

CONFORMED COPY

LOAN NUMBER 3516 KO

(Public Hospital Modernization Project)

between

REPUBLIC OF KOREA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 2, 1992

LOAN NUMBER 3516 KO

LOAN AGREEMENT

AGREEMENT, dated October 2, 1992, between REPUBLIC OF KOREA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Action Program" means the Borrower's Health Sector Policies and Cost Containment Action Program agreed between the Borrower and the Bank dated June 16, 1992;

(b) "Equipment Selection Committee" means the Equipment Selection Committee established under the Loan Agreement No. 3330 KO between the Borrower of the Bank within MOHSA (as hereinafter defined) and referred to in Section 3.04 (b) of this Agreement;

(c) "HMD" means the Hospital Management Division within MOHSA (as hereinafter defined);

(d) "MOHSA" means the Borrower's Ministry of Health and Social Affairs;

(e) "MOHSA Special Account" means the account opened in the name of MOHSA referred to in Section 2.02 (b) of this Agreement;

(f) "Municipality" means any of the Borrower's Municipalities having jurisdiction over a public hospital for which equipment is to be provided under the Project;

(g) "NIH" means the Borrower's National Institute of Health established pursuant to the Government Organization Act of 1991;

(h) "NIH Special Account" means the account opened in the name of NIH referred to in Section 2.02 (b) of this Agreement;

(i) "NMC" means the Borrower's National Medical Center;

(j) "OSROK" means the Borrower's Office of Supply;

(k) "Province" means any of the Borrower's Provinces having jurisdiction over a public hospital for which equipment is to be provided under the Project;

(l) "PH" means each public hospital selected in accordance with the 'Criteria and Procedures for PH's' contained in Schedule 9 of this Agreement, by the Municipalities and Provinces of the Borrower as eligible to receive equipment under Part C of the Project;

(m) "PIU" means the Project Implementation Unit established within Medical Affairs Bureau under Ministerial Decree No. 605;

(n) "Subsidiary Loan Agreement" means each of the subsidiary loan agreements to be entered into between the Borrower through MOHSA, and each of NMC, NIH and each Municipality or Province, respectively, pursuant to Section 3.03 (a) of this Agreement, and such term includes all schedules supplemental to each Subsidiary Loan Agreement, and the term "Subsidiary Loan Agreements" means collectively the aforementioned subsidiary loan agreements;

(o) "Subsidiary Loan" means a subsidiary loan made under a Subsidiary Loan Agreement for the carrying out of Part A, Part B or Part C of the Project;

(p) "Category" means any of the Categories of items in the table set forth in paragraph 1 of Schedule 1 to this Agreement; and

(q) "Won" means the currency of the Borrower.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of thirty million dollars (\$30,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars two special deposit accounts named the "MOHSA Special Account" and the "NIH Special Account", respectively, in Korea Exchange Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the MOHSA Special Account and the NIH Special Account shall be made in accordance with the provisions of Schedule 5 and Schedule 6 to this Agreement respectively.

Section 2.03. The Closing Date shall be December 31, 1996, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1,

1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. 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 MOHSA and NIH with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. (a) The Borrower shall, under terms and conditions which shall have been approved by the Bank, including the principal terms and conditions set forth in Schedule 9 of this Agreement: (i) relend, through MOHSA, the proceeds of the Loan allocated under Category (1) to NMC for the purpose of carrying out Part A of the Project under a Subsidiary Loan Agreement to be entered into between MOHSA and NMC; (ii) relend the proceeds of the Loan allocated to Category (2) to NIH for the purpose of carrying out Part B of the Project under a Subsidiary Loan Agreement to be entered into between the Borrower and NIH; and (iii) relend, through MOHSA, the proceeds of the Loan allocated under Category (3) to Municipalities and Provinces for the purpose of carrying out Part C of the Project under Subsidiary Loan Agreements to be entered into between MOHSA and each Municipality or Province.

(b) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the

interests of the Borrower and the Bank to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.04. The Borrower, through MOHSA, shall carry out Part C of the Project in accordance with the procedures for selection of PHs, and of equipment to be provided thereto, set forth in Schedule 9 to this Agreement.

Section 3.05. (a) For the purposes of overall coordination in the carrying out of the Project, the Borrower shall maintain, until the completion of the Project, the PIU, with structure, functions and staff satisfactory to the Bank.

(b) For the purposes of carrying out the Project, the Borrower shall, until the completion of the Project: (i) comply with the criteria and procedures for selection of equipment set forth in Schedule 8 to this Agreement; and (ii) maintain the Equipment Selection Committee with such composition, functions and staff satisfactory to the Bank.

Section 3.06. The Borrower shall carry out the Action Program with due diligence and efficiency and shall take all measures necessary for the timely implementation thereof, and, except as the Bank shall otherwise agree, shall not introduce any substantial amendments thereto, without the prior approval of the Bank.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan

Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

ARTICLE V

Effective Date; Termination

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

(a) that the Borrower, through MOHSA, has entered into the Subsidiary Loan Agreement referred to in Section 3.03 (a) (i) of this Agreement, with NMC for the carrying out of Part A of the Project; and

(b) that the Borrower has entered into a Subsidiary Loan Agreement referred to in Section 3.03 (a) (ii) of this Agreement, with NIH for the carrying out of Part B of the Project.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Subsidiary Loan Agreements referred to in Section 5.01 (a), and (b) above have been duly authorized or ratified by the Borrower, through MOHSA, and NMC, and the Borrower and NIH, respectively, and that each such Subsidiary Loan Agreement is legally binding upon the Borrower through MOHSA and NMC and the Borrower and NIH, respectively, in accordance with its terms, and is in full force and effect.

Section 5.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
Kwachon
Republic of Korea

Cable address:

MOF

Telex:

K23243

Kwachon, Korea

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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 KOREA

/s/ Koo, Bohn Young
By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Callisto E. Madavo
By

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment for NMC under Part A of the Project	10,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(2) Equipment for NIH under Part B of the Project	10,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory

cost) and 65%
of local
expenditures for
other items
procured locally

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Equipment for PH's under Part C of the Project	10,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
TOTAL	30,000,000	

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; and

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

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

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

(b) in respect of expenditures on account of equipment for a PH until the Subsidiary Loan Agreement providing for the financing thereof has been entered into between the Borrower, through MOHSA, and the concerned Municipality or Province and the Bank has received a duly certified copy thereof together with a legal opinion or opinions satisfactory to the Bank stating that such Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower, through MOHSA, and such Municipality or Province, as the case may be, and is legally binding upon the Borrower and the respective Municipality or Province in accordance with its terms, and is in full force and effect.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase access to available medical care services, to improve the quality of medical care in public hospitals, to strengthen control over the safety of drugs and quality of food and to address critical health sector policy issues, in particular, sector financing and cost containment.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Strengthening of NMC

The acquisition of equipment for NMC, in particular, equipment to support/diagnostic services relating to diseases such as coronary heart disease, cancer, stroke and chronic liver disease.

Part B: Strengthening of NIH

The acquisition of research and testing equipment for monitoring the safety of drugs and food, for producing vaccines and antigens and for monitoring communicable diseases.

Part C: Strengthening of Selected PH's

The provision to such PH's of biomedical equipment to upgrade their diagnostic and treatment capabilities, especially for noncommunicable diseases.

Part D: Training and Action Program

(a) The provision of training to MOHSA, NMC and NIH staff.

(b) The carrying out of the Action Program by the Borrower to address critical sector issues, inter alia, hospital efficiency, diffusion of medical technology and fee schedules, supported by relevant research studies, publications on health policy and financing.

* * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1	
beginning February 1, 1998 through February 1, 2007	1,500,000
And on August 1, 2007	1,500,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but	0.40

not more than six years before maturity	
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Republic of Korea may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

(a) Items or groups of items estimated to cost the equivalent of \$300,000 or less per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank; and (b) contracts for proprietary items and for spare parts for existing equipment may be awarded after direct negotiations with suppliers thereof, in accordance with procedures acceptable to the Bank; provided that the cost of such items or groups of items procured in accordance with the methods set forth in (a) or (b) of this paragraph shall not exceed a maximum aggregate amount equivalent to \$4,500,000.

Part D: Review by the Bank of Procurement Decisions

(a) With respect to each contract, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(b) The provisions of the preceding subparagraph (a) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

(c) The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 5

MOHSA Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan 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 \$2,000,000 to be withdrawn from the Loan Account and deposited into the MOHSA Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the MOHSA 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 MOHSA Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan 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 MOHSA Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the MOHSA Special Account:

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the MOHSA 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the MOHSA Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the MOHSA 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 Bank shall have determined at any time that any amount outstanding in the MOHSA Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

SCHEDULE 6

NIH Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

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

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

3. After the Bank has received evidence satisfactory to it that the NIH Special Account has been duly opened, withdrawals of the

Authorized Allocation and subsequent withdrawals to replenish the NIH Special Account shall be made as follows:

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the NIH 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 NIH Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, 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 NIH Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the NIH Special Account:

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Category, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the NIH 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B)

deposit into the NIH Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the NIH 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 Bank shall have determined at any time that any amount outstanding in the NIH Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

SCHEDULE 7

Procedures for Selection of PH's

1. Each Municipality and Province seeking financing of equipment to be provided to a PH, shall submit an application therefor, in form and substance satisfactory to the Borrower and the Bank to HMD endorsed by the Office of Mayor or Governor, as the case may be.
2. Upon approval by HMD of the application, the list of equipment sought to be financed shall be submitted to the Equipment Selection Committee for final approval.
3. HMD shall select from PH's nominated in accordance with (1) above, the PH's to receive budgetary allocations taking into account the improvement in equitable access of the poor to health care such a selection would create.

SCHEDULE 8

Criteria and Procedures for Selection of Equipment for Project Implementation

Criteria and Procedures for Selection of Equipment

1. NMC, NIH and PH's shall submit their equipment lists and technical specifications for approval by the Equipment Selection Committee.
2. The Equipment Selection Committee shall select equipment in accordance with the point system approved by the Bank which shall take into account: (i) effectiveness of the equipment in achieving modernization of the medical care system (including use of the equipment which should be bio-medical; whether the equipment is incremental or replacement equipment; whether the equipment is for therapeutic or diagnostic purposes); (ii) regional distribution and epidemiological need (including proportional availability of equipment among the eight medical regions in accordance with population ratios, and the epidemiological need and appropriateness of proposed equipment); and (iii) efficiency in equipment utilization (including PH's capability to maintain equipment; PH's arrangements for training equipment users; and PH's budgetary provisions for recurrent operational costs).
3. The Equipment Selection Committee shall prepare a procurement list or supply such list to OSROK for procurement implementation.

SCHEDULE 9

Principal Terms and Conditions of Subsidiary Loans

1. Subsidiary Loans shall be denominated in Won.
 2. The amount of each Subsidiary Loan to be made to a Province or Municipality for the financing of equipment under Part C of the Project shall be determined on the basis of the maximum estimated cost of the equipment to be acquired.
 3. The proceeds of a Subsidiary Loan shall be used only to finance equipment which shall have been approved by the Equipment Selection Committee.
 4. The principal amount of the Subsidiary Loan repayable to the Borrower shall be the equivalent in Won of amounts of the Subsidiary Loan withdrawn and outstanding, such equivalent to be expressed at the exchange rates prevailing at the time of withdrawal.
 5. The term of each Subsidiary Loan shall be for a period of 15 years with a grace period of 5 years.
 6. The interest rate applicable to each Subsidiary Loan shall be equal to the interest rate calculated in accordance with the provisions of Section 2.05 of this Agreement together with an additional 0.05% (one-twentieth of one percent) per annum.
 7. NMC, NIH and each Municipality and Province respectively shall pay a commitment charge per annum on the principal amount of its Subsidiary Loan not withdrawn from time to time at the same rate as applicable to the Loan in accordance with Section 2.04 of this Agreement.
 8. An additional fee of 0.05% shall be payable in respect of any overdue amount of principal or interest under the Subsidiary Loan.
 9. Any of NMC, NIH, a Municipality or Province wishing to exercise a right of prepayment may only do so after application for, and receipt of, the Borrower's written consent, the prepayment premium applicable to the Loan shall apply in respect of an amount of a Subsidiary Loan prepaid.
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