

CONFORMED COPY

CREDIT NUMBER 2883 PAK

Development Credit Agreement

(Northern Health Program Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1996

CREDIT NUMBER 2883 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 18, 1996, between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from Kreditanstalt fur Wiederaufbau (KFW) a grant (the KFW Grant) in an amount of \$10,600,000 equivalent to assist in financing part of the Project on the terms and conditions set forth in an agreement (the KFW Grant Agreement) to be entered into between the Borrower and KFW;

(C) the Project activities in Azad Jammu and Kashmir (AJK) will be carried out by AJK with the Borrower's assistance, and as part of such assistance, the Borrower will make available to AJK part of the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and AJK;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted; and
- (b) the second sentence of Section 5.01 is modified to read as follows:

"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 member of the Bank 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) "AJK" means the Territory of Azad Jammu and Kashmir and includes any successor thereto;
- (b) "Fiscal Year" and "FY" mean a fiscal year covering the period from July 1 to June 30;
- (c) "Grants" means, collectively, grants made or proposed to be made by AJK out of the proceeds of the Credit for the purposes of paragraph 1 of Schedule 2 to this Agreement, and "Grant" means each and every such Grant individually;
- (d) "NGO" means a non-governmental organization established and operating in the territory of the Borrower;
- (e) "NGO Fund" means the fund to be established by AJK by June 30, 1996, for making grants to NGOs and communities in AJK;
- (f) "Northern Areas" and "NA" mean the Northern Areas of the Borrower within the administrative jurisdiction of its Ministry of Kashmir Affairs and Northern Areas;
- (g) "Program" means the Borrower's activities in the health sector in the Northern Areas and AJK for the four Fiscal Years 1996/1997 to 1999/2000;
- (h) "Project Agreement" means the agreement between the Association and AJK of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (i) "SAP" means the five-year (FY 1994 through FY 1998) Social Action Program of the Borrower prepared within the overall framework of the Borrower's Eighth Five-Year Plan, with the objective of expanding and improving the coverage of delivery of services in the primary education, primary health, population welfare and rural water supply and sanitation sectors;
- (j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(k) "Subprogram" means activities to be carried out each Fiscal Year as part of the Program under the Project as agreed upon between the Borrower and the Association and which shall be reflected in an operational plan within the framework of the Program satisfactory to the Association.

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 eighteen million four hundred thousand Special Drawing Rights (SDR 18,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment, for purpose of carrying out the Project, as described in Schedule 2 hereto, in AJK. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 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 semi-annual installments payable on each May 15 and November 15 commencing

November 15, 2006 and ending May 15, 2031. Each installment to and including the installment payable on May 15, 2016, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

Section 2.09. The Additional Chief Secretary of AJK is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article V of the General Conditions, in respect of expenditures in AJK under the Project.

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:

- (i) shall carry out or cause to be carried out activities in the Northern Areas under the Project, through the Department of Health of the Northern Areas, with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and with the Health Policy for Northern Areas Health Services dated September 17, 1995, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such activities under the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause AJK to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AJK to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to AJK the proceeds of the Credit allocated from time to time to Categories 1 (a), 2 (a), 3 (a) and 4 of the table set forth in paragraph 1 of Schedule 1 to this Agreement, in accordance with its standard budgetary procedures, for purposes of activities under the Project to be carried out by AJK.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Borrower shall otherwise agree, the Borrower shall carry out or cause to be carried out the activities under 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. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of activities in AJK under the Project shall be carried out by AJK pursuant to Section 2.03 (a) of the Project Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the activities to be carried out in the Northern Areas under the Project of the departments or agencies of the Borrower responsible for carrying out said activities.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each Fiscal Year, audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit 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 each 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) AJK shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that AJK will be able to perform its obligations under the Project 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 (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) The Association: (i) has received satisfactory Subprograms for NA and AJK for FY 1996/1997; and (ii) is satisfied with the progress made in the carrying out of activities in the health sector in NA and AJK in FY 1995/1996; and

(b) The Executive Committee of the Borrower's National Economic Council has approved the Planning Commission (PC)-1 documents with respect to the Project.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by AJK, and is legally binding upon AJK in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this

Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division 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:

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Mansoor Elahi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mieko Nishimizu

Acting Regional Vice President
South Asia

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) Subprogram expenditures (including works, equipment materials, medicines and operating costs):		
(a) for AJK	Up to 1,450,000 for FY 1997 and, thereafter, such amount as may be allocated by the Association from time to time	19% for FY 1997 and, thereafter, such percentage as may be determined by the Association from time to time
(b) for NA	Up to 1,100,000 for FY 1997 and, thereafter, such amount as may be allocated by the Association from time to time	22% for FY 1997 and, thereafter, such percentage as may be determined by the Association from time to time
(2) Vehicles:		
(a) for AJK	1,380,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other vehicles procured locally
(b) for NA	140,000	
(3) Consultants' services and training:		
(a) for AJK	900,000	100%
(b) for NA	480,000	
(4) Grants	4,640,000	100% of Grants made
(5) Unallocated	8,310,000	
	<hr/>	
TOTAL	18,400,000 =====	

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:

(a) in respect of a Subprogram, unless such Subprogram has been approved by the Association in accordance with, and subject to, the provisions of paragraph 1 of Schedule 4 to this Agreement or paragraph 1 of Schedule 1 to the Project Agreement, as the case may be;

(b) in respect of a Grant, unless the Grant has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 to the Project Agreement; and

(c) in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for Subprograms, Grants and expenditures under contracts not exceeding the equivalent of: (i) \$200,000 for goods and works; (ii) \$100,000 for services of consulting firms; and (iii) \$50,000 for the services of individual consultants, 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 support the Northern Areas and AJK in improving, in an equitable manner, the health status of the population in all districts by implementing Subprograms, focusing on reductions in infant and maternal mortality and which: (i) improve the quality and sustainability of primary health care; (ii) increase the cost-effectiveness and coverage of health and family planning services; (iii) strengthen the capacity of the health sector through human resources development and training; and (iv) build institutional capacity through improved management and organizational development.

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:

1. the strengthening of community and NGO participation in health services by, inter alia, making grants from the NGO Fund for establishing and increasing community involvement in such services, expanding existing NGO health services and encouraging new NGO health-related initiatives;
2. the strengthening of health services administered by the Departments of Health of NA and AJK through upgrading of primary health facilities to a minimum standard of service provision for preventive and basic curative care, upgrading of first level referral services, particularly, to handle maternal emergencies and critically ill children and enhancing health education activities;
3. developing human resources through increasing the number of trained staff, particularly female paramedical staff, and establishing and upgrading paramedical training schools and in-service training facilities; and
4. strengthening of the management and planning capacity of the health services staff through management training and provision of technical assistance.

* * *

The Project is expected to be completed by June 30, 2000.

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 1996 (the Guidelines) and the following provisions of this Schedule, as applicable.

Part B: International Competitive Bidding

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

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraph 2 below, contracts for (i) works, equipment, materials and medicines, and (ii) vehicles estimated to cost the equivalent of \$500,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Contracts estimated to cost the equivalent of \$25,000 each or less for: (i) equipment and materials equivalent in the aggregate upto \$400,000 for NA and AJK each; and (ii) medicines equivalent in the aggregate upto \$250,000 and \$150,000 for AJK and NA, respectively, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Contracts for works in remote areas estimated to cost \$25,000 per contract or less and in the aggregate up to \$700,000 may be procured by inviting bids from at least three contractors.

4. Goods and services to be financed out of the proceeds of the Grants made under paragraph 1 of Schedule 2 to this Agreement shall be purchased at a reasonable price, account being taken also of other relevant factors, such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of services, of their quality and the competence of the parties rendering them.

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

With respect to the first four contracts each in NA and AJK and, thereafter, each contract for vehicles, equipment, materials and works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) by March 31 of each Fiscal Year during the implementation of the Project, or such later date as may be acceptable to the Association, provide or cause to be provided to the Association, for its assessment and review, each proposed Subprogram to be carried out in the next following Fiscal Year;

(b) by June 30 of each such Fiscal Year during the implementation of the Project, or such later date as may be acceptable to the Association, provide to the Association for its approval, each such Subprogram modified in a manner satisfactory to the Association, taking into account its comments and recommendations;

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

(d) not make any material changes to the agreed Subprogram without prior approval of the Association; and

(e) ensure that sufficient funds shall be released to the Department of Health of NA, not later than the fifteenth day of the beginning of each quarter during the period of the Program, for the purposes of implementing such part of the approved Subprogram as is to be carried out in that quarter.

2. The Borrower shall, with the participation of the Association, NGOs and community representatives, carry out: (a) no later than March 31 of each Fiscal Year during the implementation of the Project, an annual review of the Project for purposes, inter alia, of monitoring and evaluating progress made in the carrying out of the Project and the Subprograms carried out in the current Fiscal Year; and (b) no later than June 30 of each Fiscal Year during the implementation of the Project, an annual review of the Project for purposes, inter alia, of:

(i) reviewing the eligibility of Subprograms for financing out of the proceeds of the Credit in the following Fiscal Year, including the amounts to be allocated out of the proceeds of the Credit for such approved Subprograms; and (ii) obtaining the approval of the Association in respect of the expenditure program and the financing plan for the following Fiscal Year and the Borrower's contribution relating thereto.

3. The Borrower shall during the period 1996/1997 to 1999/2000, increase the overall level of spending on the Program, and on the non-salary recurrent costs under the Program by an average of 18% and 34% per annum, respectively, for NA and 11% and 18% per annum, respectively, for AJK, in constant price terms.

4. The Borrower shall ensure that an adequate number of qualified service delivery staff are available to assist in the implementation of the Program and shall not take any action to restrict or prohibit the recruitment of such staff.

5. The Borrower shall create and fill additional management positions in the district offices of the Department of Health by February 28, 1997. The additional management positions shall be agreed upon as part of the Subprogram for FY 1996/1997 approved pursuant to paragraphs 1 (a) and (b) of this Schedule.

6. The Borrower shall make arrangements satisfactory to the Association for obtaining and maintaining adequate provision of technical assistance and the involvement of NGOs and communities in the implementation of the Project.

7. The Borrower shall ensure that the Program Steering Committee, the NGO Program Committee and the District Health Committees shall each meet at least quarterly.

8. The Borrower shall, without limitation upon the provisions of Section 9.06 of the General Conditions, monitor and evaluate the implementation of the Program and, additionally, furnish the following reports to the Association:

(a) semiannual summary reports on the progress of the Program, not later than 60 days after the end of each six-month period during the implementation of the Project; and

(b) detailed progress reports on the Program by July 31, 1998, which reports shall discuss, inter alia, the achievement of the objectives of the Program. The Borrower shall review such reports with the Association by September 30, 1998.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (4) 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 Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means, an amount equivalent to \$400,000 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 \$200,000 until the aggregate amount of withdrawals from the eligible Category shall be equal to or exceed the equivalent of SDR 2,000,000.

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, as the case may be, 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 Category, 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 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.

