

CONFORMED COPY

CREDIT NUMBER 4118-LSO

Development Credit Agreement

(Health Sector Reform Project II)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 19, 2006

CREDIT NUMBER 4118-LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 19, 2006, between KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received letters dated November 9, 1999 and June 17, 2005 from the Borrower describing a program of actions, objectives and policies designed to strengthen and reform the Borrower's health sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately ten years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower intends to obtain from various Development Partners (as hereinafter defined) grants and loans to assist in the financing of the Program;

(D) the Borrower, the Association and the Development Partners (as hereinafter defined) have entered into a Statement of Intent (SOI) providing for common procedures on budget allocation, cooperation and exchange of information and monitoring and evaluation;

(E) the Borrower and the Association have entered into a development credit agreement dated July 21, 2000 under which the Association has lent SDR 4,900,000 in support of the first phase of the Program (the First Credit); and

(F) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the second phase of the Program, has requested the Association to assist in the financing of said Project (the Second Credit); 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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(b) Paragraph (c) of Section 9.06 of the General Conditions is amended to read as follows:-

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “Development Partners” means, collectively, African Development Bank, the Development Cooperation of Ireland, the United Nations Children’s Fund, the World Health Organization, the Norwegian Agency for Development Cooperation, the Krenditanstalt für Wiederaufbau and any other entity or developmental organization or agency, including donors, participating in, or assisting the Borrower with, the carrying out of the Project; and, are signatories of the SOI;

(b) “Eligible Category” means Category (1) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “FY” means the Borrower’s fiscal year which runs from April 1 through March 31 of the following year;

(f) “MTEF” means the Borrower’s medium-term expenditure framework, a 3-year rolling health sector expenditure program and budget developed in conjunction with the Borrower, the Association and the Development Partners;

(g) “MOHSW” means the Borrower’s Ministry of Health and Social Welfare;

(h) “National Medical Waste Management Plan” means the Borrower’s plan approved by the Association on June 2, 2005 containing recommendations and implementation procedures related to the mitigation of mismanagement of health care waste in the Borrower’s territory;

(i) “Procurement Plan” means the Borrower’s procurement plan, dated August 15, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(j) “Project Implementation Manual” means the manual referred to in paragraph 1(b) of Schedule 4 to this Agreement outlining policies and implementation procedures for the Project;

(k) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on July 21, 2004 and on behalf of the Borrower on July 27, 2004;

(l) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement; and

(m) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to four million five hundred thousand Special Drawing Rights (SDR 4,500,000).

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) 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 March 31, 2009 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 June 15 and December 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 June 15 and December 15 commencing December 15, 2015 and ending June 15, 2045. Each installment to and including the installment payable on June 15, 2025 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, health and environmental 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. (a) Except as the Association shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives and the next phase of the Program; and

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

Section 3.04 The Borrower shall acquire and install new accounting software for the project accounting unit of the MOHSW by no later than March 30, 2006.

Section 3.05 The Borrower shall hire a Procurement Officer and an administrative secretary for the procurement unit of the MOHSW by no later than March 30, 2006.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, 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;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 3 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 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 physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR 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 Project through the end of such first calendar quarter; thereafter, each FMR 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) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and
- (b)
 - (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

ARTICLE VI

Termination

Section 6.01. 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 and Development Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Development Planning
P.O. Box 395
Maseru 100
Lesotho

Facsimile:

266 310157
266 310622

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 Maseru, Kingdom of Lesotho, as of the day and year first above written.

KINGDOM OF LESOTHO

By /s/ Timothy Thahane

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ritva Reinikka

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Credit**A. General

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, works, consultants' services, operating costs and training	(a) 2,400,000 in the aggregate for FY05/06 and FY06/07 (b) 1,685,000 in the aggregate for FY07/08 and subsequent FYs until project completion	100% of foreign expenditures and 90% of local expenditures for goods and works; 90% of local expenditures for operating costs; and 100% for consultants' services and training
(2) Refunding of Project Preparation Advance	415,000	Amount due pursuant to Section 2.02(b) of this Agreement
TOTAL	<u>4,500,000</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;

(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;

(c) the term “training” means the reasonable cost of registration fees, travel and per-diem of trainers and participants, training materials, rental of facilities and equipment and other costs related to training to be carried out under the Project; and

(d) the term “operating costs” means reasonable MOHSW expenses, which would not have been incurred absent the Project, including office supplies, vehicle operation, travel and supervision costs, but excluding salaries of officials of the Borrower.

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

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

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

(c) in respect of Category 1 (b) set forth in the table in paragraph 1 of Part A of this schedule, unless the Borrower has submitted evidence satisfactory to the Association (annual MTEF reports) which clearly indicates the Association’s annual contribution to the Program for FY07/08 and subsequent FYs until the Project is completed.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) operating costs and training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the

case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in the Borrower's Central Bank on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$600,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 600,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit 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 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.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in achieving a sustainable increase in access to quality preventive, curative, and rehabilitative health services by increasing access to, and quality delivery of, essential health services.

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: Essential Health Services Delivery

Establishment and strengthening of district health management teams in ten districts including: (i) the acquisition of information technology equipment; (ii) the acquisition of medical equipment and maintenance systems; (iii) the provision of essential drugs, office space, and training; (iv) the provision of technical advisory services for an assessment of the scope for enlarging community and household involvement including the implementation of recommendations made under such assessment; and (v) development of districts' capacity to report data to MOHSW and of use of such data at district and central government levels.

Part B: Strengthening Human Resources

Strengthening MOHSW's capacity to: (i) develop and use e-classrooms for continuing professional education of health workers; (ii) facilitate the review and development of a curriculum to make trained nurses multi-skilled; (iii) institute improved career structures for health sector staff including medical officers and nurses hired on a contract basis; and (iv) develop a health worker posting policy to match staff skills with service delivery needs.

Part C: Improving Efficiency of Health Sector Financing, Financial Management and Planning

1. Development and implementation of a national health sector financing policy including assessments of: (i) the role of the public sector; (ii) efficiency in mobilization and allocation of public financing and strategies for ensuring sustainable financing; and (iii) alternative health financing instruments including social health insurance and community health financing.

2. Strengthening the financial management system in the health sector and the Borrower's medium-term sector expenditure program including support for the adoption and implementation of periodic sectoral expenditure reviews.

Part D: National Referral Hospital Queen Elizabeth II

Support for the Borrower's plan to develop the design, construction and equipping, with private sector participation, of a facility to replace its current national referral hospital through the provision of technical advisory services for the preparation of an environmental assessment and the management of the public-private process.

Part E: Medical Waste Management

Implementation of the National Medical Waste Management Plan including: (i) the acquisition of waste segregation and incineration equipment; (ii) development and implementation of public awareness campaigns; (iii) training of health sector workers; and (iv) the provision of protective clothing for medical waste handlers.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$150,000 equivalent per contract and works estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Procurement from UN Agencies. Goods (including HIV related goods), drugs and vaccines, regardless of cost, may be procured directly from Inter-Agency

Procurement Services Office (IAPSO), United Nation's Children Fund (UNICEF), United Nations Population Fund (UNFPA) and World Health Organization (WHO) in accordance with the provisions of paragraph 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality-and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

2. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. Overall Project Implementation

The Borrower, through MOHSW, shall:

(a) by February 15, 2006, take all measures necessary on its part to organize, in conjunction with the Association, a workshop for the launching of the Project which shall cover, *inter alia*, disbursement and procurement procedures, monitoring and evaluation indicators and detailed timetables for the implementation of the Project;

(b) carry out the Project in accordance with the Project Implementation Manual, said manual to include, *inter alia*, the Borrower's medium-term expenditure framework, the National Waste Management Plan and implementation procedures thereof, a financial procedures manual, a procurement manual, monitoring guidelines and other related documents for the execution of the Project. The Project Implementation Manual may be amended from time to time with the Association's prior approval. In case of any conflict between the terms of the Project Implementation Manual and those of this Agreement, the terms of this Agreement shall prevail;

(c) maintain until the completion of the execution of the Project within the MOHSW, in form and with functions and resources satisfactory to the Association; (i) a monitoring and evaluation unit; (ii) a project accounting unit; and (iii) a procurement unit; and

(d) maintain until the completion of the execution of the Project, within MOHSW, competent staff in adequate numbers whose qualifications and experience shall at all times be satisfactory to the Association including the following specialists: (i) an operations manager; (ii) a financial manager; and (iii) a procurement manager.

2. Annual Procurement Audits

The Borrower, through MOHSW, shall:

(a) have a procurement audit carried out annually by independent auditors acceptable to the Association, the conditions of which are defined in more details in the Project Implementation Manual, to review procurement records and documentation (including statements of expenditures) as well as verifying the physical existence of goods, equipment and services, especially building construction and rehabilitation, acquired throughout the Project;

(b) furnish to the Association as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of

said auditors, of such scope and detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning said procurement records and documentation and the procurement audit thereof as the Association shall from to time reasonably request.

3. Reports and Mid-term Review

(a) Reports

The Borrower, through the MOHSW, shall:

- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
- (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about January 31 of each year during Project execution, or such other date as the Association and the Borrower shall determine; (A) a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a)(i) of this paragraph on the progress achieved in the carrying out 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 Project and the achievement of the objectives thereof during the period following such date; and (B) a draft three-year rolling expenditure program for the subsequent year; and
- (iii) review with the Association and the Development Partners, by February 15 of each year during Project execution, or such later date as the Association shall request, the report referred to in paragraph (a)(ii) of this Section. The review shall cover, among other things: (A) the progress made in meeting the objectives of the Project; and (B) the Borrower's overall performance in the execution of the Project. Thereafter, the Borrower shall take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

(b) Mid-term Review

The Borrower, through the MOHSW, shall:

- (i) no later than February 28, 2007 or such other date that the Borrower and the Association shall determine, carry out (jointly with the Association and the Development Partners), a mid-term review (which correlates to a third joint annual review) and evaluation of progress made towards the achievement of the Project's objectives, including an evaluation of the progress achieved in meeting the targets agreed by the Borrower and the Association as necessary for the attainment of said Project objectives; and
- (ii) no later than September 30, 2008, submit to the Association an overall assessment for the results achieved in the execution of the Project and of the Borrower's readiness to move into the third phase of the Program.

SCHEDULE 5**Performance Indicators**

The Performance Indicators for the Project shall include the indicators set forth below:

1. Increased percentage of children fully immunized by 12 months of age.
2. Increase in ante-natal clinic attendance.
3. Increased percentage of deliveries assisted by trained provider.
4. Increased percentage of the population within 2 hours walking distance of a health facility meeting national standards for service delivery.
5. Increased percentage of Borrower and Christian Health Association of Lesotho health facilities staffed with standard number and type of qualified staff for the level of facility.
6. Increased proportion of patients attending Queen Elizabeth II Hospital that have been referred by health service providers from other health facilities.
7. Increased percentage of budget allocation for hospital equipment and maintenance.
8. Increased percentage of budget allocated to district health management teams.
9. Increased percentage of health sector budget that is expended by programs.
10. Increased percentage of district/health service area health management information system reports received by due date.
11. Reduced HIV prevalence among women 15-24 years of age.
12. Reduced percentage of health facilities reporting “one month stock-out” in any of the drugs in the essential drug list for the facility in the last 12 months.
13. Increased percentage of facilities with functional incinerators.