

CONFORMED COPY

CREDIT NUMBER 3380 TA

Development Credit Agreement

(Health Sector Development Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 12, 2000

CREDIT NUMBER 3380 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 12, 2000, between the UNITED REPUBLIC OF TANZANIA (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 the following documents: (i) a letter from the Borrower, dated February 25, 2000, describing the Borrower's Health Sector Reform, which constitutes the framework for improving health services in Tanzania; (ii) the three-year Program of Works (POW), dated June 1999, from the Borrower, part of which describes a program of actions, objectives, and policies designed to implement activities under the Borrower's Health Sector Reform for the Fiscal Years 1999 to 2002; and (iii) the Proposals for Health Sector Reform, dated December 1994 (the three documents collectively referred to as the Program), declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of 12 years, the proceeds of such Credits to be utilized by the Borrower for implementing the Program;

(D) the Borrower intends to obtain from various Donors (as hereinafter defined) grants and loans to assist in financing the Program;

(E) the Borrower, the Association, and the Donors intend to enter into a Memorandum of Understanding providing for common procedures on procurement, disbursement, cooperation, and exchange of information; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below, (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall, in its sole discretion, determine"; and

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "Annual Reviews" means the annual reviews referred to in Section I, paragraph 9 (b) of Schedule 4 to this Agreement;

(b) "Basket Financing Committee" means the committee, established on October 29, 1999, co-chaired by the Permanent Secretary of the MOH (as hereinafter defined) and the Permanent Secretary of the MRALG (as hereinafter defined), consisting of senior officials of the MOH, the MRALG, the Ministry of Finance, and representatives of the Donors (as hereinafter defined), including the Association, and referred to in Section I, paragraphs 6 and 7 of Schedule 4 to this Agreement;

(c) "Beneficiaries" means the CHF Grant Beneficiaries (as hereinafter defined), the HIV/AIDS Fund Grant Beneficiaries (as hereinafter defined), and the Local Authority Grant Beneficiaries (as hereinafter defined);

(d) "BOT" means the Bank of Tanzania established pursuant to the Bank of Tanzania Act, No. 12 of 1965, as amended;

(e) "Central Subprogram" means the annual central program of activities included in the Program to be carried out in each Fiscal Year (as hereinafter defined) under Parts A, B, and C of the Project, as agreed upon between the Borrower, the Association, and any participating Donors, referred to in Section II, paragraphs 1 and 2 of Schedule 4 to this Agreement;

(f) "CHF" means Community Health Fund, a community-based prepayment scheme for basic health services;

(g) "CHF Grants" means matching grants under Part C of the Project, made to CHF Grant Beneficiaries (as hereinafter defined) to match the funds provided by such CHF Grant Beneficiaries to the CHF;

(h) "CHF Grant Agreement" means an agreement between the Borrower and a CHF Grant Beneficiary (as hereinafter defined) setting forth the terms and conditions under which CHF Grants shall be made available to the CHF Grant Beneficiaries under Part C of the Project;

(i) "CHF Grant Beneficiaries" means district health boards determined to be eligible for CHF Grants and to whom or for whose benefit CHF Grants are made or proposed to be made;

(j) "CHF Grant Manual" means the manual, in form and substance satisfactory to the Association, setting forth the terms and conditions under which proceeds of the Credit shall be made available to the CHF Grant Beneficiaries under Part C of the Project;

(k) "Donors" means, collectively, the Association, the Danish International Development Agency, the Department for International Development of the United Kingdom of Great Britain and Northern Ireland, Ireland Aid, the Norwegian Agency for International Development, the Swiss Agency for Development Cooperation, the Netherlands, and any other national or international agency contributing funds or technical assistance for the Program, and "Donor" means each and every donor individually;

(l) "Fiscal Year" or "FY" mean the fiscal year of the Borrower which commences on July 1 and ends on June 30 of the year immediately following;

(m) "HIV/AIDS Fund" means the Borrower's national HIV/AIDS Fund to be set up by the Borrower to finance HIV/AIDS-related programs, proposed and to be implemented by the Borrower's ministries, local government authorities, and NGOs;

(n) "HIV/AIDS Fund Grants" means grants under Part D of the Project, made to HIV/AIDS Fund Grant Beneficiaries (as hereinafter defined) to finance activities under the HIV/AIDS Fund;

(o) "HIV/AIDS Fund Grant Agreement" means an agreement between the Borrower and an HIV/AIDS Fund Grant Beneficiary (as hereinafter defined) setting forth the terms and conditions under which HIV/AIDS Fund Grants shall be made available to the HIV/AIDS Fund Grant Beneficiaries under Part D of the Project;

(p) "HIV/AIDS Fund Grant Beneficiaries" means government entities and NGOs determined to be eligible for HIV/AIDS Fund Grants and to whom or for whose benefit HIV/AIDS Fund Grants are made or proposed to be made;

(q) "HIV/AIDS Fund Grant Manual" means the manual, in form and substance satisfactory to the Association, setting forth the terms and conditions under which proceeds of the Credit shall be made available to the HIV/AIDS Fund under Part D of the Project, referred to in paragraph 3 (d) of Schedule 1 to this Agreement;

(r) "IAPSO" means the Inter-Agency Procurement Services Office, established by the United Nations Development Programme;

(s) "Local Authority Grants" means grants under Part A.1 of the Project made to Local Authority Grant Beneficiaries (as hereinafter defined) to improve the access to, and the quality and efficiency of, district-based primary health services;

(t) "Local Authority Grant Agreement" means an agreement between the MRALG and Local Authority Grant Beneficiaries (as hereinafter defined) setting forth the terms and conditions under which Local Authority Grants shall be made

available to the Local Authority Beneficiaries under Part A.1 of the Project;

(u) "Local Authority Grant Beneficiaries" means elected city councils, municipal councils, town councils, and district councils, determined to be eligible for Local Authority Grants and to whom or for whose benefit a Local Authority Grant is made or proposed to be made;

(v) "Local Authority Grant Manual" means the manual, in form and substance satisfactory to the Association, setting forth the terms and conditions under which proceeds of the Credit shall be made available to Local Authority Grant Beneficiaries under Part A.1 of the Project, referred to in paragraph 3 (c) of Schedule 1 to this Agreement;

(w) "Midterm Review" means the midterm review referred to in Section I, paragraph 9 (b) of Schedule 4 to this Agreement;

(x) "MOH" means the Borrower's Ministry of Health;

(y) "MOU" or "Memorandum of Understanding" means the memorandum of understanding to be entered into by the Borrower, the Association, and the Donors, providing for common procedures on procurement, disbursement, cooperation, and exchange of information;

(z) "MRALG" means the Borrower's Ministry of Regional Administration and Local Government;

(aa) "NGO" means a non-profit nongovernmental organization, operating within the Borrower's territories;

(bb) "PIP" means the plan, in form and substance satisfactory to the Association, to which is attached the MOU, containing, inter alia: (i) annual work plans and budgets approved by the Association and the Donors for each Fiscal Year; (ii) monitoring and performance indicators; (iii) details of all procurement and disbursement arrangements under the Project; (iv) guidelines and procedures to be used for the purpose of implementation of the Program and Project; and (v) such other administrative, financial, and organizational arrangements as shall be required, as the plan may be amended from time to time in consultation with the Association and the Donors, and such term includes any schedules to the PIP;

(cc) "Pooled Funds" means funds deposited in the US Dollar Holding Account (as hereinafter defined) provided by the Donors in support of the Program;

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

(ee) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreements signed (i) on behalf of the Association on July 22, 1999 and on behalf of the Borrower on August 3, 1999; and on behalf of the Association on March 27, 2000 and on behalf of the Borrower on April 6, 2000;

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

(gg) "UNICEF" means the United Nations Children's Fund;

(hh) "US Dollar Holding Account" means the account in the BOT, or another bank acceptable to the Association, set up for the purpose of holding the Pooled Funds, referred to in Section I, paragraph 8 of Schedule 4 to this Agreement; and

(ii) "WHO" means the World Health Organization.

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 sixteen million, two hundred thousand Special Drawing Rights (SDR 16,200,000).

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) by the Borrower on account of withdrawals made for the benefit of any Beneficiaries under CHF Grant Agreements, HIV/AIDS Fund Grant Agreements and Local Authority Grant Agreements, to meet the reasonable cost of goods, works, and services required for the CHF Grants, the HIV/AIDS Fund Grants and the Local Authority Grants under, respectively, Parts A.1, C, and D of the Project, and in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in U.S. dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable

semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2010 and ending April 1, 2040. Each installment to, and including the installment payable on, April 1, 2020 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

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

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

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

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

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than December 31, 2001, or such later date as the Association shall agree, to prepare

quarterly Project Management Reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

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

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Program shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

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

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VI

Effective date; Termination

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

(a) the Borrower has established an accounting and financial management system satisfactory to the Association;

(b) the Borrower has appointed the independent auditors referred to in Section 4.01 (b) of this Agreement, under terms and conditions acceptable to the Association, in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) the Borrower has adopted the PIP; and

(d) the Borrower has furnished to the Association an annual work plan, satisfactory to the Association, covering the period July 1, 2000, through June 30, 2001.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
P.O. Box 9111
Dar es Salaam
United Republic of Tanzania

Cable address: Telex: Facsimile:

117790 TREASURY 41329 (255-51)
Dar es Salaam

For the Association:

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

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
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.

UNITED REPUBLIC OF TANZANIA

By /s/ Mustafa Nyang'anyi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Theodore Ahlers

Acting 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) Central Subprograms		
(a) Pooled Funds eligible under the Central Sub- such percentage Association from	Up to 1,500,000 in the aggregate for the period covering July 1, 2000 to June 30, 2001, and thereafter, such amount as may be allocated for each FY by the Association	50% of expenditures program or other as the may determine time to time.
(b) Association eligible foreign under the Subprogram or percentage Association may determine from time to of eligible consultants'	Up to 3,300,000 in the aggregate for the period covering July 1, 2000 to June 30, 2001, and thereafter, such amount as may be allocated for each	100% of expenditures Central such other as the time; and 90% local

expenditures under services, studies, Subprogram or training, and percentage as incremental Association may operating costs; time to time. and	FY by the Association	the Central such other the determine from
(c) CHF Grants amounts disbursed	Up to 350,000 in the aggregate for the period covering July 1, 2000 to June 30, 2001, and thereafter, such amount as may be allocated for each FY by the Association	100% of
(2) Local Authority 100% of amount disbursed Grants	Up to 100,000 in the aggregate for the period covering July 1, 2000 to June 30, 2001, and thereafter, such amount as may be allocated for each FY by the Association	
(3) HIV/AIDS Fund amounts disbursed Grants	1,500,000	100% of
(4) Refunding of Project Amount due pursuant to Preparation Advance (c) of this	1,000,000	Section 2.02 Agreement
(5) Unallocated	8,450,000	
TOTAL	16,200,000	

2. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means eligible expenditures as listed in the PIP and agreed to by the Association;

(c) the term "Pooled Funds expenditures" means expenditures financed out of the US Dollar Holding Account;

(d) the term "Association financing expenditures" means expenditures solely financed by the Association;

(e) 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

(f) 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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 500,000, may be made in respect of Categories 1 (a), (b), and (c) on account of payments made for expenditures before that date but after January 1, 2000;

(b) under Categories 1 (a) and (b), unless the Central Subprograms have been approved by the Association in accordance with, and subject to, the provisions of paragraphs 1 and 2 of Section II of Schedule 4 to this Agreement;

(c) under Category (2), unless such Local Authority Grants have been made (i) pursuant to the terms of the Local Authority Grant Manual; and (ii) in accordance with, and subject to, the provisions of paragraphs 7 and 8 of Section II of Schedule 4 to this Agreement;

(d) under Category (3), unless such HIV/AIDS Fund Grants have been made (i) pursuant to the terms of the HIV/AIDS Fund Grant Manual; and (ii) in accordance with, and subject to, the provisions of paragraphs 5 and 6 of Section II of Schedule 4 to this Agreement; and

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (i) goods and drugs under contracts costing less than \$100,000 equivalent each; (ii) civil works under contracts costing less than \$300,000 equivalent each; (iii) consultants' services (firms) under contracts costing less than \$100,000 equivalent each; (iv) consultants' services (individuals) under contracts costing less than \$50,000 equivalent each; and (v) operating costs and training under contracts costing less than \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving the resource management and quality of health services in the territory of the Borrower through health sector reforms and institutional capacity building.

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:

Part A: Strengthening Health Service Delivery

The carrying out of Central Subprograms for:

1. District Health Services

Improving the access to, and the quality and efficiency of, district-based primary health services by strengthening the planning and management capacity of decentralized district health and administration systems through the rehabilitation of health facilities and the provision of training, technical advisory services, equipment, drugs and medical supplies, and the provision of

Local Authority Grants.

2. Regional and Tertiary Hospitals

Strengthening and reorienting secondary and tertiary health services and improving the quality, efficiency, and financial viability of regional and tertiary hospitals, through rehabilitation of facilities, provision of training, provision of technical advisory services, and acquisition of drugs and equipment.

3. Promotion of Private Sector Involvement

Increasing the promotion of private sector involvement in the delivery of health services through training of health service providers and the provision of technical advisory services.

Part B: Strengthening the MOH and Central Support Systems

The carrying out of Central Subprograms for:

1. Strengthening the capacity of MOH in the areas of policy development, analysis and national planning, quality assurance, performance-based budgeting, performance monitoring and evaluation, development of health legislation and regulations, and the implementation and management of the Program, through the provision of equipment, training, and technical advisory services.

2. Strengthening the national support system for drugs, medical supplies and equipment, infrastructure, health management information systems, and transportation management, through the rehabilitation of infrastructure and the provision of works, equipment, training, and technical advisory services.

3. Strengthening of human resource development in the health sector through (a) the development and implementation of training programs for health workers in clinical, public health, and management skills, as well as hospital administration, including finance and budget; and (b) strengthening the capacity of local health training institutions through the rehabilitation of school infrastructure, acquisition of supplies and teaching materials, revision of curricula, retraining of trainers, and the provision of technical advisory services.

Part C: Health Financing

The carrying out of Central Subprograms for the strengthening of financing options and financial management of the health sector by developing and refining alternative financing mechanisms (including the establishment of a national health insurance scheme and the piloting of a revolving financing scheme for drugs), through the provision of CHF Grants, training, technical advisory services, and equipment.

Part D: HIV/AIDS

1. Strengthening the institutional framework and capacity of the Borrower to manage and coordinate the national and multi-sectoral responses to HIV/AIDS, the establishment of a modality for effective coordination and advocacy, and the identification of best practices to minimize the negative impacts of the epidemic, through the provision of technical advisory services, training, and equipment.

2. Carrying out of HIV/AIDS-related programs proposed by HIV/AIDS Fund Grant Beneficiaries, through the provision of HIV/AIDS Fund Grants.

* * *

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

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 and January 1999, (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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

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

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$300,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 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.

3. Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures

in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Pharmaceuticals and medical supplies estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000, may be procured from UNICEF, WHO, and other specialized agencies of the United Nations, and goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000, may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Parts A and C of the Project shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for 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 (i) the first three contracts for goods, estimated to cost the equivalent of \$30,000 or more; and (ii) the first three contracts for works, estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply; and

(b) Thereafter, with respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, and for works estimated to cost the equivalent of \$300,000 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

Part A: General

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

Part B: Quality- and Cost-Based Selection

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

2. The following provisions shall apply to consultants' services to be

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for small contracts estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for simple assignments may, with the Association's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-Cost Selection

Services for audits and non-complex engineering estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Single Source Selection

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

5. Individual Consultants

Services for consultants to be employed may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms 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 \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the

consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after 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

Section I: General Project Implementation

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

2. The Permanent Secretary of the MOH, in close cooperation with the Permanent Secretary of the MRALG, shall be responsible for the overall coordination, monitoring, and supervision of activities under the Project, including, inter alia, overseeing the health sector policy reform, coordinating the Central Subprograms, and coordinating the assistance from Donors to the Program.

3. In order to facilitate implementation of the Project, the day-to-day monitoring and coordination of the Project shall be carried out by the Director of Health Policy and Planning of the MOH, in close cooperation with the Chief Medical Officer of the MOH and the Director of Local Government of MRALG.

4. The coordination and supervision of all accounting and financial matters under the Project shall be the responsibility of the Chief Accountant of the MOH. The coordination and supervision of the procurement of goods, works, and services financed under the Program, including the reviewing of procurement procedures and processes, shall be the responsibility of the MOH Director of Administration and Personnel. All professional accounting and procurement staff responsible for the implementation of the Project shall have terms of reference and qualifications satisfactory to the Association.

5. The Borrower shall, no later than December 31, 2001, or such later date as the Association shall agree, carry out, under terms of reference satisfactory to the Association and the Donors, an assessment of the health facilities network, and based on the results thereof, deliver a report setting forth a realistic and affordable strategy for health infrastructure development and maintenance to be financed under the Project.

6. Basket Financing Committee

The Basket Financing Committee shall be responsible for (i) reviewing and approving annual work plans and budgets which are to be financed from the Pooled Funds; (ii) agreeing on the level of Donor funding; (iii) reviewing and approving the allocation and, if necessary, the reallocation of Pooled Funds; (iv) reviewing and approving quarterly progress reports related to any activities financed by the Pooled Funds; and (v) releasing the Pooled Funds for the following quarter.

7. The Borrower shall, not later than six weeks after every quarter after the Effective Date, or such later date as the Association may agree, furnish to the Basket Financing Committee for its approval any activities to be financed through the Pooled Funds, to be carried out in the following quarter, modified in a manner satisfactory to the Basket Financing Committee, taking into account its comments and views on the matter.

8. US Dollar Holding Account

The Borrower shall open and maintain in BOT or another bank acceptable to the Association the US Dollar Holding Account into which the Pooled Funds will be deposited. The Pooled Funds shall be used exclusively for the purpose of the Program.

9. Performance Indicators, Annual Reviews and Midterm Review

The Borrower shall:

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

(b) carry out, jointly with the Association and the Donors, (i) not later than March 31, 2001 and March 31, 2003, the Annual Reviews; and (ii) not later than March 31, 2002, the Midterm Review. The Annual Reviews and the Midterm Review shall cover, among other things (A) progress made in meeting the Project's objectives; and (B) overall Project performance as measured against Project performance indicators;

(c) The Borrower shall, at least three (3) weeks prior to the Annual Reviews and the Midterm Review, furnish to the Association (i) annual work plans and budgets, as well as (ii) a report describing the status of the items listed in paragraph (a) above and of Project implementation generally;

(d) The Borrower shall, not later than six (6) weeks after the Annual Reviews and the Midterm Review, revise the annual workplans and budgets and prepare an action program, acceptable to the Association, for further implementation of the Project having regard to the findings of the Annual Reviews and the Midterm Review and, thereafter, implement such action program; and

(e) consolidate quarterly reports on the activities of the Project, financed through the Pooled Funds, not later than six (6) weeks after the end of each quarter, or such later date as the Association shall agree, and furnish reports to the Basket Financing Committee for its review and comments.

10. Procurement Audits

The Borrower shall, not later than six (6) weeks after the end of each Fiscal Year, or such later date as the Association shall agree, furnish to the Association an audit report on the procurement of goods, works, and consultants' services carried out under the Project, drafted by independent auditors acceptable to the Association.

Section II: Central Subprograms/Grants

1. The Borrower shall:

(a) not later than August 15, November 15, February 15 and May 15 of each Fiscal Year during the implementation of the Project, or such later date as the Association may agree, commencing on August 15, 2000, furnish to the Association for its approval the proposed Central Subprogram to be carried out in the following quarter, modified in a manner satisfactory to the Association, taking into account its comments and views on the matter;

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

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

2. Except as the Borrower and the Association shall otherwise agree, the

Association shall not approve any proposal for a Central Subprogram furnished to it pursuant to subparagraph 1 (a) above unless and until:

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

(b) the Association shall have been satisfied with the progress made to date in the carrying out of the current activities under the Central Subprogram to which the proposal relates on the basis of indicators referred to in Section I, paragraph 9 of this Schedule.

3. Eligibility Criteria for CHF Grants

No CHF Grant shall be eligible for financing out of the proceeds of this Credit unless the Borrower has determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the CHF Grant Manual, that the CHF Grant satisfies the eligibility criteria specified in the CHF Grant Manual, including, in particular, the following:

(a) the CHF Grant shall be for activities related to health, including small works and minor repairs of facilities; purchase of furniture, equipment, drugs and medical supplies; community-based preventative and health promoting activities; training of community members and medical/clinical staff in the ward;

(b) the CHF Grant shall be initiated by CHF Grant Beneficiaries;

(c) the CHF Grant shall be in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety, and environmental protection, as well as the Association's applicable guidelines.

4. Terms and Conditions Regarding CHF Grants

Activities under the CHF Grants shall be carried out pursuant to CHF Grant Agreements, to be concluded between the Borrower and the legally established and authorized representative or representatives of the CHF Grant Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing by the Borrower on a grant basis, except that all CHF Grant Beneficiaries shall make a matching contribution as provided for in the CHF Grant Manual;

(b) the obligation to (i) carry out the CHF Grants in accordance with the CHF Grant Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental, and managerial standards; and (ii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources, and expenditures in respect of the CHF Grants;

(c) the requirement that (i) the goods, works, and services to be financed out of the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works, and services shall be used exclusively in the carrying out of activities to be financed by the CHF Grants;

(d) the right of the Borrower to inspect by itself, or jointly with the Association and the Donors, if the Association and the Donors shall so request, the goods, works, sites, plants, and construction included in the CHF Grants, the operations thereof, and any relevant records and documents;

(e) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration,

operation, and financial condition of the CHF Grants; and

(f) the right of the Borrower to suspend or terminate the right of the CHF Grant Beneficiaries to use the proceeds of the Credit for the CHF Grants upon the failure by the CHF Grant Beneficiaries to perform any of their obligations under the relevant agreement.

5. Eligibility Criteria for HIV/AIDS Fund Grants

No HIV/AIDS Fund Grant shall be eligible for financing out of the proceeds of this Credit unless the Borrower has determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the HIV/AIDS Fund Grant Manual, that the HIV/AIDS Fund Grant satisfies the eligibility criteria specified in the HIV/AIDS Fund Grant Manual, including, in particular, the following:

(a) the HIV/AIDS Fund Grants shall be for activities aimed at preventing HIV infection or mitigating the adverse impact of HIV/AIDS, including, inter alia, the dissemination of information on HIV/AIDS, the purchase and distribution of preservatives, home-based care of AIDS patients, and care for AIDS orphans;

(b) the HIV/AIDS Fund Grants shall be initiated by HIV/AIDS Fund Grant Beneficiaries;

(c) the HIV/AIDS Fund Grant Beneficiaries shall have a proven track record in implementing the types of activities proposed;

(d) the HIV/AIDS Fund Grant Beneficiaries shall submit a report after the completion of activities under the HIV/AIDS Fund Grants indicating the impact of such activities; and

(e) the HIV/AIDS Fund Grants shall be in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety, and environmental protection, as well as the Association's applicable guidelines.

6. Terms and Conditions Regarding HIV/AIDS Fund Grants

Activities under the HIV/AIDS Fund Grants shall be carried out pursuant to HIV/AIDS Fund Grant Agreements, to be concluded between the Borrower and the legally established and authorized representative or representatives of the HIV/AIDS Fund Grant Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing by the Borrower on a grant basis;

(b) the obligation to (i) carry out the HIV/AIDS Fund Grants in accordance with the HIV/AIDS Fund Grant Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental, and managerial standards; and (ii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources, and expenditures in respect of the HIV/AIDS Fund Grants;

(c) the requirement that (i) the goods, works, and services to be financed out of the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works, and services shall be used exclusively in the carrying out of activities to be financed by the HIV/AIDS Fund Grants;

(d) the right of the Borrower to inspect by itself, or jointly with the Association and the Donors, if the Association and the Donors shall so request, the goods, works, sites, plants, and construction included in the HIV/AIDS Fund Grants, the operations thereof, and any relevant records and documents;

(e) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration,

operation, and financial condition of the HIV/AIDS Fund Grants; and

(f) the right of the Borrower to suspend or terminate the right of the HIV/AIDS Fund Grant Beneficiaries to use the proceeds of the Credit for the HIV/AIDS Fund Grants upon the failure by the HIV/AIDS Fund Grant Beneficiaries to perform any of their obligations under the relevant agreement.

7. Eligibility Criteria for Local Authority Grants

No Local Authority Grant shall be eligible for financing out of the proceeds of this Credit unless the Borrower has determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Local Authority Grant Manual, that the Local Authority Grant satisfies the eligibility criteria specified in the Local Authority Grant Manual, including, in particular, the following:

(a) the Local Authority Grants shall be for activities related to the improvement of the quality of basic health services in districts, including the acquisition of drugs and medical supplies, the purchase of furniture and equipment for health services and community outreach activities, health education, preventive or promotive health services, training of the staff, monitoring and supervision of health activities in the district, minor civil works, and incremental operating costs;

(b) the Local Authority Grants shall be initiated by Local Authority Grant Beneficiaries; and

(c) the Local Authority Grants shall be in compliance with the standards set forth in the applicable laws of the Borrower, relating to health, safety, and environmental protection, as well as the Association's applicable guidelines.

8. Terms and Conditions Regarding Local Authority Grants

Activities under the Local Authority Grants shall be carried out pursuant to Local Authority Grant Agreements to be concluded between MRALG and the legally established and authorized representative or representatives of the Local Authority Grant Beneficiaries, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

(a) financing by the Borrower on a grant basis;

(b) the obligation to (i) carry out the Local Authority Grants in accordance with the Local Authority Grant Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental, and managerial standards; and (ii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources, and expenditures in respect of the Local Authority Grants;

(c) the requirement that (i) the goods, works, and services to be financed out of the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works, and services shall be used exclusively in the carrying out of activities to be financed by the Local Authority Grants;

(d) the right of the Borrower to inspect by itself, or jointly with the Association and the Donors, if the Association and the Donors shall so request, the goods, works, sites, plants, and construction included in the Local Authority Grants, the operations thereof, and any relevant records and documents;

(e) the right of the Borrower to obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation, and financial condition of the Local Authority Grants; and

(f) the right of the Borrower to suspend or terminate the right of the Local Authority Grant Beneficiaries to use the proceeds of the Credit for the

Local Authority Grants upon the failure by the Local Authority Grant Beneficiaries to perform any of their obligations under the relevant agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a), (1) (b), (1) (c), (2), and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, equivalent to \$1,000,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required, pursuant to paragraph 4 of this Schedule, for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the eligible Categories, and in the 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 for the Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, 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.

