of the objectives thereof;

(b) not later than by the end of March each year, commencing March 1999, undertake, in conjunction with the Association, Donors, and RHBs, a joint annual review on all matters relating to the progress of the Program and, in particular the progress achieved in the implementation of the Program during the previous Fiscal Year, having regard to the monitoring indicators referred to in subparagraph (a) of this paragraph; and

(c) furnish to the Association and the Donors:

(i) semiannual financial statements indicating all revenues and expenditures for the health sector, according to the source of funds, the budget items and a selection of performance indicators agreed upon between the Borrower, the Association and Donors; and

(ii) not later than one month prior to the annual review referred to in paragraph 4 (b) above, or such later date as the Association may agree, a report, in such detail as the Association shall reasonably request, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out the Program during the previous fiscal Year and setting out the measures proposed to ensure the efficient carrying out of the Program and the achievement of the objectives thereof during the period following such date, and the report of actual expenditures against the budget for the previous Fiscal Year.

Annual Subprograms

5. The Borrower shall:

(a) not later than one month prior to the annual review referred to in paragraph 4 (b) above, or such later date as the Association may agree, furnish to the Association for its approval the proposed Subprogram for the following Fiscal Year, prepared in a manner satisfactory to the Association.

(b) carry out, or cause to be carried out, each such Subprogram in accordance with modalities and procedures as approved by, and in a manner satisfactory to the Association and in accordance with the PIM; and

(c) not make any material change to the approved Subprogram without the prior approval of the Association.

6. Except as the Borrower and the Association shall otherwise agree, the Association shall not approve any proposal for a Subprogram furnished to it pursuant to subparagraph 5 (a) above unless and until:

(a) the Borrower shall have prepared and furnished to the Association an operational plan for the Subprogram, setting forth, inter alia, the activities to be carried out, any policy reforms and other measures to be implemented, the expenditures to be incurred, the sources of financing of such expenditures and the procurement plan to be followed; and

(b) the Association shall have been satisfied with the progress made to date

in the carrying out of the activities under the Program on the basis of indicators referred to in paragraph 4 (a) of this Schedule.

7. Midterm Review

(a) Not later than by the end of March 2000, or such other date as the Association shall agree, the Borrower shall carry out jointly with the Association, RHBs, and Donors a midterm review of the progress made in carrying out the Program (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, among other things:

(i) an in-depth review of all components of the Program, and

(ii) a discussion of the options for ensuring the long-term sustainability of the health sector, including a review of the timeliness and adequacy of the Borrower's budgetary contribution to the financing of the Program.

(b) The Borrower shall, at least six (6) weeks prior to the Midterm Review, furnish to the Association and Donors a separate report describing the status of implementation of the Program and a summary report of Program implementation generally.

(c) The Borrower shall, not later than four (4) weeks after the Midterm Review, prepare an action plan, acceptable to the Association, for further implementation of the Program having regard to the findings of the Midterm Review and, thereafter, implement such action plan.

Budget Management

8. MOH shall be responsible for: (i) the preparation and implementation of health budgets at the central level, (ii) the consolidation of activities, at the central and regional levels, and (iii) the monitoring of the performance of sector delivery of health services.

9. RHBs shall prepare and implement annual plans and budgets for their respective Regions.

10. The Borrower shall adopt an action plan satisfactory to the Association designed to strengthen its financial management capacity to carry out the Program, and thereafter implement said action plan, in accordance with timetables included therein, with due diligence and efficiency.

Sector Financing

11. Not later than three months after the date of this Agreement, the Borrower shall adopt a health care financing strategy acceptable to the Association.

Impact Evaluation

12. Borrower shall: (a) not later than December 31, 2002, carry out, under terms of reference satisfactory to the Association, an evaluation of the impact of the Program on the delivery of health services, including an analysis on the benefits derived by vulnerable groups of the population from public expenditures on health, and (b) soon thereafter, furnish the report of said evaluation to the Association and Donors.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) 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 works, 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 Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$7,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 11,000,000.

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

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

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

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

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

