

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3948 MAL

Development Credit Agreement

(Integrated Human Development Project)

between

REPUBLIC OF MALDIVES

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 4, 2004

CREDIT NUMBER 3948 MAL

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 4, 2004, between REPUBLIC OF MALDIVES (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; 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) (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) “Community Based Organization” or “CBO” means a non-profit community group or cooperative including island development committees, atoll development committees and women’s development committees, established and existing for the purpose of carrying out developmental activities beneficial to the community;

(b) “Eligible Categories” means Categories (1), (2), (3), (4), (5) and (6) 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) “Environmental Management Plan” or “EMP” means the plan dated May 4, 2004, prepared by the Borrower, and referred to in paragraph C of Schedule 4 to this Agreement, which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as such plan may be revised from time to time with the agreement of the Association. The Environmental Management Plan includes an environmental management framework which sets out procedures and guidelines to assess Sub-Projects for purposes of ensuring compliance with environmental and social safeguard standards.

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

(f) “Fiscal Year” means a twelve-month period beginning on January 1 in any year and ending on December 31 of the same year;

(g) “Focus Islands” means the islands of Eydhafushi in Baa Atoll, Naifaru in Lhaviyani Atoll, Kudahuvadhoo in Dhaalu Atoll and Gan in Laamu Atoll, which have been selected by the Borrower for the development and concentration of social services;

(h) “Grant” means a grant made, or to be made, out of the proceeds of the Credit to finance a Sub-Project;

(i) “Line Ministries” means MCST, MHAE, MOE, MEL, MFT, MOAD, MOH, MPND (as all hereinafter defined);

(j) “Malé” means the Borrower’s capital city;

(k) “MCST” means the Borrower’s Ministry of Communications, Science and Technology or any successor thereto;

(l) “MEL” means the Borrower’s Ministry of Employment and Labor or any successor thereto;

(m) “MHAE” means the Borrower’s Ministry of Home Affairs and Environment or any successor thereto;

(n) “MFT” means the Borrower’s Ministry of Finance and Treasury or any successor thereto;

(o) “MOAD” means the Borrower’s Ministry of Atolls Development or any successor thereto;

(p) “MOE” means the Borrower’s Ministry of Education or any successor thereto;

(q) “MOH” means the Borrower’s Ministry of Health or any successor thereto;

(r) “MPND” means the Borrowers Ministry of Planning and National Development or any successor thereto;

(s) “PMC” means the Project Management and Coordination Section to be maintained in accordance with the provisions of paragraph A.4 of Schedule 4 to this Agreement;

(t) “Procurement Plan” means the Borrower’s procurement plan for goods, works and services to be procured under the project, dated May 14, 2004, covering the initial 18 month period 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;

(u) “Project Steering Committee” (formerly the Project Preparation and Implementation Team) means the Committee referred to in paragraph A.3 of Schedule 4 to this Agreement, the establishment and composition of which was communicated to the Association in a letter dated April 19, 2004;

(v) “Project Implementation Plan” means the Project Implementation Plan dated May 14, 2004, prepared by the Borrower and referred to in paragraph B of Schedule 4 to this Agreement, as the same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(w) “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 August 4, 2003, and on behalf of the Borrower on December 30, 2003;

(x) “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;

(y) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(z) “Sub-Project” means any activity under Parts C.2 and D.3 of the Project, in respect of which a Grant has been, or may be, provided in accordance with criteria set forth in the Project Implementation Plan.

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 ten million nine hundred thousand Special Drawing Rights (SDR 10,900,000).

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, works 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 June 30, 2010, 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 January 1 and July 1 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 January 1 and July 1 commencing January 1, 2015, and ending July 1, 2044. Each installment to and including the installment payable on July 1, 2024, 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 through the Line Ministries under the coordination of MOE with due diligence and efficiency and in conformity with appropriate administrative, financial, economic, 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, the Project Implementation Plan and the Environmental Management Plan.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions shall 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 after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a final completion report including a plan 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 and plan.

Section 3.04. (a) In order to achieve the objectives of Parts C.2 and D.3 of the Project, the Borrower shall maintain arrangements satisfactory to the Association pursuant to which the Borrower shall select Sub-Projects to be carried out under Parts C.2 and D.3 of the Project.

(b) Unless otherwise agreed by the Borrower and the Association, no expenditures required for a Sub-Project shall be eligible for financing out of the proceeds of the Credit, unless the Borrower shall have carried out, in accordance with the Environmental Management Plan, an environmental assessment for the Sub-Project, and shall have undertaken processes and activities to mitigate any negative environmental impacts of such Sub-Project in accordance with the Environmental Management Plan, together with evidence, satisfactory to the Association, that the Sub-Project shall not involve any involuntary resettlement of the local population and/or businesses and that there shall not be any construction in environmentally sensitive areas as defined in the Environmental Management Plan.

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 D 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 forty-five (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 forty-five (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 event is specified, namely, that a situation has arisen which shall make it improbable that the Project, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01. The date one hundred and twenty (120) 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 State of the Borrower at the time responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Treasury
Ameenee Magu
Malé
Republic of Maldives

Facsimile:

(960) 324432

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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.

REPUBLIC OF MALDIVES

By /s/ Mohamed Jaleel
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alastair J. McKechnie
Country Director
Maldives

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) Works	3,310,000	80%
(2) Goods	1,860,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services and Audit Fees	1,980,000	100%
(4) Training and Workshops	2,010,000	100%
(5) Grants		100% of amounts Disbursed
(a) Under Part C.2 of the Project	210,000	
(b) Under Part D.3 of the Project	280,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental Operating Costs	450,000	100% of expenditures for Year 1 of the Project, 100% of expenditures for Year 2 of the Project, 80% of expenditures for Year 3 of the Project, 60% of expenditures for Year 4 of the Project, and 40% of expenditures for Year 5 of the Project
(7) Refunding of Project Preparation Advance	350,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	450,000	
TOTAL	<u>10,900,000</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; and

(c) the term “Incremental Operating Costs” means the incremental operating costs arising under the Project on account of office rental and utilities charges, salaries and allowances of incremental staff, transportation/travel expenditures, satellite connectivity charges and other communications’ expenses.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract, 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 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 Maldives Monetary Authority or in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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 made on the basis of 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 one million United States dollars (\$1,000,000) to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
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 that 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.4 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 improving the delivery of social services and promoting economic opportunities on Focus Islands, so as to offer viable alternatives to Malé.

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: Education Services

1. Expanding access to, and improving the quality of secondary level education through the establishment and equipping of physical facilities on the Focus Islands, including information and communications technology centers, science laboratories, extra classrooms, multi-purpose activity rooms and libraries.
2. Provision of academic and management training to teachers and administrative staff in the school system through internet-based support courses and face-to-face training programs, and provision of teaching materials.
3. Carrying out a program of construction, furnishing and equipping of residential learning centers on the Focus Islands for the benefit of students attending secondary school away from their home island, and provision of training to island communities to manage these centers.
4. Carrying out of research, evaluations and studies on student and school performance on the Focus Islands as well as on other islands through the provision of training and technical advisory services to staff of MOE.

Part B: Health Services

1. Improving the quality of health service delivery through: (i) development of standard treatment protocols for the improvement of quality of care for non-communicable diseases; and (ii) provision of equipment and training for the establishment of telemedicine services at the Atoll hospital in the Focus Island of Naifaru and the Regional Hospital in the Focus Island of Gan.
2. Carrying out a program of nutrition promotion on the Focus Islands including monitoring, education and demonstration of nutritious foods through the provision of technical advisory services and training to family health workers, households on Focus Islands and staff of MOH.

3. Supporting the establishment, equipping and stocking of community pharmacies on the Focus Islands and provision of training to CBO's for the operation of the pharmacies.

Part C: Employment Services

1. Establishment of job-centers on the Focus Islands for the provision of career and employment counseling, entrepreneurship development and business services through the development of training modules and curricula, provision of computer and other equipment and provision of training and technical advisory services.
2. Strengthening of access to micro-finance to support income generating activities on the Focus Islands through the provision of Grants and training to CBO's.

Part D: Community Services

1. Strengthening the capacity of CBO's for planning, coordination, management of public assets and service provision on the Focus Islands through the provision of training and technical advisory services.
2. Construction of multi-purpose buildings for the provision of social services and carrying out of developmental activities.
3. Support to CBO's in the design, implementation and supervision of Sub-projects including the provision of training on entrepreneurship, management, book keeping and other technical areas and the provision of Grants to support social service activities that are beneficial to the communities.
4. Establishment of an internet network between key service centers on Focus Islands and provision of training on the use of the network so as to improve the coordination of service provision and encourage the sharing of information.

Part E: Monitoring and Evaluation

Design, implementation and supervision of a monitoring and evaluation system for the Project so as to ensure better planning, optimum use of resources, information sharing and timely feedback on the implementation of the Project.

* * *

The Project is expected to be completed by December 31, 2009.

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 for 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. All works may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

- (i) Invitations to bid shall be advertised in at least one national newspaper with a wide circulation at least 30 days prior to the deadline for the submission of bids;
- (ii) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

- (iii) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) Qualification criteria (in case pre-qualification was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without delay or hindrance;
- (v) Bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) Contracts shall be awarded to the lowest evaluated bidders;
- (viii) Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) Re-bidding shall not be carried out without the Association's prior concurrence;
- (x) All bidders/contractors shall, provide bid/performance security as indicated in the bidding/contract documents;
- (xi) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) A bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xiii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xiv) Extension of bid validity shall not be allowed unless justified by exceptional circumstances; and
- (xv) There shall not be any restrictions on the means of delivery of the bids.

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

3. Direct Contracting. Goods estimated to cost no more than \$1000 per contract and which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of paragraphs 3.6 and 3.7 of the Procurement Guidelines.

4. Procurement from UN Agencies. Goods estimated to cost less than \$10,000 equivalent per contract and drugs regardless of cost may be procured directly from UNICEF, UNDP, UNHCR or WHO in accordance with the provisions of paragraphs 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 \$200,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances that 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.

3. 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

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$250,000 or more; (b) the first two contracts for goods procured on the basis of International Competitive Bidding regardless of value; (c) each contract for works and services (other than consultancy services) estimated to cost the equivalent of \$500,000 or more; (d) the first two contracts procured using National Competitive Bidding procedures regardless of value; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and (f) each contract for services by Individual Consultants estimated to cost the equivalent of \$50,000 or more. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Project Implementation and Coordination

1. The Borrower shall vest in MOE the overall responsibility for coordinating the implementation of the Project. MOE shall operate under the oversight of the Project Steering Committee, and shall be supported in the carrying out of its responsibilities by PMC.

2. The Line Ministries shall be responsible for implementing the Project. Specifically, MOE shall be responsible for carrying out Part A of the Project, and, together with MPND and MFT, Part E of the Project. MOH shall carry out Part B of the Project, MEL and MOAD shall carry out Part C of the Project and MOAD and MCST shall carry out Part D of the Project.

3. The Borrower shall maintain the Project Steering Committee (formerly the Project Preparation and Implementation Team), which shall be composed of representatives of all Line Ministries and chaired by the Minister of Education. The Project Steering Committee shall be responsible for providing policy guidance, removing impediments to the timely implementation of the Project and resolving strategic differences between the Line Ministries.

4. The Borrower shall maintain PMC, within MOE, with functions, staffing and resources satisfactory to the Association. PMC, inter alia, shall be responsible for: (i) the procurement and financial management processes under the Project, including the maintenance of accounting records, the preparation of withdrawal applications, preparation of Financial Monitoring Reports and the submission of said reports to the Association; (ii) monitoring the Project's implementation and the auditing of the Project's accounts; and (iii) furnishing the Association with the quarterly progress reports referred to under paragraph D of this Schedule.

B. Project Implementation Plan

1. The Borrower shall carry out the Project in accordance with the provisions of this Agreement as well as with the Project Implementation Plan which, inter alia: (i) defines the respective roles and responsibilities of the Line Ministries and agencies involved in the implementation of the Project; (ii) sets forth the timetable of actions required to be carried out under the Project; (iii) sets out the criteria and procedures for identifying, implementing and supervising Sub-Projects; (iv) sets out the accounting, financial reporting and auditing arrangements under the Project, and (v) identifies the procedures to be used for monitoring and evaluating progress towards the achievement of the objectives of the Project.

2. The Borrower shall carry out the Project in accordance with procedures set out in the Project Implementation Plan, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

C. Environmental Management Plan

1. The Borrower shall: (i) carry out the EMP in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; and (ii) maintain policies and procedures adequate to enable it to monitor and evaluate, on an on-going basis, in accordance with guidelines acceptable to the Association, the implementation of the EMP and the achievement of the objectives thereof.

2. Except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the EMP, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

D. Progress Reports and Midterm Review

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out 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: (i) on a semi-annual basis, commencing January 31, 2005, a report on the progress achieved in the implementation of the Project; and (ii) on or about thirty-six (36) months after the effectiveness date, a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, and consolidating the results of the reports referred to under sub-paragraph (b)(i) of this Section, 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

(c) review with the Association, no later than three (3) months after the submission of the report referred to in sub-paragraph (b)(ii) of this Section, or such later date as the Association shall request, the said report, and, thereafter, 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 the said report and the Association's views on the matter.

