

CONFORMED COPY

CREDIT NUMBER 3060-MAG

Development Credit Agreement

(Second Community Nutrition Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 7, 1998

CREDIT NUMBER 3060-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 7, 1998, between REPUBLIC OF MADAGASCAR (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter dated January 30, 1998, from the Borrower, along with copies of a National Plan of Action for Nutrition, dated September 1997, and a National Food Security Strategy, dated December 4, 1997, describing a program of actions, objectives and policies designed to promote and strengthen the Borrower's food security and nutrition strategy (hereinafter referred to as "the Program"), and declaring the Borrower's commitment to the execution of the Program;

(C) pursuant to the Framework Agreement, dated July 3, 1968, between the Borrower and World Food Program (WFP), and Articles IX, X, XI and XII of the General Statutes of WFP, the Borrower expects to receive from WFP a grant (the WFP Grant) in an amount equivalent to about \$11,630,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the WFP Grant Agreement) to be entered into between the Borrower and WFP; 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, 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.

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

"Except as the Association and the Borrower 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."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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) "ACN" means agent communautaire de nutrition, a community nutrition worker referred to in paragraph 3 (b) of Schedule 4 to this Agreement;

(b) "Beneficiary" means a group of two or more households belonging to a community nutrition center referred to under Part A of the Project, or a school participating in the school nutrition program under Part B of the Project, as the case may be, which is determined to be eligible for a Community Fund Grant in terms of the eligibility criteria specified in the Project Implementation Manual, and for whose benefit a Community Fund Grant is provided, or proposed to be provided;

(c) "Beneficiary Contract" means a contract between the Borrower and a Beneficiary, and referred to in paragraph 8 (e) of Schedule 4 to this Agreement;

(d) "Community Fund" means the Community Fund established pursuant to Section 3.04 to provide Community Fund Grants;

(e) "Community Fund Grant" means a grant made or proposed to be made out of the proceeds of the Credit for the benefit of a Beneficiary to finance a Community Fund Subproject;

(f) "Community Fund Subproject" means a non-income generating activity referred to under Part A.7 or B.5 of the Project, and in respect of which a Community Fund Grant is provided, or proposed to be provided, for the benefit of a Beneficiary;

(g) "Franc Malagasy" and "FMG" mean the currency of the Borrower;

(h) "IEC" means information, education and communication;

(i) "MINAGRI" means Ministère de l'Agriculture, the Borrower's Ministry of Agriculture;

(j) "MINESEB" means Ministère de l'Enseignement Secondaire et de l'Education de Base, the Borrower's Ministry of Primary and Secondary Education;

(k) "MINSAN" Ministère de la Santé, the Borrower's Ministry of Health;

(l) "NGO" means a non-governmental organization operating in the territory of the Borrower;

(m) "PCU" means the Project Management Unit, established pursuant to Decree No. 92-612, dated June 5, 1992, and referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(n) "Project Account" means the account referred to in Section 3.05 (a) of this Agreement;

(o) "Project Implementation Manual" means the Project Implementation Manual adopted by the Borrower pursuant to Section 6.01 (a) of this Agreement, and referred to in paragraph 5 (a) of Schedule 4 hereto, as same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;

(p) "Regional PCU" means a Regional PCU referred to in paragraph 1 (b) of Schedule 4 to this Agreement; and

(q) "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 twenty million four hundred thousand Special Drawing Rights (SDR 20,400,000).

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: (i) 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of a Beneficiary under a Community Fund Grant to meet the reasonable cost of eligible expenditures relating to a Community Fund Subproject, and in respect of which the withdrawal from the Credit Account is requested.

(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 and attachment. 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 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 March 15 and September 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 March 15 and September 15, commencing September 15, 2008, and ending March 15, 2038. Each installment to and including the installment payable on March 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

Parts A and D of the Project through the Prime Minister's Office acting through PCU, and Parts B, C.1 and C.2 thereof through MINESEB, MINSAN and MINAGRI, respectively, with due diligence and efficiency, and in conformity with appropriate administrative, financial, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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 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.

Section 3.04. For the purposes of Parts A.7 and B.5 of the Project, the Borrower shall allocate an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (4) of the table in paragraph 1 of Schedule 1 to this Agreement, to establish a Community Fund to be used to provide Community Fund Grants, on the terms and conditions specified in paragraph 8 of Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association.

Section 3.05. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall open, in a commercial bank, and on terms and conditions satisfactory to the Association, a Project Account in Francs Malagasy, to be operated and maintained by PCU, into which the Borrower shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

(i) make an initial deposit of FMG 2,000,000,000 into the Project Account; and

(ii) thereafter, on each January 1 and July 1, during the implementation period of the Project, deposit into the Project Account an amount equal to half the amount of the initial deposit referred to in sub-paragraph (i) of this paragraph, or such other amount as shall have been agreed between the Borrower and the Association.

(c) Funds deposited into the Project Account shall be applied solely for the purposes of defraying the cost of expenditures incurred for the execution of the Project, and not otherwise financed out of the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of 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 financial statements, records and accounts and a 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, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 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) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) the WFP Grant Agreement shall have failed to become effective by December 31, 1998, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes that adequate funds for the Project are available to the Borrower from other sources;

(c) (i) subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the WFP Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the WFP Grant Agreement; and

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

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 Project Implementation Manual has been duly approved by the Association, and adopted by the Borrower;

(b) the Borrower has selected the auditors referred to in Article IV of this Agreement, in accordance with Section II of Schedule 3 to this Agreement;

(c) the Project Account has been duly opened, and the amount of the initial deposit referred to in Section 3.05 (b) (i) of this Agreement has been paid therein;

(d) four Regional PCUs have been duly established, and the National Project Director and other higher level staff referred to in paragraph 2 (a) of Schedule 4 to this Agreement, as well as the higher level staff referred to in paragraph 2 (b) of Schedule 4 to this Agreement, in respect of the four Regional PCUs, have been duly recruited, in accordance with Section II of Schedule 3 to this Agreement; and

(e) the Borrower has issued a request for proposals in view of the recruitment of consultants for the execution of Part D.1 of the Project.

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.

Section 6.03. The obligations of the Borrower under Article IV shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives 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 and Economy
Antananarivo 101
Madagascar

Cable address: Telex:
22489

For the Association:

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

Cable address: Telex:
INDEVAS 248423 (MCI) or
Washington, D.C. 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.

REPUBLIC OF MADAGASCAR

By /s/ Biclair Adrianantoandro

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

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) Civil works	550,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods	4,150,000	100% of foreign expenditures and 80% of local expenditures
(3) Drugs	890,000	100% of foreign expenditures and 80% of local expenditures
(4) Community Fund Grants	2,800,000	100% of amounts of Grants disbursed
(5) Consultants' services and audits	8,260,000	100%
(6) Training	1,480,000	100%
(7) Operating costs	1,640,000	85%
(8) Unallocated	630,000	
TOTAL	20,400,000	

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;

(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 "operating costs" means the incremental operating costs incurred

by PCU and Regional PCUs under the Project on account of (i) salaries and related social charges, travel costs and allowances of locally-recruited contractual support staff, (ii) hiring of vehicles and equipment, (iii) operation and maintenance of vehicles and equipment, (iv) banking charges, and (v) office rent, supplies, and communications, water and electricity charges.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement; or

(b) in respect of a Community Fund Grant, unless the Community Fund Grant has been provided in accordance with the procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Project Implementation Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and consultants' services (firms) under contracts not exceeding \$100,000 equivalent, consultants' services (individuals) under contracts not exceeding \$25,000 equivalent, Community Fund Grants, operating costs and training, 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 improve the nutritional status of children under three, primary school children, and pregnant and lactating women, and ensure long-term sustainability of nutrition outcomes by improving the quality and quantity of food intake by children at home; and, in so doing, improve quality of life and productivity, decrease child morbidity and mortality rates, and support primary education.

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: Community Nutrition Program

1. Carrying out of a campaign of sensitization of local village authorities, including introduction of the objectives and activities of the community nutrition program to village authorities, election of a community nutrition worker and identification of a location for a nutrition center, and rehabilitation of the center and acquisition of basic equipment as needed.

2. Carrying out of a program of growth promotion and monitoring, including a census of all children under three, periodic weighing of such children, provision of counseling to mothers on the nutritional status of children and advice based on the respective children's needs and, in cases of malnourished children, implementation of a food supplementation program accompanied by regular weighing of such children.

3. Acquisition of materials and equipment for the treatment of severely malnourished children, and provision of supplemental food for the benefit of such children and their mothers.

4. Carrying out of a program of cooking demonstrations, including efforts to teach mothers how to prepare recipes and demonstrate the nutritional value of food ingredients and the best ways to conserve them, and provision of counseling on child care, food selection and preparation and other nutrition-related subjects.

5. Implementation of supplemental feeding program for pregnant mothers and children who are considered at risk according to their growth chart, coupled with the carrying out of an extensive IEC campaign designed to ensure that food provided under the supplemental feeding program will be consumed by the intended beneficiaries of the program.

6. Distribution of vitamin A capsules to children under three years old, and lactating mothers within the first six weeks of delivery.

7. Provision of technical advisory services and material support to implement community-based activities, including review of the nutrition situation of the

village, identification of solutions and design of feasible and sustainable activities, and provision of small grants to finance non-income generating activities sponsored by communities and designed to address nutrition- and hygiene-related issues.

8. Organization of a competition to reward the most dynamic nutrition centers, in terms of progress achieved in the implementation of the community nutrition program, and activities undertaken to develop nutrition, child care, sanitation or agriculture.

9. Provision of training to ACNs and social workers in technical matters related to nutrition, and in communications techniques, and to NGOs in food management and distribution, and provision of IEC materials. 10. Carrying out of operational research and surveys to measure the performance and impact of the community nutrition program in target areas.

Part B: School Nutrition Program

1. Distribution of iron/folate tablets to enrolled primary school children in accordance with the national treatment protocol issued by MINSAN.

2. Distribution of Mebendazole or Albendazole tablets to children between 3 and 14 years old, whether enrolled or not, in primary schools, to be preceded by information and sensitization campaigns to be organized at national and regional levels.

3. Carrying out of a campaign to promote good nutrition and hygiene, through messages relating to children's daily lives, including the provision of pamphlets, written materials and lectures, to be delivered by teachers to children during regular classes and to parents during formal and informal meetings.

4. Provision of materials to schools to assist in monitoring the quality of iodized salt consumed by households and sensitize children and parents about the importance of consuming iodized salt.

5. Provision of technical advisory services and material support to implement school-based activities, including identification of activities designed to improve nutrition and hygiene in the school environment, and provision of small grants to finance non-income generating activities designed to address nutrition- and hygiene-related issues.

6. Organization of a competition to reward the most dynamic schools, in terms of progress achieved in the implementation of the school nutrition program, and activities developed to improve nutrition and hygiene in the school environment.

7. Provision of training to teachers on the technical content of the school nutrition program, on strategies to promote good nutrition and hygiene in and around the school, and on communications' techniques, and provision of training of trainers and trainers' trainers to that effect.

8. Carrying out of operational research and surveys to measure the performance and impact of the school nutrition program, including surveys on the prevalence of helminth infections and anemia, and a beneficiary assessment.

Part C: Intersectoral Activities

1. Provision of technical advisory services and material support to assist MINSAN in the implementation of a training program on the proposed Integrated Management of Childhood Illness (IMCI) and, in so doing, improve the capacity of health staff to provide nutrition and other quality care to children, and offer adequate counseling to mothers.

2. Elaboration of technical guides on improved agricultural techniques, and implementation of pilot projects in selected areas, with a view to increasing agricultural diversification for nutritional purposes and improving the conservation of food and agricultural products.

Part D: IEC Training, Evaluation and Management

1. Design, implementation and monitoring of an IEC and training strategy for the community and school nutrition programs.

2. Design, installation and management of a management information system for the monitoring and supervision of all activities carried out under the Project.

3. Project coordination and management.

* * *

The Project is expected to be completed by July 31, 2003.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

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

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

Furniture, equipment and other goods, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and local transportation of food supplies, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Furniture, equipment, goods and office supplies 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 contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Furniture, equipment, goods and office supplies, estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and local transportation of food supplies, 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.

4. Procurement from UN Agencies

Furniture, equipment, goods and office supplies estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured through Inter-Agency Procurement Services Office (IAPSO) or United Nations Procurement and Assembly Center (UNIPAC), and drugs, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured through UNIPAC, in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Direct Contracting

Drugs required to be procured through the Borrower's Central Procurement Agency and costing \$1,200,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Community Participation

Small works, equipment and goods required under Community Fund Grants, estimated to cost less than \$2,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured in accordance with procedures acceptable to the Association and specified in the Implementation Manual.

7. Procurement of Small Works

Civil works estimated to cost less than \$3,000 equivalent per contract, up to an amount not to exceed \$1,000,000 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 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 the purchase of drugs, the following procedures shall apply:

(i) prior to the execution of any contract procured under Part C.4 or C.5 of this Schedule, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(ii) in addition, 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

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 (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 under Parts A, C and D of the Project, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, 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 financial audits estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Single Source Selection

Services for (a) assignments related to specialized community mobilization and training, and service delivery contracts involving the use of NGOs, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,400,000 equivalent, (b) elaboration of technical guides, and implementation of pilot projects to be undertaken by Food and Agricultural Organization (FAO), up to an aggregate amount not to exceed \$300,000 equivalent, under Part C.2 of the Project, and (c) technical audits to be undertaken by United Nations Children's Fund (UNICEF), estimated to cost less than \$100,000 equivalent per annual contract, up to an aggregate amount not to exceed \$300,000 equivalent, 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 tasks that meet the requirements set forth in paragraph 5.01 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.

4. Community Participation Services required under Community Fund Grants, estimated to cost less than \$2,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured in accordance with procedures acceptable to the Association and specified in the Implementation Manual.

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 consulting firms estimated to cost the equivalent of \$200,000 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 less than \$200,000 but more than \$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 \$25,000 or more, as well as the National Project Director and other higher level staff of the PCU and Regional PCUs,

who are referred to in paragraph 2 (a) and (b) of Schedule 4 to this Agreement, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after 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. (a) The Borrower shall maintain the PCU to be responsible for the overall coordination of the execution of the Project, including: (i) management of procurement and disbursement activities, and preparation of annual and quarterly progress reports, audits under Article IV of this Agreement, and work plans and training programs, under the Project, and (ii) monitoring of the achievement of objectives of the Project, and evaluation of the impact of the activities thereof.

(b) PCU shall be assisted, in each of the six regions forming part of the Borrower's territory, by a Regional PCU, to which PCU shall delegate responsibility for execution and coordination of the Project.

2. (a) PCU shall be headed by a National Project Director, who shall be assisted by an Administrative and Financial Director, an internal auditor, an accountant, a procurement specialist, an education specialist, a nutrition specialist and a communication specialist.

(b) Each Regional PCU shall be headed by a Regional Project Director, who shall be assisted by a Regional Administrative and Financial Director, an accountant, and procurement, education, nutrition and communication specialists.

(c) The Borrower shall ensure that the higher level positions of PCU and Regional PCUs, which are referred to in this paragraph, shall be kept filled at all times by appropriate officials, having qualifications, experience and terms of reference which shall have been communicated to, and deemed acceptable by, the Association.

3. (a) Subject to the authority of the PCU, a Regional PCU shall, in its respective region, execute Parts A and D of the Project, in collaboration with one or more local NGOs, and be responsible for coordination of Parts B and C of the Project.

(b) Where, in any region, a village community has decided to elect a community nutrition worker (ACN) and to provide a location for a community nutrition center, the Regional PCU shall vest responsibility for all nutrition activities in the center in the ACN, as well as responsibility for the promotion of community-based activities designed to improve nutrition, hygiene and sanitation in a social worker to be recruited by a local NGO.

4. For purposes of Part B of the Project, the Borrower shall take steps to ensure that agreements are concluded as needed with private schools to provide funding in such private schools in support of activities pertaining to the school nutrition program and included under Part B of the Project.

5. The Borrower shall:

(a) prepare and transmit to the Association a Project Implementation Manual, acceptable to the Association, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project, including, in the case of Community Fund Grants, full details of procedural arrangements for the identification, preparation, approval and implementation of Community Fund Subprojects, and submission of requests for financing, criteria for the determination of eligible Beneficiaries and approval of Community Fund Grants, applicable procurement, disbursement and other implementation guidelines, and model forms of Beneficiary Contracts; and

(b) carry out the Project in accordance with procedures set out in the Project Implementation Manual and, except as the Association shall otherwise agree,

shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 5 (a) of this Schedule, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than November 30 of each year, undertake, in conjunction with the Association and other interested donors, a joint annual review of the Project or, in the case of the review to be undertaken not later than November 30, 2000, a midterm review, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower of its obligations under this Agreement, including:

- (i) the progress achieved by the Borrower in the implementation of the Project, having regard to the performance indicators referred to in paragraph 5 (a) of this Schedule,
- (ii) a review of the proposed work plans and budget for the forthcoming fiscal year, and
- (iii) a review of the impact of the Project, including results of beneficiary assessments undertaken thereunder;

(c) not later than two months prior to each such annual or midterm review, furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, of the various matters to be discussed at such review; and

(d) following each such review, undertake to act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

7. (a) The Borrower shall, not later than September 30 of each year, submit to the Association, for review and approval, proposed annual work plans and budget for the forthcoming fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement activities, and such other particulars as the Association may require.

(b) The Borrower shall submit to the Association, for review,

- (i) not later than January 31 and July 31 of each year, six-monthly progress reports on the status of the Project, and
- (ii) reports as needed on the award of contracts under the Project.

8. Further to Section 3.04 of this Agreement, the proceeds of the Credit provided for the establishment of the Community Fund shall be subject to the following additional terms and conditions:

(a) the amount so provided shall be used exclusively to provide Community Fund Grants to finance Community Fund Subprojects, in accordance with criteria, and terms and conditions, set forth in the Project Implementation Manual;

(b) no Community Fund Grant shall be granted except to finance a Community Fund Subproject sponsored by a school or community, as the case may be, which is consistent with the Borrower's program of actions, objectives and policies as set forth in the Program, and whose objective is to promote activities designed to strengthen nutrition, hygiene and sanitation in a sustainable manner in the school or community;

(c) Community Fund Grants shall be provided for the benefit of eligible Beneficiaries, and according to a cost-sharing formula, which shall be acceptable to the Association and specified in the Project Implementation Manual, provided, however, that:

- (i) the proceeds of a Community Fund Grant shall not be used to

finance taxes or duties levied on or in respect of eligible expenditures relating to a Community Fund Subproject, or any part thereof;

(ii) the amount of each Community Fund Grant shall not exceed 80 percent of the total cost of the Community Fund Subproject; and

(iii) except as the Association may otherwise agree, Community Fund Grants provided in respect of a Community Fund Subproject shall not exceed an amount of \$200 equivalent;

(d) goods, services and civil works required for the purposes of financing Community Fund Subprojects shall be procured in accordance with procedures acceptable to the Association, and set forth in the Project Implementation Manual; and

(e) for purposes of each Community Fund Grant, the Borrower shall conclude a contract with the Beneficiary in the form of the model provided in the Project Implementation Manual, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, the amount of the Beneficiary's contribution to the cost of the Community Fund Subproject, and the right of the Borrower to:

(i) require the Beneficiary to carry out the Community Fund Subproject with due diligence and efficiency and in accordance with sound technical, financial, and managerial standards and practices, and to maintain adequate records;

(ii) obtain all such information as the Association or the Borrower shall reasonably request relating to the implementation of the Community Fund Subproject and the performance of the Beneficiary thereunder; and

(iii) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Community Fund Grant upon failure by such Beneficiary to perform its obligations under such contract.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (7) 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, as well as amounts paid or to be paid under Community Fund Grants, 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 \$1,500,000 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 \$1,000,000 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 3,500,000.

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 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.

