

CONFORMED COPY

LOAN NUMBER 4182 RU

Loan Agreement

(Health Reform Pilot Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated October 9, 1997

LOAN NUMBER 4182 RU

LOAN AGREEMENT

AGREEMENT, dated October 9, 1997, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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; and

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 for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended

with respect to any amount of the Loan for a continuous period of thirty (30) days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

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

(b) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated July 11, 1996 and February 4, 1997 between the Borrower and the Bank;

(c) "Kaluga Oblast Agreement" means the subsidiary loan and implementation agreement to be entered into by the Ministry of Finance, Ministry of Health of the Borrower, and Kaluga Oblast in conformity with the provisions of Section 3.01 (c) of this Agreement as the same may be amended from time to time;

(d) "Kaluga Sub-loan" means the loan provided under the Kaluga Oblast Agreement;

(e) "Tver Oblast Agreement" means the subsidiary loan and implementation agreement to be entered into by the Ministry of Finance, Ministry of Health of the Borrower, and Tver Oblast in conformity with the provisions of Section 3.01 (d) of this Agreement as the same may be amended from time to time;

(f) "Tver Sub-loan" means the loan provided under the Tver Oblast Agreement;

(g) "Oblast Agreements" means, collectively, the Kaluga Oblast Agreement and the Tver Oblast Agreement;

(h) "MMA" means the Moscow Sechenov Medical Academy;

(i) "MSEI" means the Public Health Institute MedSocEconomInform;

(j) "RHCF" means the Russian Health Care Foundation established pursuant to the Borrower's Decree No. 1295, dated October 31, 1996 and registered by the Borrower's Ministry of Justice, through the Certificate of Registration dated November 28, 1996;

(k) "CSU" means the Central Support Unit established within the RHCF for the purposes of coordination of preparation and implementation of the Project;

(l) "RHCF Project Coordination Agreement" means the agreement to be entered into between the Borrower and the RHCF in accordance with the provisions of Section 3.01 (b) of this Agreement;

(m) "CSU Project Account" means the account established by CSU for the

purposes of the Project;

(n) "Kaluga PMU" means the project management unit established in Kaluga Oblast pursuant to Resolution No. 16, dated January 17, 1997 of the Governor of Kaluga Oblast; and

(o) "Tver PMU" means the project management unit established in Tver Oblast pursuant to Resolution No. 62 of February 10, 1996 of the Governor of Tver Oblast.

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, an amount equal to sixty six million Dollars (\$66,000,000).

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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 April 30, 2004 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London Interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A)

one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable February 15 and August 15 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. (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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall:

(i) cause the RHCF to perform in accordance with the RHCF Project Coordination Agreement all the obligations of the RHCF in respect of overall Project coordination;

(ii) cause Kaluga Oblast to perform in accordance with the Kaluga Oblast Agreement all the obligations of Kaluga Oblast in respect of Part A of the Project therein set forth;

(iii) cause Tver Oblast to perform in accordance with the Tver Oblast Agreement all the obligations of Tver Oblast in respect of Part B of the Project;

(iv) take or cause to be taken all action necessary or appropriate to enable Kaluga Oblast and Tver Oblast to perform such obligations and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(v) carry out Part C through MMA and Part D through MSEI with due diligence and efficiency and in conformity with appropriate administrative and financial practices; and

(vi) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of overall Project coordination, the Borrower shall enter into an agreement with the RHCF on such terms as shall be acceptable to the Bank which shall include terms specifying the responsibilities of the RHCF, to be carried out by the Central Support Unit within the RHCF, in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, procurement and administrative support of the Kaluga PMU, Tver PMU, MMA and MSEI.

(c) The Borrower shall make available to Kaluga Oblast the proceeds of the Loan withdrawn from time to time from Categories (1) through (5) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under an agreement to be entered into by the Ministry of Finance, the Ministry of Health of the Borrower and Kaluga Oblast (the Kaluga Oblast Agreement), under terms and conditions which shall have been approved by the Bank which shall include: (i) 50% of such proceeds shall be made available on a grant basis; (ii) 50% of such proceeds shall be onlent (the Kaluga Subsidiary Loan), which shall be denominated in Dollars and repaid over a period of no more than fifteen (15) years following a grace period of no more than six (6) years; (iii) Kaluga Oblast shall pay interest on the principal amount of the Kaluga Sub-loan withdrawn and outstanding from time to time at the rate equal to the rate applicable for the Loan in accordance with the provisions of Section 2.05 of this Agreement plus 2.5%; and (iv) the implementation responsibilities of Kaluga Oblast in respect of Part A of the Project, including the principal terms set forth in Section 1 of Schedule 6.

(d) The Borrower shall make available to Tver Oblast the proceeds of the Loan withdrawn from Categories (6) through (10) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under an agreement to be entered into by the Ministry of Finance, the Ministry of Health of the Borrower and Tver Oblast (the Tver Oblast Agreement), under terms and conditions which shall have been approved by the Bank which shall include: (i) 50% of such proceeds shall be made available on a grant basis; (ii) 50% of such proceeds shall be onlent (the Tver Subsidiary Loan), which shall be denominated in Dollars and repaid over a period of no more than fifteen (15) years following a grace period of no more than six (6) years; (iii) Tver Oblast shall pay interest on the principal amount of the Tver Sub-loan withdrawn and outstanding from time to time at the rate equal to the rate applicable for the Loan in accordance with the provisions of Section 2.05 of this Agreement plus 2.5%; and (iv) the implementation responsibilities of Tver Oblast in respect of Part B of the Project, including the principal terms set forth in Section II of Schedule 6.

(e) The Borrower shall exercise its rights under the RHCF Project Coordination Agreement, the Kaluga Oblast Agreement, the Tver Oblast Agreement in such manner as to protect the interests of the Borrower and the Bank and 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 RHCF Project Coordination Agreement, the Kaluga Oblast Agreement or the Tver Oblast Agreement.

(f) Without limitation upon the generality of the provisions set forth in paragraph (a) of this Section, the Borrower shall make adequate arrangements for making available to MMA and MSEI the proceeds of the Loan withdrawn from the Loan Account for the execution of Parts C and D of the Project.

Section 3.02. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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 Bank, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2001, 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; and

(c) review with the Bank, by April 30, 2001, or such later date as the Bank 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 Bank views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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 (6) 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 in respect of the Project 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 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the RHCF shall have failed to perform any if its obligations under the RHCF Project Coordination Agreement.

(b) Kaluga Oblast shall have failed to perform any of its obligations under the Kaluga Oblast Agreement or Tver Oblast shall have failed to perform any of its obligations under the Tver Oblast Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the RHCF or for the suspension of its operations.

(d) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Kaluga Oblast or Tver Oblast will be able to perform their respective obligations under the Kaluga Oblast Agreement or the Tver Oblast Agreement, respectively.

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

(a) any of the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur in respect of an obligation so as to affect materially and adversely the execution of the Project and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the RHCF Project Coordination Agreement has been duly executed by the Borrower and the RHCF; and

(b) at least one of the Oblast Agreements has been duly executed by the Ministry of Finance, the Ministry of Health and the respective Oblast, such Oblast has deposited an amount equivalent to \$15,000 into the CSU Project Account and the RHCF and the respective Oblast administration have entered into an administrative arrangement in respect of the Project activities to be carried out within the respective Oblast, acceptable to the Bank.

Section 6.02. The following are specified as additional matters, with 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 RHCF Project Coordination Agreement has been duly authorized or ratified by the Borrower and the RHCF and is legally binding upon the Borrower and the RHCF in accordance with its terms.

(b) that the Oblast Agreement referred to in Section 6.01 (b) has been duly authorized or ratified by the Borrower and the respective Oblast and is legally binding upon the Ministry of Finance, the Ministry of Health and the respective Oblast in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower or the Deputy Minister of Finance responsible for international economic affairs is designated as representative

of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
Ylyinka Street 9
103097 Moscow
Russian Federation

Telex:

112008

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 (MCI)
64145 (MCI)

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.

RUSSIAN FEDERATION

By /s/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

Regional Vice President
Europe and Central Asia

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 Dollars)	% of Expenditures to be Financed
Kaluga Oblast		

(1)	Works under Parts A.1 and A.3 of the Project	1,400,000	83%
(2)	Medical and computer equipment, pharmaceuticals, training materials, supplies and vehicles under Part A	17,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(3)	Consulting and contractual services and training under Part A of the Project	8,300,000	100%
(4)	Health provider payments under Part A.2 (d) of the Project	1,400,000	100%
(5)	Health promotion activities under Part A.3 (e) of the Project	1,000,000	100%
Tver Oblast			
(6)	Works under Part B.3 of the Project	2,400,000	83%
(7)	Medical and computer equipment, pharmaceuticals, training materials, supplies and vehicles under Parts B of the Project	18,400,000	100% of foreign expenditures, 100% of local expenditures (ex factory cost) and 83% of local expenditures for other items procured locally
(8)	Health promotion activities under Part B.1 (b) of the Project	1,000,000	100%
(9)	Health promotion activities under Part B.3 (d) of the Project	1,300,000	100%
(10)	Consulting and contractual services and training under Part B of the Project	6,900,000	100%
MMA and MSEI			
(11)	Medical, computer and office equipment and training materials under Parts C and D	771,000	100% of foreign expenditures, 100% of local expenditures

			(ex-factory cost) and 83% of local expenditures for other items procured locally
(12)	Consultants' services and training under Parts C and D of the Project	2,000,000	100%
(13)	RHCF operating costs	2,500,000	100%
(14)	Refunding of Project Preparation Advance	729,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
		66,000,000	
	TOTAL	=====	

2. For the purposes of this Schedule:

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

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

(c) the term "operating cost" means expenditures on account of the Project incurred by the RHCF for staff costs, office rent, minor office renovation and maintenance, minor office equipment and supplies, furniture, staff training and business travel, training materials, translation of training materials and project documents, maintenance of office equipment, communications (including international telephone, electronic mail and facsimile transmissions), and of an office vehicle operating and maintenance costs; and

(d) the term "health provider payments" means expenditures for services of primary care providers under Part A.2 (d) of the Project in accordance with the plans approved by the Bank in conformity with the provisions of Sections 3 (b) (ii) of this Schedule.

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

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

(b) expenditures under Categories (1) through (5) of this Schedule in respect of Kaluga Oblast and under Categories (6) through (10) in respect of Tver Oblast unless: (i) the Ministry of Finance, the Ministry of Health and the respective Oblast have executed the respective agreement pursuant to Sections 3.01 (c) or (d) of this Agreement; (ii) the respective Oblast has deposited an amount equivalent to \$15,000 into the CSU Project Account; (iii) the Bank has received a legal opinion from counsel acceptable to the Bank in respect of the agreement referred to in (i) above, attesting that such agreement is binding upon the Ministry of Finance, the Ministry of Health and the respective Oblast; and (iv) the RHCF and the respective Oblast administration have entered into an administrative arrangement in respect of the Project activities to be carried out within the respective Oblast, acceptable to the Bank.

(c) expenditures under Categories (1) through (5) of this Schedule, in addition to the provisions of Section 3 (b) of this Schedule, unless the Bank has been furnished: (i) detailed plans for the implementation of the pilot phase under Part A.2 (a) of the Project; and (ii) detailed plans for the conditions for management, disbursement of funds and the implementation of the health provider payment scheme

under Part A.2 (d) of the Project, all acceptable to the Bank;

(d) under Category (5) of this Schedule unless, in addition to the provisions of Section 3 (b) and (c) of this Schedule, the Bank has been furnished: (i) a five-year strategy for maternal and child care health promotion activities in Kaluga Oblast; and (ii) an action plan with a detailed budget for the first year of implementation of such health promotion activities, both acceptable to the Bank;

(e) expenditures under Categories (6) to (10) of this Schedule, in addition to the provisions of Section 3 (b) of this Schedule, unless the Bank has been furnished detailed plans acceptable to the Bank for implementation of the pilot phases under Parts B.4 (a) and (b) of the Project;

(f) expenditures under Category (8) of this Schedule unless, in addition to the provisions of Section 3 (b) and (e) of this Schedule, the Bank has been furnished: (i) a five year strategy for cardiovascular health promotion activities in Tver Oblast; and (ii) an action plan with a detailed budget for the first year of implementation of such health promotion activities, both acceptable to the Bank; and

(g) expenditures under Category (9) of this Schedule unless, in addition to the provisions of Section 3 (b) and (e) of this Schedule, the Bank has been furnished: (i) a five year strategy for antenatal care promotion and family planning activities in Tver Oblast; and (ii) an action plan with a detailed budget for the first year of implementation of such activities, both acceptable to the Bank.

4. The Bank may require under such terms and conditions as the Bank shall specify to the Borrower withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) for goods under contracts costing less than \$100,000 equivalent; (ii) for individual consultants under contracts costing less than \$50,000 equivalent; (iii) for consulting firms under contracts costing less than \$100,000 equivalent; (iv) for training and study tours costing less than \$10,000 equivalent; and (v) operating costs.

SCHEDULE 2

Description of the Project

The objective of the Project is to achieve sufficient improvements in the quality and efficiency of health care and in reproductive and cardiovascular health outcomes in two oblasts on a pilot basis to enable the Borrower to make decisions about national adoption of specific reform measures.

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

Part A: Kaluga Oblast Health Reform

1. Delivery System Restructuring:

Increase of the range, volume, quality and accessibility of services offered at outpatient facilities and correspondingly reduce the share of inpatient services through:

(a) carrying out of minor civil works, provision of medical equipment, related supplies and pharmaceuticals, medical vehicles for about 30 family physician offices, 23 primary care group practice offices, nine consultation, diagnostic and treatment centers, one day surgery center, two district hospitals and one rayon hospital; provision of equipment for the Kaluga emergency hospital; and provision of services for medical equipment operation and maintenance;

(b) study tours, and provision of technical assistance for development of training programs for family physicians, primary care group practices and facility managers; and

(c) closing down of about 350 hospital beds, including two district hospitals to be partly converted to family physician offices and another two district hospitals

to be converted into nursing care facilities.

2. Restructuring Provider Incentives:

Establishment of new performance-based methods of paying providers, development of modern information-based quality assurance systems and establishment of institutional structures for quality assurance at oblast and facility levels through:

(a) provision of training, study tours, technical assistance, informational materials, and computer equipment and software needed to develop and establish the new payment and quality assurance systems in six pilot sites and subsequently to establish the system oblast-wide;

(b) provision of computer hardware and software and office equipment for the health care facilities which are participating in the Project; and establishment and equipping of an oblast information processing center;

(c) provision of equipment for the drug quality control laboratory in Kaluga City; and

(d) establishment and initial operation of a health provider payment scheme to remunerate primary care providers for interventions and services in accordance with mandated procedures and standards designed to reduce cost and enhance quality of services.

3. Maternal and Child Health and Family Planning:

Introduction of new care protocols, with an emphasis on health promotion, to improve the quality and cost-effectiveness of maternal and child care for:

(a) antenatal care: through training of obstetrician-gynecologists and midwives, provision of equipment for 12 women's consultations and of vitamin and iron folate supplements;

(b) perinatal care: through carrying out of minor civil works and provision of furniture, technical assistance, staff training, basic medical equipment, drugs and supplies and upgrading services in 10 maternity hospitals; training of trainers in basic neonatal resuscitation for the oblast; and provision of one ambulance for the oblast and communications equipment in 10 maternity homes for emergencies;

(c) family planning and reproductive health services: through provision of equipment and supplies for training of about 1200 medical personnel in family planning methods and counseling, and of two laparoscope and requisite supplies for the oblast family planning center; contraceptives for distribution to teens, low-income women; and training, technical assistance and provision of laboratory equipment and drugs in four women's consultations for the treatment and diagnosis of sexually-transmitted infections;

(d) provision of office equipment, and training for a health promotion unit for maternal and child health;

(e) preparation of communication strategies, design of specific campaigns, preparation and dissemination of educational materials for community-based programs to promote healthy antenatal and family planning behavior; and

(f) provision of services for operation and maintenance of medical equipment.

4. Project Management Unit - Kaluga PMU:

Support to the Kaluga PMU through the provision of office equipment, training and consultants' services.

Part B: Tver Oblast Health Reform

1. Cardiovascular Health:

(a) implementation of health awareness surveys and health status inventories

of the population and a health awareness survey of physicians; provision of equipment, and training for an oblast health information center; training and provision of support materials for primary care providers; provision of equipment for a pilot prevention program in the railroad car factory and in five demonstration sites; provision of equipment and supplies for a diabetes center; provision of equipment for early detection of cardiovascular risk factors in hospitals and polyclinics; and office equipment for the office of the Director of Prevention in the Tver Medical Academy;

(b) planning and carrying out of cardiovascular health promotion activities, including materials development, production, and dissemination for community-based program;

(c) restructuring of emergency care services: provision of about 44 reanimation ambulances and reequipping of about 40 ambulances; communications equipment for the ambulance dispatch center; emergency care training for emergency response staff and training of police and firemen in basic life support; development of training and informational materials; and provision of emergency equipment in intensive care units in selected hospitals;

(d) provision of one ultrasound unit for the evaluation of peripheral blood vessels and one computer tomographer in the central oblast hospital to enhance diagnosis and treatment of cardiovascular disease; and

(e) provision of services for medical equipment operation and maintenance.

2. Family Medicine

Introduction of the practice of family medicine among primary care providers through:

(a) provision of technical assistance, training, study visits and provision of professional literature for the establishment of a chair in family medicine in the Tver medical academy, curriculum development and faculty development; and construction, equipment and furnishing of the chair's offices and of two family medicine teaching clinics;

(b) office renovation, provision of technical assistance, and training in office organization and management, and provision of equipment and medical vehicles for up to fifty family physicians' offices; and

(c) provision of medical equipment to upgrade six polyclinics to consultation, diagnostic and treatment centers.

3. Maternal and Child Health and Family Planning

Introduction of new care protocols, with an emphasis on health promotion, to improve the quality and cost-effectiveness of maternal and child care for:

(a) antenatal care through training of obstetrician-gynecologists and midwives, provision of office and teaching equipment, training and staff salaries for an antenatal care coordination center and provision of vitamin and iron folate supplements;

(b) perinatal care through provision of technical assistance, staff training, basic medical equipment, drugs and supplies to introduce the principles of baby-friendly hospitals and upgrade services in about 20 rayon and five maternity hospitals; training of trainers in basic neonatal resuscitation; upgrading of two children's hospitals for referral of seriously ill babies; civil works, equipment, and furniture, ambulances, training, drugs and supplies for the establishment of an inter-rayon perinatal center in Rzhev; and closing down of about 80 obstetric beds including three obstetric departments in rayons surrounding the new perinatal center;

(c) family planning and reproductive health services through training of medical personnel in family planning methods and counseling; provision of office and teaching equipment, and training for a family planning and reproductive health center; provision of contraceptives for distribution; provision of laboratory equipment for

the treatment and diagnosis of sexually-transmitted infections and infertility;

(d) carrying out of activities, including development, production, and dissemination of materials for community-based programs to promote healthy antenatal and family planning behavior; and

(e) provision of services for medical equipment operation and maintenance.

4. Restructuring Provider Incentives:

Establishment of new performance-based methods of paying providers and development of modern information-based quality assurance and management information systems through:

(a) training, study tours, provision of technical assistance, informational materials, computer hardware and software, needed to develop and establish the new provider payment and quality assurance systems and the requisite management information systems in five pilot sites;

(b) development and establishment of a basic management information system to support health facility management and administration in nine pilot sites;

(c) establishment of the systems referred to in (a) and (b) above oblast wide;

(d) provision of computer hardware and software, and office equipment for an oblast information processing center; and

(e) provision of services for medical equipment operation and maintenance.

5. Tver PMU:

Support to the Tver PMU through the provision of office equipment, training and consultants' services.

Part C: National Training Program in Family Medicine

Strengthening of national and regional training programs in family medicine through:

(a) technical assistance, study visits, professional conferences, and acquisition and development of professional literature and teaching materials to update models of family practice for doctors and nurses, develop curriculum and faculty, improve certification and create a supportive environment for family practice; and

(b) provision of equipment, furniture and carrying out of minor civil works for pilot teaching centers in the MMA, and provision of technical assistance and training for the family medicine training center in Kaluga Oblast.

Part D: Monitoring, Evaluation and Dissemination

Strengthening of MSEI's capacity to monitor and evaluate Project activities and disseminate Project results through:

(a) technical assistance, study visits, provision of computer hardware and software, internet link-up, office equipment, and library materials to develop institutional capacity for project monitoring and evaluation; and

(b) workshops, including provision of informational materials and technical assistance to disseminate project results.

* * *

The Project is expected to be completed by October 31, 2003.

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each February 15 and August 15 beginning August 15, 2003 through August 15, 2011	3,665,000
And on February 15, 2012	3,695,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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 (the Guidelines) and the following provisions of this Section, as applicable.

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, namely, the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Limited International Bidding

Specialized goods, including endoscopic and ultrasonic medical equipment, up to

an aggregate amount not to exceed \$2,100,000 equivalent, which the Bank agrees can only be purchased from a limited number of suppliers, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$1,720,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 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.

5. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature, and costing \$3,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Procurement from UN Agencies

Medical equipment, supplies and pharmaceuticals may be procured from UNICEF in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to all contracts procured under the provisions of Parts B, C.1 and C.2 of Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract awarded in accordance with Part C.5 of Section I of this Schedule, the following procedures shall apply: (i) prior to the execution of any contract procured, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (ii) in addition, 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August

1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (13) 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 \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

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 Bank 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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank requests for deposits into the 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 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 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 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 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;

(b) if the Borrower shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories of the Project, minus the total amount of all outstanding special commitments 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 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 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 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 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 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 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.

Section I. Principal terms of implementation responsibilities of Kaluga Oblast to be included in the Kaluga Oblast Agreement pursuant to Section 3.01 (c) of this Agreement

Kaluga Oblast shall undertake to:

(a) carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices;

(b) increase recurrent expenditures for outpatient services as a share of total oblast recurrent expenditures for health to at least the following levels: 35% in 1999; 40% in 2000; 45% in 2001; and 50% thereafter;

(c) for the purpose of making available the Kaluga Oblast contribution to Part A of the Project, transfer to the CSU Project Account on each 25th of each month the amount required for the next following month, as such amount has been previously notified by the CSU to the Kaluga PMU;

(d) ensure that: (i) during each year the health budget as a share of the total budget of Kaluga Oblast shall be no less than during the previous year; (ii) the actual health expenditures as a share of total expenditures of Kaluga Oblast shall be no less than the health budget as a share of the total budget of Kaluga Oblast for the respective year; and (iii) furnish to the CSU adequate information to monitor compliance with sub-paragraphs (i) and (ii) of this paragraph;

(e) report to the Bank and the Borrower, annually, on the status of the indicators, referred to in Section 3.04 (a) of this Agreement;

(f) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project;

(g) procure goods, works and consultants services required for Part A of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 of this Agreement, and

(h) carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions in respect of Part A of the Project.

Section II. Principal terms of implementation responsibilities of Tver Oblast to be included in the Tver Oblast Agreement pursuant to Section 3.01 (d) of this Agreement

Tver Oblast shall undertake to:

(a) carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices;

(b) increase recurrent expenditures for outpatient services as a share of total oblast recurrent expenditures for health to at least the following levels: 35% in 1999; 40% in 2000; 45% in 2001; and 50% thereafter;

(c) for the purpose of making available the Tver Oblast contribution to Part B of the Project, transfer to the CSU Project Account on each 25th of each month the amount required for the next following month, as such amount has been previously notified by the CSU to the Tver PMU;

(d) ensure that: (i) during each year the health budget as a share of the total budget of Tver Oblast shall be no less than during the previous year; and (ii) the actual health expenditures as a share of total expenditures of Tver Oblast shall be no less than the health budget as a share of the total budget of Tver Oblast for the respective year; and (iii) furnish to the CSU adequate information to monitor compliance with sub-paragraphs (i) and (ii) of this paragraph;

(e) report to the Bank and the Borrower annually on the status of the indicators, referred to in Section 3.04 (a) of this Agreement;

(f) procure goods, works and consultants services required for Part B of the

Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement; and

(g) carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions in respect of Part B of the Project.

