

CONFORMED

CREDIT NUMBER 3724 WSO

Development Credit Agreement

(Telecommunications and Postal Sector Reform Project)

between

INDEPENDENT STATE OF SAMOA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 28, 2003

CREDIT NUMBER 3724 WSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 28, 2003, between the INDEPENDENT STATE OF SAMOA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Part D of the Project will be carried out by SamoaTel with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to SamoaTel, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and SamoaTel (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(c) “Fiscal Year” and the acronym “FY” mean the Borrower’s fiscal year commencing July 1 and ending June 30;

(d) “MOF” means the Ministry of Finance of the Borrower, and any successor thereto;

(e) “MOPT” means the Ministry of Posts and Telecommunications of the Borrower, and any successor thereto;

(f) “OBA Guidelines” means the guidelines to be developed pursuant to paragraph 5 of Schedule 4 to this Agreement, as such guidelines may be revised from time to time with the prior approval of the Association;

(g) “Project Agreement” means the agreement between the Association and SamoaTel of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(h) “Project Management Team” and the acronym “PMT” mean the consulting firm selected and retained pursuant to paragraph 1 of Schedule 4 to this Agreement;

(i) “Project Performance Indicators” means those indicators designed to measure the Borrower’s performance in achieving Project objectives as set forth in Schedule 5 to this Agreement;

(j) “Project Steering Committee” and the acronym “PSC” mean the committee established within MOPT pursuant to paragraph 3 of Schedule 4 to this Agreement;

(k) “Respective Parts of the Project” means Parts A, B, C and E of the Project, in respect of the Borrower;

(l) “SamoaTel” means the state-owned enterprise incorporated under the Borrower’s Companies Act 1955, established and operating in the Independent State of Samoa pursuant to the Borrower’s Post Office Act 1972, Postal and Telecommunications Services Act 1999, SamoaTel’s Deed of License 06/30/99 and 04/06/00, and SamoaTel’s Articles of Association, dated June 30, 1999, and any successor thereto;

(m) “SamoaTel’s Corporate Reform Report” means the report to be developed by SamoaTel pursuant to paragraph 2 (b) of Schedule 2 to the Project Agreement;

(n) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(o) “Subsidiary Loan” means the loan to be provided by the Borrower, out of the proceeds of the Credit, to SamoaTel for the carrying out of Part D of the Project and in accordance with the provisions of the Subsidiary Loan Agreement;

(p) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and SamoaTel for purposes of providing a Subsidiary Loan to SamoaTel, pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time with the prior agreement of the Association, and such term includes all schedules to the Subsidiary Loan Agreement;

(q) “Tala” means the currency of the Borrower; and

(r) “Treasury Department” and the acronym “TD” mean the Borrower’s department established within MOF, and any successor thereto.

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 three million four hundred thousand Special Drawing Rights (SDR 3,400,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of Samoa on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be April 15, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing on April 15, 2013, and ending on October 15, 2042. Each installment to and including the installment payable on October 15, 2022, 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 forth

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:

- (i) shall carry out: (A) Parts A, B, and E of the Project through MOPT; and (B) Part C of the Project through TD, all with due diligence and efficiency and in conformity with sound administrative, financial, postal, telecommunications and technical practices and standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall: (A) cause SamoaTel to carry out Part D of the Project and perform in accordance with the provisions of the Project Agreement all of its obligations therein set forth, all with due diligence and efficiency and in conformity with sound administrative, financial, postal and technical practices and standards; (B) take and cause to be taken all action, including the provision of funds, facilities, services and other resources, and the adjustment of tariffs, necessary or appropriate to enable SamoaTel to perform such

obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For purposes of carrying out Part D of the Project, the Borrower shall, out of the proceeds of the Credit, relend to SamoaTel a principal amount not to exceed the aggregate amount allocated from time to time to Categories 1 (b), 2 (b) and 3 (b) set forth in the table under paragraph 1 of Schedule 1 to this Agreement, under a Subsidiary Loan Agreement to be entered into between the Borrower and SamoaTel, under terms and conditions which shall have been approved by the Association, which terms and conditions shall include the following:

- (i) the principal amount of the Subsidiary Loan shall be: (A) lent in Tala; and (B) repaid in Tala by SamoaTel to the Borrower (determined as of the respective dates of repayment) in an amount equivalent at the time of withdrawal to the amounts withdrawn from time to time from the Credit Account under Categories 1 (b), 2 (b) and 3 (b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement;
- (ii) SamoaTel shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at the rate of five percent (5%);
- (iii) the principal amount of the Subsidiary Loan shall be repaid in twenty (20) years including a grace period of five (5) years on the principal; and
- (iv) SamoaTel shall pay a penalty charge at the rate of two percent (2%) on any outstanding arrears under the Subsidiary Loan Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not abrogate, amend, assign, repeal, suspend or waive the Subsidiary Loan Agreement or any provision thereof.

(d) 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 the Respective Parts of 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, and consultants' services required for the Respective Parts of 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 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a report designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part D of the Project shall be carried out by SamoaTel pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Respective Parts 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 (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this

Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, 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 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 Borrower's progress reporting obligations set forth in paragraphs 7 and 8 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Respective Parts of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes progress in implementation of the Respective Parts of the Project, both cumulatively and for the period covered by said report,

and explains variances between the actual and planned implementation of the Respective Parts of the Project; and

- (iii) sets forth the status of procurement under the Respective Parts of the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Respective Parts of the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

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

(a) SamoaTel shall have failed to perform any of its obligations under the Project Agreement, or the Subsidiary Loan Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SamoaTel will be able to perform its obligations under the Project Agreement, or the Subsidiary Loan Agreement.

(c) Any of the Borrower's Companies Act 1955, Post Office Act 1972, Postal and Telecommunications Services Act 1999, SamoaTel's Deed of License 06/30/99 and 04/06/00; or SamoaTel's Articles of Association, dated June 30, 1999, shall have been abrogated, amended, assigned, repealed, suspended or waived so as to materially and adversely affect the ability of SamoaTel to perform any of its obligations under the Project Agreement, or the Subsidiary Loan Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

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 Management Team has been retained in accordance with paragraph 1 of Schedule 4 to this Agreement;

(b) accounting software has been installed in MOPT and TD, and their relevant staff has received training in the use of said software, in accordance with paragraph 4 (a) of Schedule 4 to this Agreement;

(c) SamoaTel has installed an accounting software and their relevant staff has received training in the use of said software, in accordance with paragraph 1 (c) of Schedule 2 to the Project Agreement;

(d) the Borrower has adopted bidding documents for goods and requests for proposals for consultants in accordance with paragraph 4 (c) of Schedule 4 to this Agreement;

(e) SamoaTel has adopted requests for proposals for consultants in accordance with paragraph 1 (d) of Schedule 2 to the Project Agreement; and

(f) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and SamoaTel.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by SamoaTel, and is legally binding upon SamoaTel in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SamoaTel and is legally binding upon the Borrower and SamoaTel in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Treasury Department
Ministry of Finance
Private Bag
Apia, Independent State of Samoa

Cable address:

FINSEC
Apia

Facsimile:

685-21312
685-24779

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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.

INDEPENDENT STATE OF SAMOA

By

/s/

Tuiloma Neroni Slade
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/

Christian Delvoie
Authorized Representative

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(a) under the Respective Parts of the Project	230,000	
(b) under Part D of the Project	950,000	
(2) Consultants' services:		80% for foreign individual consultants; 75% for local individual consultants and local firms; and 67% for foreign firms
(a) under the Respective Parts of the Project	1,300,000	
(b) under Part D of the Project	280,000	
(3) Training		100%
(a) under the Respective Parts of the Project	100,000	
(b) under Part D of the Project	100,000	
(4) Unallocated	<u>440,000</u>	
TOTAL	<u>3,400,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement; and

(b) in respect of Category 1 (b) set forth in the table in paragraph 1 of this Schedule unless and until: (i) the Borrower shall, in a manner and substance satisfactory to the Association, have adopted a letter of intent on additional reform objectives to its postal sector strategy and tariff regime for postal services in accordance with paragraph 6 of Schedule 4 to this Agreement; and (ii) SamoaTel shall have furnished to the Association, in a manner and substance satisfactory to the Association: (A) independent audit of its financial statements for Fiscal Year 2003, and (B) the SamoaTel’s Corporate Reform Report, all in accordance with paragraph 2 of Schedule 2 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent per contract; (b) contracts for the employment of consulting firms costing less than \$75,000 equivalent per contract; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent per contract; and (d) training, all 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 performance of its telecommunications and postal sectors by (a) increasing competition and private sector participation in the telecommunications and postal sectors, (b) strengthening its institutional and regulatory capacities, and (c) enhancing the provision of these services in selected areas.

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: Competition and Sector Reform

1. Strengthening the Borrower's legal and regulatory framework relating to the telecommunications and postal sectors to implement the reform process, foster competition, and enabling compliance with requirements on telecommunications services for accession to the World Trade Organization, including: (a) review of and propose revisions to existing legislation, applicable sector regulations, licenses, and related legal instruments; and (b) development of draft legislation and regulations, sample model licenses, agreements and instruments for telecommunication operators and service providers, and sample model licenses for digital mobile cellular operators; including the provision of technical assistance therefor.
2. Strengthening the capacity of MOPT in the carrying out of the selection and award of a digital mobile cellular license provider through open and transparent competition, including the provision of technical assistance therefor.
3. Strengthening the capacity of the staff of MOPT in developing and implementing a comprehensive policy reform agenda for the telecommunications sector, including the provision of technical assistance and the carrying out of training and study tours.

Part B: Regulatory Framework

1. Strengthening the regulatory capacity of MOPT, including: (a) organization and functioning of the regulatory unit within MOPT; (b) recommendations and drafting of regulations for the telecommunications and postal sectors governing commercial conduct, competition, interconnection, universal services obligations, tariff oversight, management of scarce resources, dispute resolution, human resources needs and staffing, and rural and environmental matters, as the case may be; (c) design of an institutional development plan, including an assessment of training needs and respective implementation plan; and (d) collection and dissemination of data and statistics for said sector; including the provision of technical assistance therefor.

2. Establishing MOPT's information system on telecommunications and postal regulatory matters including the provision of equipment and software therefor.
3. Preparing a national telecommunications frequency allocation plan and respective radio regulations, including principles and procedures to manage radio spectrum; and strengthening the capacity of MOPT in the carrying out of institutional and organizational reform, including the provision of technical assistance therefor.
4. Provision of computerized radio equipment for spectrum management and monitoring facility for the effective use of radio spectrum.
5. Monitoring and evaluating the effects of the telecommunications and postal sectors reform program in poverty alleviation, including the provision of technical assistance therefor.
6. Strengthening the capacity of the staff of MOPT in developing telecommunications regulations, including licensing, interconnection, numbering regime and spectrum management, including the provision of technical assistance and training therefor.
7. Piloting the implementation of the Borrower's strategy for provision of telecommunications services in rural areas.

Part C: Corporate Reform of SamoaTel

Developing and assessing options to enhance the corporate performance of SamoaTel, including options for restructuring and privatizing SamoaTel and the provision of technical assistance therefor.

Part D: Postal Sector Reform

Strengthening the capacity of the staff of MOPT and SamoaTel in the carrying out of the postal sector reform strategy, including the provision of training, technical assistance, carrying out of audits, and equipment for the improvement of selected postal offices facilities.

Part E: Project Management Support

Strengthening the capacity of the Borrower's MOPT, MOF, and SamoaTel in Project implementation and reporting, and advising and supporting PSC on the coordination and carrying out of Project implementation, financial management and procurement, including the provision of technical assistance therefor.

* * *

The Project is expected to be completed by October 15, 2007.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods 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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: 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 shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to 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.

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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Part E of the Project, 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. Individual Consultants

Services of individual consultants under Part B.5 of the Project may be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every three (3) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and

approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$75,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall establish and thereafter maintain, until completion of the Project, a Project Management Team consisting of a consulting firm retained in accordance with terms and conditions of employment, including terms of reference, satisfactory to the Association, which consulting firm shall be: (a) responsible for: (i) project and financial management, procurement, and assistance to MOPT, TD, and SamoaTel in Project implementation and reporting; and (ii) reporting to PSC on the progress of Project implementation; (b) selected in accordance with Part C.1 of Section II of Schedule 3 to this Agreement; and (c) headed by a qualified and experienced manager, assigned with qualified staff in adequate numbers, including a procurement officer and accountants.

2. The Borrower shall maintain, until completion of the Project, two relevant staffs to manage the Project, each within MOPT and TD, with terms of reference satisfactory to the Association and provided with qualified staff in adequate numbers, funds and resources as shall be required to enable him/her to liaise with PSC and PMT, and coordinate the carrying out of each of the Respective Parts of the Project.

3. The Borrower shall maintain, until completion of the Project, a Project Steering Committee established within MOPT, chaired by the Director of MOPT and comprising representatives of the Borrower's Treasury Department and Attorney General's Office, and SamoaTel; with terms of reference satisfactory to the Association and assigned with such funds, responsibilities and resources as shall be required to enable it to provide overall guidance in the carrying out of the Project, and review the progress of Project implementation.

4. The Borrower shall: (a) install, or cause to be installed, an accounting software, acceptable to the Association, in MOPT, TD, and SamoaTel, and thereafter train the respective staff in the use of said software; (b) establish, or cause to be established, and thereafter maintain, or cause to be maintained, until completion of the Project, a financial management system, acceptable to the Association, in each MOPT, TD, SamoaTel and PMT; and (c) prepare and furnish to the Association, in a manner and substance satisfactory to the Association, bidding documents for goods and requests for proposals for consultants pursuant to the provisions of Schedule 3 to this Agreement for the carrying out of the Respective Parts of the Project during the calendar year of 2003, and, thereafter, finalize and adopt the said bidding documents and request for proposals.

Project Implementation

5. For purposes of the carrying out of Part B.7 of the Project, the Borrower shall, by June 30, 2005, prepare and furnish to the Association for its review and comments, the OBA Guidelines, which guidelines shall include the procedure and criteria for the allocation of subsidies to basic communications service providers, and, thereafter, finalize such guidelines taking into consideration the comments of the Association, and adopt and implement such guidelines as so finalized.

6. The Borrower shall prepare and furnish to the Association, for its review and comments, a letter of intent on additional reform objectives to its postal sector strategy and tariff regime for postal services, in a manner and substance satisfactory to the Association, and, thereafter, finalize and adopt such strategy and regime taking into consideration the comments of the Association.

Monitoring and Reports

7. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 15, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Respective Parts of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Respective Parts of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by July 15, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Respective Parts of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

8. Notwithstanding the provisions of paragraph 7 of this Schedule, and except as provided for in paragraph 7 (b) above, the Borrower shall, by April 30 of each calendar year, commencing April 30, 2004, until completion of the Project, prepare and furnish to the Association, for its review and comments a summary report integrating the results of the activities performed under the Respective Parts of the Project, including an annual training program, and, thereafter, finalize such report taking into consideration the comments of the Association.

SCHEDULE 5

Performance Indicators

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total number of customers (fixed and mobile)	10,600	11,500	12,500	15,000	20,000	26,000	35,000	40,000	46,000
Number of Internet subscribers	1,800	2,000	3,000	3,500	4,500	5,500	7,000	8,500	10,000
Number of telecom customers in rural areas	1,450	1,500	1,500	1,800	2,400	3,200	4,200	5,000	6,000
Number of post office mail boxes per 100 inhabitants (1)	4.05	n.a.	n.a.	5.53	5.58	7.06	8.24	9.41	10.59
Postal quality of service (2)	n.a.	n.a.	n.a.	85%	85%	85%	95%	95%	99%
Number of inhabitants/full postal services outlets	n.a.	24,286	20,000	17,000	14,500	12,000	11,000	10,500	10,000
Number of letter items/inhabitants	4.5	5.4	6.3	6.9	7.6	8.8	10.1	11.1	12.2

(1) Number of post office mail actually in use

(2) Local traffic: transit time between the moment the letter is deposited in the postal system and the moment it is picked up by the recipient.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (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 equivalent to \$250,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$150,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR1,300,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required

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

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

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

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

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

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

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

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

deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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