

CONFORMED COPY
CREDIT NUMBER 3444-ER

Development Credit Agreement

(HAMSET Diseases Control Project)

between

STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 19, 2000

CREDIT NUMBER 3444-ER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 19, 2000 between STATE OF ERITREA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated October 19, 2000 from the Borrower: (i) describing a program of actions, objectives and policies designed to carry out a program (hereinafter called the Program) for the prevention and early treatment of HIV/AIDS, Malaria, Sexually Transmitted Diseases and Tuberculosis; (ii) declaring the Borrower's commitment to the execution of the Program; and (iii) requesting assistance from the Association during the execution of the Program;

(B) the Executive Directors of the Association approved, on September 12, 2000 the Multi-Country HIV/AIDS Program for the Africa Region estimated in the amount of SDR 378.4 million over the next three years;

(C) this Project is part of the Multi-Country HIV/AIDS Program for the Africa Region; and

(D) 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 October 6, 1999), constitute an integral part of this Agreement.:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

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

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "AIDS" means the Acquired Immuno-Deficiency Syndrome;

(b) "Beneficiary" means a community which has met the eligibility criteria set out in the Project Implementation Manual and the requirements of Schedule 4 to this Agreement and which, as a result, has received or is entitled to receive, a Grant for the carrying out of a Subproject;

(c) "Grant Agreement" means the agreement referred to in paragraph 4 of Schedule 4 to this Agreement;

(d) "Grant" means a grant to be made to finance a Subproject or other community development activity pursuant to Part D of the Project;

(e) "HAMSET" means the following diseases, namely, HIV/AIDS, Malaria, STD (as hereinafter defined) and Tuberculosis;

(f) "HIV/AIDS/TB Committee" means the HIV/AIDS/TB Committee referred to in paragraph 4 (a) (ii) of Schedule 4 to this Agreement;

(h) "HIV" means the Human Immuno-Deficiency Virus;

(i) "IAPSO" means the Inter-Agency Procurement Services of the United Nations Development Programme;

(j) "Initial Deposit" means the initial amount to be paid into the Project Account pursuant to Section 3.03 (ii) of this Agreement;

(k) "Manual of Financial Procedures" means the manual of procedures referred to in Section 5.01 (b) of this Agreement which specifies the accounting and auditing standards for the Project;

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

(m) "Nakfa" means currency of the Borrower;

(n) "PMU" means the Project Monitoring Unit referred to in paragraph 3 (a) of Schedule 4 to this Agreement;

(o) "Project Account" means the account referred to in Section 3.03 of this Agreement;

(p) "Project Implementation Manual" means the Project Implementation Manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

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

(r) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter of agreement signed on behalf of the Association on April 3, 2000 and on behalf of the Borrower on April 20, 2000;

(s) "Project Year" means the 12 month period beginning from the Effective Date and ending 12 months thereafter and each successive 12 month period following thereafter;

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

(u) "STD" means a Sexually Transmitted Disease;

(v) "Subproject" means a community subproject or activity (including a community assessment or proposal preparation activity) to be carried out under Part D of the Project which having met the eligibility criteria set out in the Project Implementation Manual and the provisions of Schedule 4 to this Agreement is eligible for financing, on a grant basis, in accordance with the provisions of the Project Implementation Manual;

(w) "UNAIDS" means the Joint United Nations Program on HIV/AIDS; and

(x) "Zoba" means a Regional administration of the Borrower, as defined under the Borrower's Proclamation [No. 26 of 1992 of the laws of the Borrower.]

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 thirty-one million four hundred thousand Special Drawing Rights (SDR 31,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made to meet the reasonable cost of goods, works and services required for any Subproject in respect of which the withdrawal from the Credit Account is requested.

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

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

Section 2.03. The Closing Date shall be March 31, 2006 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 June 15, 2011 and ending December 15, 2040. Each installment to and including the installment payable on December 15, 2020 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

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

as needed, the funds, facilities, services and other resources required for the Project.

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

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

Section 3.03. The Borrower shall: (i) establish and thereafter maintain in Nakfa, until completion of the Project, a Project Account in a commercial bank on terms and conditions satisfactory to the Association into which the Borrower shall deposit its counterpart contributions to Project costs; (ii) pay into the Project Account an initial amount (the Initial Deposit) equivalent to \$350,000; and (iii) thereafter during each following quarter deposit into the Project Account the amounts required to cover the said contributions for each such quarter, as determined by the Borrower and the Association.

Section 3.04. 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 plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received

the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than [September 30, 2002], or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

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

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

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Project Account has been opened and the Initial Deposit paid into the Project Account;
- (b) The Borrower has furnished to the Association a Manual of Financial Procedures in form and substance satisfactory to the Association; and
- (c) the Borrower has installed an accounting and financial management system, in form and substance satisfactory to the Association.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower for the time being responsible for finance, is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P. O. Box 895
Asmara
Eritrea

Telex:

583492421150

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.

STATE OR ERITREA

By /s/ Semere Russom

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Oey Astra Meesook

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	2,120,000	80%
(2) Goods:	4,200,000	100% of foreign expenditures and 80% of local expenditures
(3) Drugs Condoms, and Bed-Nets	11,800,000	100% of foreign expenditures and 90% of local furnitures
(4) Consultants' services, studies, training and workshops	7,530,000	100%
(5) Grants	4,550,000	100% of amounts disbursed
(6) PMU Operating Costs	480,000	80%
(7) Refunding of Project Preparation Advance	320,000	Amount due pursuant to Section 2.02 (c) this Agreement
(8) Unallocated	400,000	
TOTAL	31,400,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Operating Costs" means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office rent, office supplies, utilities, consumables, travel per diems and allowances and travel and accommodation but excluding salaries.

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; and

(b) expenditures under Category (4) unless: (i) the Borrower has furnished to the Association guidelines satisfactory to the Association for the administration of the Grants; and (ii) the Beneficiary concerned has entered into a Grant Agreement with the Borrower and the Grant in question has been made in accordance with the procedures, guidelines and other provisions set out or referred to in the Project Implementation Manual and this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) civil works under contracts costing less than \$100,000 equivalent each; (ii) goods under contracts costing less than \$100,000 equivalent each; (iii) consulting services under contracts costing less than: (A) \$100,000 equivalent each for consulting firms, and (B) \$50,000 equivalent each for individual consultants; and (iv) all Operating Costs and training.

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) increasing knowledge and awareness of HIV/AIDS, Malaria, STDs and Tuberculosis (HAMSET) among the population of the Borrower's territory; and (b) providing the said population with increased access to prevention measures and basic early treatment, through: (i) increasing the effectiveness and efficiency of the Borrower's policies and interventions aimed at the reduction of the spread of HAMSET diseases; (ii) enabling communities, households and individuals to: (A) learn more about the practices that facilitate or minimize the spread of HAMSET diseases, and (B) have access to affordable preventive measures and early treatment services; (iii) improving the quality of basic health care by providing drugs and medical materials; (iv) reducing environmental impact of vector control activities; and (v) identifying affordable community-managed home-based care for AIDS patients.

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: Collection of information on HAMSET

1. Strengthening the Borrower's capacity in collecting and analyzing information on HAMSET, and the formulation of policy responses on HAMSET including:

- (a) improving the Borrower's HAMSET surveillance techniques through the renovation of health facilities to become sentinel sites for HAMSET surveillance;
- (b) establishing an epidemic forecasting and preparedness system through the:
 - (i) development of a national strategy and associated guidance for public health personnel at the central, Zoba and sub-Zoba levels;
 - (ii) formulating a skills development curriculum and training of trainers;
 - (iii) printing and dissemination of guidelines; and
 - (iv) acquisition of drugs and reagents.
- (c) improving the Borrower's capacity to carry out operational research for identifying changes in HAMSET through the establishment of research priorities, training of research staff in research methodology, and the construction of entomological laboratories;
- (d) introduction of methods to link the results of research and monitoring and evaluation to policy formulation, annual work planning and budgeting through the provision of technical advisory services, carrying out of workshops. Training and acquisition of computers; and
- (e) strengthening the management of communicable diseases within MOH through training of managers, study tours and the acquisition of computers and equipment.

Part B: Multisectoral Control of HAMSET Transmission

1. Strengthening the capacity of MOH to coordinate the communication activities of agencies implementing the Project at the Zoba and sub-Zoba levels through the provision of technical advisory services in communication, training of social change agents and community leaders in communication techniques.

2. Improving educational outcomes to promote good health and prevention of the spread of HAMSET including:

- (a) strengthening skills in school health programming;
- (b) promoting, in students and teachers, healthy practices and behavior change;
- (c) establishing school-based support and health services; and
- (d) promoting healthy practices and behavior changes in adults, all through the provision of technical advisory services, training, vehicles and other equipment, school materials and other supplies, and the construction of sanitation and basic

garbage disposal facilities.

3. Enhancing access to preventive, diagnostic and treatment services for conscripts including:

- (a) promoting healthy behaviors through multiple channels of communication;
- (b) strengthening health care services in the army;
- (c) promoting the increased use of condoms and insecticide-treated materials;

and

(d) establishing a program to address HAMSET issues in the context of demobilization, all through the acquisition of drugs, condoms, vehicles, education materials, and training.

4. Making vector control more environmentally sound and cost-effective through: (i) the stratification of vector control activities; (ii) the introduction, on a pilot basis, of (A) alternative community-based vector control activities, and (B) the use of insecticides with the same efficacy but lower toxicity and environmental impact than DDT; and (iii) the carrying out of efficacy and cost-effectiveness studies into vector control activities.

Part C: Improving HAMSET Health Care and Counseling Services

1. Improving blood safety at the Zoba level through: (i) the establishment of blood banks for Zoba hospitals; (ii) the rehabilitation of existing laboratories to house a small blood bank unit, including the acquisition of equipment for the said blood bank unit; (iii) the provision of in service and on the job training for staff on blood safety and transfusion techniques; and (iv) the acquisition of two vehicles for Project supervision.

2. Improving the skills of health workers on diagnosis, treatment and counseling techniques through: (i) integrated in service and on the job-training on HAMSET diseases prevention and detection; (ii) case management; (iii) syndromic and laboratory diagnosis of STDs; (iv) counseling on prevention and treatment of HAMSET diseases and anemia; and (v) improving the language abilities of health staff including, in particular, local language abilities of staff carrying out pre and post HIV-testing counseling.

3. Improving availability in health facilities of medical materials and drugs required to diagnose and treat HAMSET diseases through: (i) the purchase and distribution of basic essential drugs and diagnostic materials to treat AIDS opportunistic infections, STDs, Tuberculosis, and Malaria; including condoms, and insecticide-treated mosquito nets and insecticides; (ii) the carrying out of surveys to assess the availability of drugs and medical materials; (iii) the provision of in-service and on-the job resource management training for MOH staff; and (iv) the provision of transport facilities for drugs, medical materials and Project supervision.

Part D: Community-Managed HAMSET Response

The carrying out of a community-based program to minimize the transmission and impact of HAMSET diseases, including: (1) strengthening community services provided by MOLHW by establishing a community service to provide counseling and establishing support groups for AIDS affected people, and (2) testing the capacities of communities to use community structures and socio-cultural systems to identify, select and manage responses to HAMSET diseases, all through: (a) the establishment of a fund to be managed by the Zoba administration for the financing, on a grant basis, of the identification, assessment, selection, implementation and monitoring of Subprojects to control HAMSET diseases including the preparation of proposals for the mitigation of the impact of said diseases; (b) training of community authorities and leaders on health impact assessment and rationale and methodology; and (c) the provision of short-term technical advisory services.

Part E: Project Management and Evaluation

Strengthening of Project management and evaluation capacity, including: (i) the establishment of a sub-unit within PMU to be responsible for the procurement of Project items and financial management under the Project; (ii) the provision of staff training; (iii) the conduct of workshops; (iv) the development of appropriate management and information systems to facilitate monitoring of Project performance;

(v) the acquisition of office equipment and materials; and (vi) the provision of short-term technical advisory services for the carrying out of selected Project activities.

* * *

The Project is expected to be completed by September 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods (other than furniture) estimated to cost less than \$100,000 equivalent per contract, and furniture, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount (for both goods and furniture) not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

A small number of vehicles and office equipment may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Community Participation

Works estimated to cost less than \$30,000 equivalent per contract shall be procured in accordance with procedures acceptable to the Association.

5. Procurement of Small Works

Works, including rehabilitation works, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more and each of the first two contracts for goods estimated to cost the equivalent of less than \$100,000 but more than \$30,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$30,000 or less, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services estimated to cost more than: \$100,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$75,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for training and capacity building may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for assignments to support health impact assessment and Subprojects and communications campaigns in rural areas estimated to cost less than \$100,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to: (i) each contract estimated to cost the equivalent of \$100,000 or more; and (ii) each of the first two contracts estimated to cost the equivalent of less than \$100,000, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

Project Implementation Manual and Project Executing Agencies

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, timetables and criteria (including the

eligibility criteria for Grants and Subprojects) required for the Project.

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

(c) The Borrower's Ministry of Health shall be responsible for the overall coordination of the Project.

2. (a) The Borrower shall establish and thereafter maintain in a form and with functions, membership and resources satisfactory to the Association, a Steering Committee to be responsible for the making of policy decisions on Project activities and annual budgets.

(b) The membership of Steering Committee shall comprise: (i) the Minister of Health, as Chairman, (ii) representatives of the Ministries of local Government, Education, Labor and Social Welfare, and the six Zoba Governors. The Director General of Health Services shall be the Secretary to the Steering Committee.

3. (a) The Borrower shall, for the purposes of the Project, continue to maintain in MOH in a form and with functions, staffing and resources satisfactory to the Association a PMU to be responsible for the overall monitoring of Project activities.

(b) The Borrower shall: (i) establish in PMU a sub-unit, satisfactory to the Association, to assist PMU in the carrying out of the financial management, accounting, and disbursement functions required under the Project, including the management of the Special Account, the processing of contracts and payments for goods, works and services; and (ii) establish in each Zoba a Zoba Management Unit under the Zoba Medical Officer which shall be responsible for Project activities at the Zoba level.

(c) The Steering Committee shall work closely with PMU in the planning of Project activities, the provision of technical advice related to Project execution, supervision and monitoring of Project activities.

4. The Borrower shall establish and thereafter maintain in a form and with functions, membership and resources satisfactory to the Association a National HAMSET Technical Committee. The said Committee shall provide technical support to all agencies implementing the Project. The Committee shall report to the Steering Committee on all its activities.

Subprojects and Costs

5. (a) To be eligible for a Grant, a Beneficiary must furnish a Subproject proposal to MOH that fully satisfies the criteria specified in the Project Implementation Manual for Grant financing of Subprojects.

(b) In the evaluation of each Subproject proposal, consideration shall be given to the Beneficiary's capacity to carry out, manage and maintain the Subproject in conformity with appropriate administrative, financial, health, technical and managerial standards.

6. The Borrower shall make appropriate amounts of the proceeds of the Credit allocated to Category (4) in Schedule 1 to this Agreement available, on a grant basis, to a Beneficiary under an agreement to be entered into between the Borrower and the Beneficiary, under terms and conditions which shall have been approved by the Association. The Grant Agreement shall provide for rights adequate to protect the interests of the Association and the Borrower, including to the extent that it shall be appropriate the right to:

(a) (i) carry out the Subproject with due diligence and efficiency and in accordance with sound administrative, financial, health, technical and managerial standards; and (ii) maintain adequate records for the Subproject concerned;

(b) require that all goods, works and services required for a Subproject shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(c) require that such goods and services shall be used exclusively in the

carrying out of the Subproject;

(d) inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(e) require that: (i) the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Grant upon the failure by the Beneficiary to perform any of its obligations under the Grant Agreement.

7. Each Beneficiary shall contribute at least 20% of the total cost of a Subproject for which it has received a Grant.

Miscellaneous

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators satisfactory to the Association. The indicators will be specified in a Supplemental Letter., 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, on or about March 31 and September 30 each year a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the 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;

(c) review with the Association by April 30 and October 31 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the 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; and

(d) carry out, jointly with the Association not later than March of every year, beginning on March 2001, an annual progress review of the implementation of the Project, 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.

9. No later than thirty months after the Effective Date, the Borrower shall carry out, jointly with the Association, a midterm review of the progress made in carrying out the Project (the Midterm Review). The Midterm Review shall cover among other things:

(i) an assessment of: (A) work programs prepared as of the date of the Midterm Review and the progress made in carrying out the said programs, (B) training provided under the Project, (C) procurement under the Project, (D) the extent to which actions described in the indicators set out in Schedule 6 to this Agreement have been carried out, and (E) plans made or proposed for updating said indicators; and

(ii) a review of the state of maintenance of any works carried out under the Project.

10. The Borrower shall take all necessary measures to: (a) implement the pesticide management plan satisfactory to the Association; (b) procure only chemicals for the control of malaria epidemics which have been approved by the Association; and (c) furnish to the Association, not later than December 31, 2002, a program satisfactory to the Association, for substituting DDT residual house-spraying by chemicals and

techniques which are safer to the environment and human health.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement set forth in said table;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 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 4,500,000.

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

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

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

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

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the

audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

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

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

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

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

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

