

CONFORMED COPY

CREDIT NUMBER 2506 PH

(Urban Health and Nutrition Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 22, 1993

CREDIT NUMBER 2506 PH

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 22, 1993, between REPUBLIC OF THE PHILIPPINES (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

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 Association to assist in the financing of the Project;

WHEREAS: (B) The Borrower intends to obtain from the Government of Australia (the "GOA") a grant (the "GOA Grant") in an amount equivalent to three million one hundred thousand dollars (\$3,100,000), to assist in financing Part B.(3), (ii) of the Project, on the terms and conditions set forth in an agreement (the "GOA Grant Agreement") to be entered into between the Borrower and GOA; and

WHEREAS: (C) The Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the "General Conditions") constitute an integral part of this Agreement.

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

(a) "Code" means the Borrower's Local Government Code of 1991, promulgated pursuant to the Borrower's Republic Act No. 7160 dated October 10, 1991, and which Code became effective on January 1, 1992;

(b) "DBM" means the Borrower's Department of Budget and Management, established pursuant to the Borrower's Executive Order No. 086, dated December 15, 1988;

(c) "DILG" means the Borrower's Department of Interior and Local Government, established pursuant to the Borrower's Executive Order No. 062, dated July 25, 1987;

(d) "DOF" means the Borrower's Department of Finance, established pursuant to the Borrower's Executive Order No. 127, dated January 30, 1987;

(e) "DOH" means the Borrower's Department of Health, established pursuant to the Borrower's Executive Order No. 119, dated January 30, 1987;

(f) "Eligible LGU" means any LGU (as such term is defined hereinafter) which both has entered into its respective MOA (as such term is defined hereinafter), and is in full compliance with the provisions thereof, and whose corresponding MOA yearly implementation program (including said program's aggregate operational plan and related financial and investment budget) has been reviewed and approved by the DOH and the Association, pursuant to the provisions of Sections 3.03 and 3.04 of this Agreement, respectively; and the term "Eligible LGUs" means collectively each of said LGU;

(g) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(h) "IAA" means the Inter-Agency Agreement to be entered into between the DOF, DOH, DILG, DBM and NEDA (as such term is defined hereinafter), which IAA is referred to in Sections 3.03 (c) and (d), 5.01 (c), 6.01 (b) and 6.02 of this Agreement;

(i) "LGU" means each of the Borrower's following twenty-one (21) Local Government Units, and such other Units as may be agreed upon in writing between the Borrower and the Association: Kalookan; Manila; Pasay; Quezon City; Las Pinas; Makati; Malabon; Mandaluyong; Marikina; Muntinlupa; Navotas; Paranaque; Pasig; Pateros; San Juan; Taguig; Valenzuela; Cebu City; Lapulapu City; Mandaue City; and Cagayan De Oro City; and the term "LGUs" means collectively each of said LGU;

(j) "MDF" means the Borrower's Municipal Development Fund established pursuant to the Borrower's Presidential Decree No. 1914, dated March 29, 1984;

(k) "MOA" means each Memorandum of Agreement to be entered

into between the DOH, DILG and a LGU, which MOA is referred to in Sections 3.03 (a) and (b), 6.01 (a) and 6.02 of this Agreement; and the term "MOAs" means collectively each of said MOA;

(l) "NEDA" means the Borrower's National Economic and Development Authority, established pursuant to the Borrower's Executive Order No. 230, dated July 22, 1987;

(m) "NGO" means a non-governmental organization; and the term "NGOs" means collectively each of said NGO; and

(n) "PCU-UHNP" means the Project Coordination Unit for the Urban Health and Nutrition Project to be established and thereafter maintained by the Borrower, within the DOH, for the overall supervision and coordination of the Project, which PCU-UHNP is referred to in Section 3.02 of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to fifty-million five hundred thousand Special Drawing Rights (SDR 50,500,000).

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

Section 2.03. The Closing Date shall be December 31, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date, or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions, or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 1 and December 1 commencing December 1, 2003, and ending June 1, 2028. Each installment, to and including the installment payable on June 1, 2013, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded seven hundred and ninety dollars (\$790) in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the DOH and Eligible LGUs with due diligence and efficiency, and in conformity with appropriate accounting, administrative, economic, financial, health and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Borrower shall establish, within the DOH, a Project Coordination Unit for the Urban Health and Nutrition Project (PCU-UHNP) upon terms of reference satisfactory to the Association, which PCU-UHNP shall be responsible for the overall supervision and coordination of the implementation of the Project, including, inter alia, the procurement of goods and services required therefor.

(b) Until completion of the Project, the Borrower shall maintain, or cause to be maintained, within the DOH, the PCU-UHNP in form and with such composition, functions and terms of reference as shall be satisfactory to the Association, and shall ensure that the PCU-UHNP is at all times headed by a Project Coordinator and staffed with qualified personnel in adequate numbers, and is provided with all the necessary facilities and other required resources.

Section 3.03. (a) The Borrower shall make part of the proceeds of the Credit available, on a grant equivalent basis, to each LGU

pursuant to a Memorandum of Agreement (MOA) to be entered into between the DOH, DILG and corresponding LGU, under terms and conditions setting forth, inter alia, an overall cost sharing arrangement acceptable to the Borrower and the Association;

(b) Without any limitation or restriction to the provisions of this Agreement, the Borrower shall exercise its rights and comply with its obligations, and shall cause the LGUs to exercise their respective rights and comply with their respective obligations, under their corresponding MOA in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate, or waive the MOA, or any provision thereof;

(c) For the purposes of making available part of the proceeds of the Credit to each LGU on the basis of the MOAs referred to in paragraphs (a) and (b) above, the Borrower shall cause each of the DOF, DOH, DILG, DBM and NEDA to enter into an Inter-Agency Agreement (IAA) under terms and conditions acceptable to the Association, which IAA shall, inter alia, specify the procedures governing the flow and prompt disbursement of said proceeds through the MDF directly to each Eligible LGU, all in accordance with the provisions of the corresponding MOA and under conditions consistent with the obligations of the Borrower under this Agreement; and

(d) Without any limitation or restriction to the provisions of this Agreement, the Borrower shall exercise its rights and comply with its obligations, and shall cause each of the DOF, DOH, DILG, DBM and NEDA to exercise their respective rights and comply with their respective obligations, under the IAA in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate, or waive the IAA, or any provision thereof.

Section 3.04. The Borrower, through the DOH, shall:

(a) Not later than July 31 in each Fiscal Year, beginning in Fiscal Year 1994, review the yearly implementation program of each MOA for the following Fiscal Year, including, inter alia, their respective proposed Project aggregate operational plan and related financial and investment budgets, and the progress achieved by the corresponding LGU in implementing its respective part of the Project during the preceding Fiscal Year;

(b) Not later than October 30 in each Fiscal Year, beginning in Fiscal Year 1994, review and finalize said implementation programs jointly with the participation of each corresponding LGU;

(c) Not later than December 31 in each Fiscal Year, beginning in Fiscal Year 1994, complete and furnish to the Association, for its joint review with the DOH and subsequent approval by the Association, each of said implementation programs; and

(d) Promptly thereafter, carry out, or cause to be carried out, with due diligence and efficiency each of said implementation programs, taking into account the Association's comments, views and recommendations thereon pursuant to the review referred to in paragraph (c) above.

Section 3.05. (a) Not later than December 31, 1994, the Borrower shall carry out under terms of reference satisfactory to the Association: (i) a study on pre-school child development within the Borrower's territory; and (ii) a baseline evaluation study of health and nutrition conditions in specified communities within the Borrower's territory; and

(b) Not later than December 31, 1996, and December 31, 1999, respectively, the Borrower shall complete and furnish to the Association for its review and comments two (2) separate follow-up studies updating and developing the baseline evaluation study

referred to in sub-paragraph (a) (i) above.

Section 3.06. The Borrower shall make, or cause to be made, all necessary arrangements, satisfactory to the Association, for the disbursement, accounting and auditing of the grant funds which are to be made available to NGOs, and to be financed out of the proceeds of the Credit, in respect of the services to be rendered under Part C (1) of the Project.

Section 3.07. The Borrower shall take all action necessary to ensure that no contract whatsoever for the procurement of goods, works or services is entered into in respect of any LGU, under any Category in the table set forth in paragraph 1 of Schedule 1 to this Schedule, unless said LGU shall have entered into its corresponding MOA, and that such MOA shall have become effective.

Section 3.08. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project, and to be financed out of the proceeds of the Credit, shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall, through the DOH:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine (9) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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 (1) year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to

examine such records; and

- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the 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 Association

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

(a) The Borrower, or any other authority having jurisdiction, shall have taken any action for the disestablishment or dissolution of the DOF, DOH, DILG, DBM, NEDA or any Eligible LGU, or for the suspension of any of their operations, so as to adversely and materially affect the ability of the Borrower to carry out, or cause to be carried out, the Project or any part thereof.

(b) The Code shall have been amended, abrogated, repealed or waived so as to affect materially and adversely the ability of the DOH, DILG or any LGU to perform any of its respective obligations under either this Agreement or the corresponding MOA.

(c) The IAA shall have been amended, abrogated, repealed or waived so as to affect materially and adversely the carrying out of the Project, or any part thereof.

(d) (i) Subject to subparagraph (ii) of this paragraph:

- (A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project, or any part thereof, shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
- (B) Any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) Any event specified in paragraphs (b), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety (90) days after notice thereof shall have been given by the Association to the Borrower; and

(b) The event specified in paragraph (a) 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 this Agreement, within the meaning of Section 12.01 (b) of the General Conditions:

(a) That all conditions precedent to the effectiveness of at least nine (9) MOAs shall have been fulfilled, other than those related to the effectiveness of this Agreement, pursuant to the provisions of Section 3.03 of this Agreement;

(b) That all conditions precedent to the effectiveness of the IAA shall have been fulfilled, other than those related to the effectiveness of this Agreement, pursuant to the provisions of Section 3.03 of this Agreement; and

(c) That the Borrower, through the DOH, shall have established the PCU-UHNP and appointed its Project Coordinator and personnel, pursuant to the provisions of Section 3.02 of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association by counsel acceptable to the Association, namely, that each of the nine (9) MOAs and the IAA, referred to in paragraphs (a) and (b) of Section 6.01 above, respectively, has been duly authorized or ratified by, and executed and delivered on behalf of, the parties thereto, and is legally binding upon such parties in accordance with its respective terms.

Section 6.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretary of Finance
Department of Finance
Manila
Republic of the Philippines

Cable address:

SECFIN
Manila

Telex:

40268
CB-CONF

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

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 THE PHILIPPINES

By /s/ Ernest Leung
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji
Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	6,500,000	100%
(2) Goods, including:		100% of foreign expenditures,
(a) Drugs, chemicals and contraceptives	6,500,000	100% of local expenditures
(b) Equipment, furniture materials and vehicles	6,500,000	(ex-factory cost) and 85% of local expenditures for other items procured locally
(c) Food supplements and micro-nutrients	6,500,000	
(3) Consultants' services and training	4,700,000	100%
(4) Incremental operating personnel costs	4,300,000	80% of expenditures in- curred prior to December 31, 1994; 40% of expendi- tures incurred prior to December 31, 1996; and 20% thereafter
(5) Services rendered under Part C (1) of the Project on the basis of grants	4,700,000	100%

(6) Travel, maintenance and operating costs	5,800,000	100%
(7) Unallocated	5,000,000	
TOTAL	50,500,000	

2. For the purposes of this Schedule:

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

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

(c) The term "incremental operating personnel costs" means the salaries of Eligible LGU and DOH regular and contract staff in respect of Project personnel; and

(d) The term "travel, maintenance and operating costs" means the maintenance costs of civil works equipment and vehicles, and the travel costs of Project personnel.

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

SCHEDULE 2

Description of the Project

The objectives of the Project generally are to support the Borrower's priorities to decentralize, expand and improve the delivery of public and primary health care services within specified areas of its territory, and, in particular, to assist the Borrower in: (i) improving the health and nutrition status for high risk groups within certain of its communities; (ii) strengthening the capacity and efficiency of Eligible LGUs to plan, finance and implement cost-effective local health and nutrition programs; (iii) promoting collaboration between the Borrower's central government, Eligible LGUs, local communities and NGOs in fulfilling local community health needs; and (iv) strengthening the efficiency and effectiveness of the DOH.

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

Part A: Strengthening Health Care Service Delivery Programs

(1) Expanding and improving the quality of the delivery of key health care services to slum dwellers in specified areas of Eligible LGUs, including, inter alia: (i) ante-natal and post-natal care; (ii) safe birth practices; (iii) family planning; (iv) immunizations; (v) control of diarrhea, acute respiratory infections, tuberculosis and sexually transmitted diseases; (vi) prophylaxis against micro-nutrient deficiencies; (vii) growth monitoring, counselling and food supplementation to prevent and treat protein energy malnutrition among pregnant women and young children; and (viii) control of certain health related hazards impacting on said slum dwellers.

(2) Provision of the following works and goods in respect of carrying out the activities set forth in Part A (1) above: (i) constructing and equipping about fifty-five (55) new Eligible LGU health centers, health stations and lying-in maternity clinics; (ii) upgrading about fifty-seven (57) Eligible LGU existing clinical

facilities, including health centers, health stations and Lying-in maternity clinics; (iii) hiring of additional doctors, dentists, public health nurses and mid-wives, medical technicians, nutritionists and sanitary inspectors; and (iv) acquisition of certain goods in respect of the foregoing, including, inter alia, drugs and chemicals, contraceptives, food supplements and micro-nutrients, equipment, furniture, vehicles and related materials.

Part B: Eligible LGU and DOH Institutional Development

(1) Improving the capacity of the city and municipal health departments of each Eligible LGU to plan, manage, finance, implement and evaluate their respective public health programs.

(2) Strengthening the capacity of the DOH's central, regional and district levels to provide technical assistance, training, communications and logistical support to the city and municipal health departments of the Eligible LGUs referred to in Part B (1) above.

(3) Provision of the following works and goods in respect of carrying out the activities set forth in Parts B (1) and (2) above: (i) constructing, restoring and equipping health administrative and training facilities; (ii) providing communications and information hardware and software; and (iii) providing specified equipment and materials, including vehicles for field units.

(4) Providing program planning seminars, staff training, technical assistance, and Project contract staff, and other incremental operating costs, all in respect of the activities set forth in Parts B (1), (2) and (3) above.

Part C: Community Partnerships for Health

(1) Assisting in developing partnerships between the Borrower's governmental institutions, the Eligible LGUs and qualified NGOs, together with other community-based organizations, for community health development within said Eligible LGUs through, inter alia: (i) providing financial assistance for the institutional development of qualified NGOs; (ii) establishing and maintaining consultative fora and information networks involving groups from Eligible LGUs possessing an interest in the delivery of public health services in said Eligible LGUs' urban slums; and (iii) implementing joint community/Eligible LGU/NGO sub-projects in health and nutrition.

(2) Provision of: (i) technical assistance services, including training, to Eligible LGU city and municipal health departments from the central and regional offices of the DOH; and (ii) contract salaried staff, financial assistance, equipment, and travel and training for Eligible LGU and DOH staff.

Part D: Policy Research and Evaluation

Carrying out, under terms of reference satisfactory to the Association, health policy and operational research studies for Project implementation and evaluation, which studies shall emphasize, inter alia, alternative service delivery models to determine which are most cost-effective for the Eligible LGUs urban poor; these studies shall cover the following areas: (i) environmental health development; (ii) women's health and family planning; (iii) nutrition development; and (iv) other health operations research as may be agreed upon from time to time between the Borrower and the Association.

* * * * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. 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"). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two (2) pre-disclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Parts A (1) and (2) hereof, goods manufactured in the territory of the Borrower 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

1. Local Competitive Bidding

Contracts for goods estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or less per contract, up to an aggregate amount not to exceed the equivalent of ten million dollars (\$10,000,000), and contracts for civil works estimated to cost the equivalent of nine hundred thousand dollars (\$900,000) or less per contract, up to aggregate amount not to exceed the equivalent of nine million five hundred thousand dollars (\$9,500,000), may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Limited International Bidding

Contracts for goods (namely drugs, chemicals and contraceptives) estimated to cost up to an aggregate amount not to exceed the equivalent of two million five hundred thousand dollars (\$2,500,000), may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three (3) qualified suppliers eligible under the Guidelines, and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

3. Direct Contracting

Contract for proprietary items may be procured after direct negotiations with suppliers of said proprietary items, in accordance with procedures acceptable to the Association.

4. International and Local Shopping Procedures

Contracts for goods estimated to cost the equivalent of forty

thousand dollars (\$40,000) or less per contract, up to an aggregate amount not to exceed the equivalent of four million three hundred thousand dollars (\$4,300,000), may be procured either: (i) under contracts awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers from at least three (3) different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association; or (ii) under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association under.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and works estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

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

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

Section II. Employment of Consultants

1. In order to assist the Borrower, and the Eligible LGUs, in carrying out the Project, the Borrower shall employ, or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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").

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior review by the Association, or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than the equivalent of twenty thousand dollars (\$20,000) per contract. However, this exception to prior review by the Association shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to the equivalent of thirty thousand dollars (\$30,000) or more per contract.

