

CONFORMED COPY

IDA GRANT NUMBER H183-LA

Development Grant Agreement

(Health Services Improvement Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 8, 2005

IDA GRANT NUMBER H183-LA

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated November 8, 2005, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project, and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) "District Sub-Grant" means a sub-grant in Dollars made or to be made available by the Recipient out of the proceeds of the Grant to Project Districts under Part A.1 of the Project for the financing of drugs, contraceptives, reagents, medical consumables, logistics support, training, supervision, technical assistance, small equipment and furniture, and operating costs of health service provision, including spare parts and maintenance of equipment, in accordance with the provisions of the relevant District Plan Implementation Agreement; and the term "District Sub-Grants" means, collectively, more than one District Sub-Grant.

(b) “District Plan” means the annual District Plan adopted by a Project District for the purpose of identifying the priority health services needs of the relevant Project District, the types and level of resources required to meet said needs, and setting forth the necessary actions to achieve projected annual outputs and outcomes; and “District Plans” means, collectively, more than one District Plan.

(c) “District Plan Implementation Agreement” means the agreement entered into between a Project District, the corresponding Project Province, and MOH, in accordance with the provisions of paragraph 7(a)(ii) of Schedule 4 to this Agreement; and “District Plan Implementation Agreements” means, collectively, more than one District Plan Implementation Agreement.

(d) “DPMU” means a District Project Management Unit established and maintained by the Recipient in accordance with the provisions of paragraph 6 of Schedule 4 to this Agreement; and the term “DPMUs” means, collectively, more than one DPMU.

(e) “EGDP” means the Ethnic Group Development Plan, satisfactory to the Association, adopted by the Recipient on June 15, 2004, and referred to in paragraph 14 of Schedule 4 to this Agreement, for the carrying out of the Project in areas where Ethnic Groups are present, as said plan may be revised from time to time with the prior approval of the Association.

(f) “EMP” means the Environmental Management Plan, satisfactory to the Association, adopted by the Recipient on June 15, 2004, and referred to in paragraph 14 of Schedule 4 to this Agreement, which sets forth the environmental principles, guidelines, measures and procedures designed to mitigate any potential adverse environmental impact that may result under the Project, as such plan may be amended from time to time with the prior agreement of the Association.

(g) “Equity Fund Sub-Grant” means a sub-grant in Dollars made or to be made available by the Recipient to selected non-governmental organizations under Part C.2 (b) of the Project to finance health care services for the poor, and the term “Equity Fund Sub-Grants” means, collectively, more than one Equity Fund Sub-Grant.

(h) “Ethnic Group” means, for purposes of the Project, the social groups residing or engaged in livelihood activities in the Project Provinces from time to time; each of which possesses a distinct social and cultural identity that makes it vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) a language, often different from the Lao

language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

(i) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement.

(j) “Fiscal Year” means the Recipient’s fiscal year starting October 1 and ending September 30.

(k) “Integrated Community Health Center” means a health center that provides a range of health services agreed with the community, at agreed prices, and with fee exemptions for the poor.

(l) “Inter-Departmental Working Group” means the Inter-Departmental Working Group established and maintained by the Recipient in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement;

(m) “MOH” means the Recipient’s Ministry of Health and any successor thereto.

(n) “MOH Steering Committee” means the MOH Steering Committee established and maintained by the Recipient in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

(o) “Project Management Unit” or “PMU” means the Project Management Unit established and maintained by the Recipient in accordance with the provisions of paragraph 3 of Schedule 4 to this Agreement.

(p) “PPMU” means the Provincial Project Management Unit established and maintained by the Recipient in accordance with the provisions of paragraph 5 of Schedule 4 to this Agreement.

(q) “Procurement Plan” means the Recipient’s procurement plan, dated August 4, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(r) “Project Districts” means those Districts of the Recipient selected to participate in the Project with the prior agreement of the Association; and “Project District” means any of the said Project Districts;

(s) “Project Implementation Plan” means the Recipient’s plan detailing the implementation arrangements for the Project in accordance with paragraph 7 of Schedule 4 to this Agreement.

(t) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on April 28, 2005, and on behalf of the Recipient on May 24, 2005.

(u) “Project Provinces” means the Recipient’s provinces of Attapu, Bolikhamxai, Champasak, Khammouane, Salavan, Savanakhet, Special Region Xaisomboun and Xekong; and “Project Province” means any of the said Project Provinces.

(v) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million four hundred thousand Special Drawing Rights (SDR10,400,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project, except Parts A.1 and C.2 (b) of the Project, and to be financed out of the proceeds of the Grant; and
- (ii) for amounts paid (or, if the Association shall agree, to be paid) by the Recipient on account of: (A) a District Sub-Grant to meet the reasonable cost of goods, works and services required for the carrying out of the activities set out in Part A.1 of the Project, and in respect of which the withdrawal from the Grant Account is requested, and (B) an Equity Fund Sub-Grant to meet the reasonable cost of goods and services required for the carrying

out of the activities set out in Part C.2 (b) of the Project and in respect of which the withdrawal from the Grant Account is requested.

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

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

Section 2.03. The Closing Date shall be June 30, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 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 Recipient; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semi-annually on March 1 and September 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MOH with due diligence and efficiency and in conformity with appropriate administrative, financial and public health and safety practices, and environmental and social standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish, and, thereafter, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 17 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness; Termination

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

(a) the Project Management Unit (PMU) has been established and provided with the requisite staff and resources, in accordance with paragraph 3 of Schedule 4 to this Agreement;

(b) a Project Implementation Plan, acceptable to the Association, has been adopted by the Recipient in accordance with paragraph 7(a) of Schedule 4 to this Agreement;

(c) a qualified local accounting firm has been contracted in accordance with paragraph 7(c) of Schedule 4 to this Agreement;

(d) qualified and competent financial management specialists have been contracted in accordance with paragraph 8 of Schedule 4 to this Agreement; and

(e) Memoranda of Understanding, acceptable to the Association, have been entered into in accordance with paragraph 10 of Schedule 4 to this Agreement.

Section 5.02. 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, namely that the EMP and the EGDP have been duly authorized by the Recipient and are fully consistent with the applicable laws of the Lao People's Democratic Republic.

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

ARTICLE VI

Representative of the Recipient; Addresses

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

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

For the Recipient:

Ministry of Finance
Post Office Box No. 46
That Luang Road
Vientiane
Lao People's Democratic Republic

Facsimile:

856-21-412142
MOF LS

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Vientiane, Laos People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By: /s/ Mr. Somdy Douangdy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Mr. Ian Porter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

| <u>Category</u> | <u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|---|
| (1) Civil works | 2,980,000 | 100% |
| (2) Goods | 1,250,000 | 100% |
| (3) Training, workshops and study tours | 1,420,000 | 100% |
| (4) Consultants' services | 1,390,000 | 100% |
| (5) District Sub-Grants | | 100% of Sub-Grant amount disbursed |
| (a) disbursements prior to October 1, 2006 | 200,000 | |
| (b) disbursements on October 1, 2006, and thereafter | 1,190,000 | |
| (6) Sub-Grants under Equity Fund | 250,000 | 100% of Sub-Grant amount disbursed |

| <u>Category</u> | <u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|---|
| (7) Operating costs | 290,000 | 100% |
| (8) Refunding of Project Preparation Advance | 390,000 | Amount due pursuant to Section 2.02 (c) of this Agreement |
| (9) Unallocated | 1,040,000 | |
| | <u>10,400,000</u> | |
| TOTAL | ===== | |

2. For purposes of this Schedule, the term “operating costs” means the incremental operating costs incurred under the Project on account of travel and travel-related expenditures; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance; materials and supplies; utilities and communications expenses; bank charges; and local contractual support staff salaries.

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

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

(b) amounts paid under Category (5) (b), unless and until the District fund allocation guidelines, acceptable to the Association, have been adopted by the Recipient; and

(c) amounts paid under Category (6) unless and until the Recipient has furnished to the Association criteria and procedures for the review, approval, and provision of Equity Sub-Grants to selected non-governmental organizations, including procedures for the identification and selection of non-governmental organizations, acceptable to the Association.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training, workshops and study tours; (f) District

Sub-Grants; (g) Equity Fund Sub-Grants; and (h) Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Lao People's Democratic Republic to improve the health status of its population, particularly the poor and rural population, in Project Provinces.

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

Part A: Improving the Quality and Utilization of Health Services

1. Carrying out a program to deliver, at the village, health center, District hospital and Inter-District Hospital level, a core package of preventive and curative health services that addresses the Recipient's priority health services programs, consisting of health education and promotion, safe motherhood services, fertility regulation, nutrition interventions, infectious disease prevention, detection and prevention of sexually transmitted and other infectious diseases, and curative care, through the provision of District Sub-Grants to Project Districts.

2. (a) Upgrading of health centers to the level of Integrated Community Health Centers in selected Project Districts, including staff training, renovation of infrastructure, upgrading of utilities, and provision of equipment, drugs and medical consumables.

(b) Provision of staff training to existing Integrated Community Health Centers.

3. Strengthening the Recipient's health services infrastructure, including the upgrading of, and provision of equipment to:

(a) the provincial hospitals of Bolikhamxai, Khammouane and Salavan and the district hospitals of Bachiangchaleunsouk, Champasak, Phouvong, Soukhouma and Thapangthong; and

(b) four health centers.

4. Carrying out of a participatory monitoring and evaluation study among ethnic groups in selected Project Districts, including an assessment of the reasons for the poor utilization of health services by such ethnic groups.

Part B: Strengthening Institutional Capacity for Health Service Provision

1. Training

(a) Provision of short-term training in Project Districts to strengthen management capacity, improve the quality of health service delivery and expand health care coverage, including (i) courses to train village, health center and Project District level staff in health service delivery, management and outreach; and (ii) training-of-trainer courses to ensure the quality of health services training.

(b) Provision of longer-term specialized training at central and large provincial hospitals for medical staff, including doctors, medical assistants and nurses, in selected courses, including laboratory, radiology, nursing, obstetrics and pediatrics.

(c) Provision of training at nursing schools in Champasak, Khammouane and Savanakhet for about 180 primary health care workers from Ethnic Groups and from remote areas.

2. Capacity Building for Medical Education

(a) Strengthening the Family Medicine Internship Program at the Faculty of Medical Sciences in Vientiane to prepare doctors to work at the District level, through the provision of a two-year, post-graduate specialty training program to selected graduating medical students, including training in provincial hospitals and in villages.

(b) Provision of master's degree training in basic sciences to lecturers, and provision of short courses in curriculum management and student assessment to faculty members of the Faculty of Medical Sciences in Vientiane.

(c) Provision of teaching materials and relevant teaching equipment, including audio visual equipment, for the Faculty of Medical Sciences in Vientiane.

(d) Construction of lecture rooms and a library at, and renovation of the main building of, the Faculty of Medical Sciences in Vientiane.

(e) Construction of a technical block comprising a surgical unit and related facilities at the Mahosot Hospital in Vientiane.

(f) Renovation of the main building of the Mittaphab (Friendship) Hospital in Vientiane.

3. Project Management

Strengthening Project management, including financial and procurement management at the central, provincial and district health offices, including provision of technical assistance.

Part C: Improving Equity, Efficiency and Sustainability of Health Care Financing

1. Implementation of the Health Management Information System

Strengthening the existing Health Management Information System (HMIS) and extending the HMIS to each of the Project Provinces and Project Districts for the collection and consolidation of health information from villages, health centers, district hospitals, district health offices, provincial hospitals and provincial health offices.

2. Equity Funds

(a) Development of criteria and procedures for the review, approval, and provision of Equity Sub-Grants to selected non-governmental organizations, including procedures for the identification and selection of non-governmental organizations.

(b) Provision of Equity Fund Sub-Grants to selected non-governmental organizations in about five selected Project Districts with Integrated Community Health Centers for the financing of: (i) health care services and drugs for the poor; (ii) transportation and related costs for the poor to access health care centers and hospitals; and (iii) incremental administrative costs incurred by the selected non-governmental organizations.

3. Health Financing Policy Development

Strengthening the Recipient's health care financing policies, through: (a) the carrying out of about four policy studies on selected health financing issues; (b) the carrying out of workshops for the dissemination of the results of the policy studies; (c) the provision of workshops, training, two study tours, and attendance at conferences for MOH Project staff concerned with health financing policy, and (d) provision of technical assistance to the PMU for the preparation of the policy studies.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions: the procedures to be followed shall be those set forth in the Prime Minister Decree No.03/PM dated January 9, 2004, on "Government Procurement of Goods, Construction, Maintenance and Service" and its Implementing

Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004; and

(b) Works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions: the procedures to be followed shall be those set forth in the Prime Minister Decree No.03/PM dated January 9, 2004, on “Government Procurement of Goods, Construction, Maintenance and Service” and its Implementing Rules and Regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004.

2. Shopping

Goods and works estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping. For purposes of improving economy, efficiency and transparency, the following special provisions shall apply to contracts for goods estimated to cost less than \$30,000 but more than \$5,000:

- (a) Invitations to quote shall be advertised in at least one newspaper of provincial/regional (or national) circulation, and a minimum of ten (10) days for the preparation and submission of quotations shall be provided.
- (b) Prior-registration with the PMU shall not be a requirement to participate in quotation procedures.
- (c) Quotations shall be required to be submitted in sealed envelopes.
- (d) Quotations shall be opened in public immediately after the submission deadline in the presence of bidders and Project beneficiaries who choose to attend.
- (e) A copy of the quotation opening record shall promptly be posted at a prominent location outside the procuring agency office, and a copy shall also be sent to all bidders who submitted quotations.
- (f) There shall be no post-bid negotiations with the lowest or any other bidder. In case the lowest evaluated responsive quotation exceeds the pre-bid cost estimate by a substantial margin, the procuring agency will assess the reasons for the price difference and recommend the course of action for approval by the head of the procuring agency. The rejection of any quotation exceeding pre-quotation estimates shall be cleared in writing in advance by the Association.

(g) A summary of contract award information shall be made public through an announcement in the press and updated on a quarterly basis.

3. Procurement from UN Agencies

Vehicles may be procured directly from the United Nations Inter-Agency Procurement Office in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to the prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each

contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$100,000 or more; (b) each contract for works estimated to cost the equivalent of \$500,000 or more; (c) the first contract for goods, works and services (other than consultants' services) procured on the basis of National Competitive Bidding; and (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

Project Management

1. The Recipient shall maintain until completion of the Project, the MOH Steering Committee with membership acceptable to the Association, including, the Minister of Health and MOH Deputy Ministers and Directors, responsible for providing Project oversight and overall guidance in the implementation of the Project.
2. The Recipient shall maintain until completion of the Project, with competent staff in adequate number, the Inter-Departmental Working Group, headed by the Director of Planning and Budgeting, with members representing MOH Departments, and responsible for Project coordination at the working level, all with qualifications and under terms of reference acceptable to the Association.
3. The Recipient shall maintain in MOH's Department of Planning and Budgeting, until completion of the Project, the PMU, responsible for the daily management of Project activities, and headed by a qualified and experienced Project Manager, provided with adequate resources and competent staff in sufficient numbers, including (a) three qualified and experienced Deputy Project Managers, and (b) three regional financial advisors and three regional technical advisors, each responsible for a certain number of Project Provinces; all with qualifications and under terms of reference acceptable to the Association.
4. The Recipient shall maintain until completion of the Project, the Joint Steering Committee of the Faculty of Medical Sciences and Medical Education, such Committee to meet at least semi-annually for purposes of coordinating the Project activities related to medical education.
5. The Recipient shall maintain, in each Project Province, a PPMU until completion of the Project, responsible for Project management activities at the provincial level, including oversight of the Project implementation at the relevant Project District level, headed by a qualified Manager, and provided with adequate resources and competent staff in sufficient numbers, including a Project Coordinator, accountant and other essential finance unit personnel, all with qualifications and under terms of reference acceptable to the Association.
6. The Recipient shall maintain, until completion of the Project, in each Project District, a DPMU responsible for District planning, Project implementation, financial management and reporting, headed by a qualified Manager, and provided with adequate

resources and competent staff in sufficient numbers, including a coordinator, financial officer, and cashier, all with qualifications and under terms of reference acceptable to the Association.

Project Implementation

7. The Recipient shall:

(a) carry out the Project in accordance with a Project Implementation Plan acceptable to the Association, which shall include:

- (i) a financial management manual incorporating policy and procedures, acceptable to the Association, regarding accounting, reporting and internal control and audit mechanisms and procedures;
- (ii) criteria and procedures for the review and approval of District Plans and the provision of District Sub-Grants, including provisions that require that District Sub-Grants be made in accordance with District Plan Implementation Agreements, acceptable to the Association, and prohibit expenditures under District Sub-Grants that are intended or used for a military or paramilitary purpose, relate to the manufacture or use of environmentally hazardous goods (including asbestos and pesticides), arms or non-medical drugs, and finance government salaries; and that said Implementation Agreements: (A) be executed on an annual basis; (B) provide financing justifications; (C) identify funding amounts; and (D) state expected outputs and outcomes.
- (iii) criteria for the selection of health centers under Part A.2 (a) of the Project; and
- (iv) procurement procedures as set forth in Schedule 3 to this Agreement and the Procurement Plan;

(b) not amend, abrogate or waive any provision of said Project Implementation Plan without the prior concurrence of the Association; and

(c) appoint a qualified local accounting firm, acceptable to the Association, to carry out internal audits and provide financial management operations support at the District and provincial levels, in a manner and substance acceptable to the Association.

8. The Recipient shall employ qualified and competent financial management specialists, assigned to the PMU to assist the Recipient in maintaining provincial-level financial management records and documentation, and to provide on-the-job training to provincial financial management staff, under terms of reference acceptable to the Association.

9. The Recipient shall ensure that training carried out under the Project shall be carried out by trainers certified as trainers in the related field of training.

10. The Recipient shall enter into a Memorandum of Understanding with each Project Province and shall cause each Project Province to enter into a Memorandum of Understanding with each Project District, setting forth the respective responsibilities of the Recipient, Project Province and Project District relating to the implementation of the Project, and the technical and financial reporting obligations.

11. In carrying out Part B.1 (c) of the Project, the Recipient shall ensure that primary health care training programs shall be designed predominantly for the benefit of trainees from Ethnic Groups and remote areas.

12. In carrying out Part C.3 of the Project, the Recipient shall: (a) promptly upon completion of each of the studies, communicate to the Association, for review and comments, the findings and recommendations of the studies; (b) review the findings and recommendations thereof, taking into account comments of the Association, if any; and (c) proceed thereafter to implement the recommendations in accordance with any action plan attached thereto.

13. In carrying out Part C.3 (a) of the Project, the Recipient shall, not later than December 31, 2006, using legislative or other regulatory instruments as appropriate, take all necessary measures to establish a mechanism, acceptable to the Association, to promote and facilitate the provision of health services to the poor, using an improved incentive structure which would *inter alia* allow user fees collected at health service levels to be applied to supplement the salaries of health services providers.

Environment and Social

14. The Recipient shall, in carrying out the Project:

(a) implement, or cause to be implemented, the EMP, and without any limitation thereto, shall take timely action to ensure that any adverse environmental impacts of the Project are effectively mitigated in accordance with the EMP, in a manner satisfactory to the Association;

(b) avoid, or cause to be avoided, adverse effects on Ethnic Groups caused or likely to be caused by the Project;

(c) apply, or cause to be applied, the EGDP in a manner and substance satisfactory to the Association;

(d) through a process of informed participation, ensure, or cause to be ensured, that the benefits received by the Ethnic Groups under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights;

(e) not amend, suspend, abrogate, repeal or waive the EMP or EGDP, or any provision therein, without the prior agreement of the Association; and

(f) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said EMP and EGDP, and the achievement of their objectives.

15. Without limitation to the obligations set forth in paragraph 15 of this Schedule, the Recipient shall, in the carrying out of Parts A and B of the Project:

(a) at least sixty (60) days prior to the initiation of any works, publicly disseminate to the relevant local population the EMP and EGDP in form and substance acceptable to the Association; and

(b) prior to the start of any works under such Parts of the Project, undertake the required environmental and social actions.

Monitoring and Evaluation

16. In carrying out the Project, the Recipient shall prepare and provide to the Association quarterly Project progress reports, in form and content acceptable to the Recipient, by January 31, April 30, July 31 and October 31 in each year, commencing April 30, 2006, and until completion of the Project.

17. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2008, 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 Association, by July 31, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (7) 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 Grant 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 \$1,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR3,000,000.
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 Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

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

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

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

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

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

SCHEDULE 6

Performance Indicators

| INDICATOR | MID-TERM | CLOSING DATE |
|--|-----------------|---------------------|
| Percentage of children under 1 year of age immunized with Diphtheria/Pertussis/Tetanus 3 | 45 | 70 |
| Percentage of children 9-23 months immunized against measles | 45 | 65 |
| Percentage of births attended by trained health personnel | 20 | 25 |
| Percentage of pregnant women receiving Tetanus Toxoid 2 | 40 | 45 |
| Percentage of women practicing modern contraceptive methods obtained from public health facilities | 20 | 40 |
| Number of curative visits per capita to health centers | 0.1 | 0.2 |

SCHEDULE 7

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the

percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*
The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”