

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4685 RU

Loan Agreement

(Health Reform Implementation Project)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 12, 2003

Public Disclosure Authorized

LOAN NUMBER 4685 RU

LOAN AGREEMENT

AGREEMENT, dated September 12, 2003, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (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) “Agency Agreement” means the agreement to be entered into between the Borrower, represented by MOF and MOH, and RHCF pursuant to Section 3.02 (b) of this Agreement;

(b) “Chuvashia Republic Subsidiary Loan Agreement” means the subsidiary loan agreement to be entered into by MOF, MOH, and Chuvashia Republic in conformity with the provisions of Section 3.02 (c) of this Agreement, as the same may be amended from time to time;

(c) “Chuvashia Subsidiary Loan” means the loan provided under the Chuvashia Republic Subsidiary Loan Agreement;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “MOF” means the Borrower’s Ministry of Finance;

(f) “MOH” means the Borrower’s Ministry of Health;

(g) “Participating Regions” means Voronezh Oblast and Chuvashia Republic;

(h) “Project Operational Manual” means the manual setting forth procedures and rules related to Project implementation to be adopted pursuant to Section 6.01 (d) of this Agreement, as the same may be amended from time to time;

(i) “Regional Participation Agreements” means agreements to be entered into between RHCF and each Participating Region pursuant to paragraph 3 (c)(ii) of Schedule 1 to this Agreement;

(j) “Regional Restructuring Plans” means plans adopted by Participating Regions pursuant to Section 3.02 (c) of this Agreement, describing the activities to be carried out in the health sector of the Participating Regions pursuant to the Project;

(k) “Reserve Regions” means any Subject of the Russian Federation selected to replace a Participating Region, pursuant to the provisions of Section 3.03 of this Agreement, in accordance with criteria that must be acceptable to the Working Group and the Bank;

(l) “RHCF” means Russian Health Care Foundation, a non-commercial foundation established pursuant to Resolution of the Government of the Borrower No. 1295, dated October 31, 1996, and registered by the Borrower’s Ministry of Justice, under Certificate of Registration No. IOP-33 dated November 28, 1996 (re-registered November 30, 2001), which is the entity authorized to implement the Project pursuant to the Agency Agreement;

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

(n) “Subsidiary Loan” means any loan provided under a Subsidiary Loan Agreement as defined herein;

(o) “Subsidiary Loan Agreements” means the Chuvashia Republic Subsidiary Loan Agreement and the Voronezh Oblast Subsidiary Loan Agreement, and any similar agreement entered into with any Reserve Region selected pursuant to the provisions of Section 3.03 of this Agreement;

(p) “Voronezh Oblast Subsidiary Loan Agreement” means the subsidiary loan agreement to be entered into by MOF, MOH, and Voronezh Oblast in conformity with the provisions of Section 3.02 (c) of this Agreement, as the same may be amended from time to time;

(q) “Voronezh Subsidiary Loan” means the loan provided under the Voronezh Oblast Subsidiary Loan Agreement; and

(r) “Working Group” means the Working Group for Preparation and Implementation of the Project established pursuant to MOH order, and referred to in Paragraph A.2 of Schedule 5 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty million dollars (\$30,000,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account (the Special Account) in a bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. Such fee shall be payable not later than 60 days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that

include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall:

(a) carry out the Project through MOH with the assistance of RHCF, with due diligence and efficiency and in conformity with appropriate administrative, financial and health care practices;

(b) cause RHCF to perform in accordance with the Agency Agreement all the obligations of RHCF therein set forth;

(c) cause the Participating Regions to perform in accordance with the Subsidiary Loan Agreements all the obligations of the Participating Regions therein set forth;

(d) take or cause to be taken all action necessary or appropriate to enable RHCF and the Participating Regions to perform the obligations referred to in paragraphs (b) and (c) of this Section, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(e) cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) carry out the Project in accordance with the Project Operational Manual and the Implementation Program set forth in Schedule 5 to this Agreement;

(b) through MOF and MOH, enter into an agency agreement with RHCF (the Agency Agreement), on such terms as shall be acceptable to the Bank, which shall include terms specifying the responsibilities of RHCF in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, procurement, and administrative support to the Participating Regions, and make available to RHCF the portion of the proceeds of the Loan corresponding to Parts A.1, B, C, and D of the Project on a non-reimbursable basis;

(c) for the purposes of Part A.2 of the Project, make available the proceeds of the Loan allocated from time to time to Categories (1) through (3), and (4) through (6) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to each of the Participating Regions, under subsidiary loan agreements (the Subsidiary Loan Agreements) to be entered into by the Borrower, represented by MOF and MOH, and the Participating Regions, not later than six (6) months from the date of this Agreement's effectiveness, under terms and conditions satisfactory to the Bank, including, without limitation, the terms and conditions set forth or referred to in Schedule 7 to this Agreement, and containing a description, satisfactory to the Bank, of the activities to be carried out in the health sector of the Participating Region pursuant to the Project and the undertakings of the Participating Region related thereto (the Regional Restructuring Plans), and containing other provisions as may be necessary for the implementation of the Project; and

(d) exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project, and not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof without a prior agreement with the Bank.

Section 3.03. At any time up to the date ninety (90) days after the Effectiveness Date, upon a determination that a Participating Region identified in Section 1.02 (g) of this Agreement would not be suitable for the Project implementation, the Borrower may propose the replacement of a Participating Region by a Reserve Region. Substitution of any Participating Region under this Section shall be subject to the approval of the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, consultants' services and training required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare or cause to be prepared, financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, and adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause RHCF to:

(i) have the records, accounts and financial statements (balance sheet, statements of sources and uses of funds and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause RHCF to:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Bank's representatives to examine such records; and
 - (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

- (d) the Borrower shall cause RHCF to:
 - (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditures 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; and
 - (iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraph B.1 of Schedule 5 to this Agreement, the Borrower shall cause RHCF to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, 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 Loan 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 Bank not later than 45 days after the end of the first calendar semester 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 semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

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

(a) RHCF shall have failed to perform any of its obligations under the Agency Agreement;

(b) any Participating Region shall have failed to perform any of its obligations under its Subsidiary Loan Agreement;

(c) the Agency Agreement or the Project Operational Manual, or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the Project;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the RHCF or for the suspension of its operations; and

(e) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Region will be able to perform its obligations under its respective Regional Restructuring Plan.

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

(a) any of the events specified in Section 5.01 (a), (b) or (d) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

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

ARTICLE VI

Effective Date; Termination

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

- (a) the Agency Agreement has been entered into between the MOF, MOH, and RHCF;
- (b) RHCF has selected and employed essential staff satisfactory to the Bank;
- (c) the auditor has been selected acceptable to the Bank to undertake the responsibilities described in Section 4.01 of this Agreement;
- (d) the Project Operational Manual, satisfactory to the Bank, has been adopted by the Working Group; and
- (e) matrices for regional health accounts, satisfactory to the Bank, have been developed for and by each of the Participating Regions.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance or authorized Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
of the Russian Federation
Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

112008

Facsimile:

(7-095) 925-0889

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
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 Moscow, Russian Federation, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Shevchenko Uriy Leonidovich

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Richard Clifford

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

| <u>Category</u> | <u>Amount of the Loan Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|---|
| Chuvashia Republic | | |
| (1) Goods, including inland transportation and related insurance, and technical services | 8,200,000 | 100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 81% of local expenditures for other non-medical items procured locally; 98% of local expenditures for other medical items procured locally (cost net of VAT) |
| (2) Consultants' services | 450,000 | 87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms |
| (3) Training | 1,350,000 | 100% |

| <u>Category</u> | <u>Amount of the Loan Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|---|---|
| Voronezh Region | | |
| (4) Goods, including inland transportation and related insurance, and technical services | 8,200,000 | 100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 81% of local expenditures for other non-medical items procured locally; 98% of local expenditures for other medical items procured locally (cost net of VAT) |
| (5) Consultants' services | 450,000 | 87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms |
| (6) Training | 1,350,000 | 100% |

| <u>Category</u> | <u>Amount of the Loan Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|---|---|
| Federal level | | |
| (7) Goods, including inland transportation and related insurance, and technical services | 1,050,000 | 100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 81% of local expenditures for other non-medical items procured locally; 98% of local expenditures for other medical items procured locally (cost net of VAT) |
| (8) Consultants' services | 5,900,000 | 87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms, including project audit |
| (9) Training | 1,200,000 | 100% |
| (10) Operating costs | <u>1,850,000</u> | 87% for RHCF salaries; 100% for social charges; 100% for training; 84% of other costs |
| TOTAL | <u>30,000,000</u> | |

2. For the purposes of this Schedule:

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

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

(c) the term “Operating Costs” means reasonable incremental costs associated with the administration of the RHCF, including: staff salaries, training, including study tours and seminars, social charges, office rent, maintenance and minor refurbishing of office and equipment, office equipment, furniture, materials and supplies, communication costs, support for information systems, translation expenses, bank charges, and travel and per diem costs of RHCF staff directly associated with implementation of Project activities; and

(d) the term “Training” means Project related costs and expenses related to study tours, seminars, workshops and other training activities not included under a goods or service provider’s contract, travel and per diem costs for the ministries, administrations, and other relevant bodies on the federal and/or regional levels involved in the implementation of the Project.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$350,000 may be made in respect of Category (10) set forth in the table in paragraph 1 of this Schedule on account of payments made before that date but after May 31, 2003; (b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement; (c) expenditures under Categories (1) through (3) or Categories (4) through (6) set forth in the table in paragraph 1 of this Schedule unless the Bank has received evidence satisfactory to the Bank that: (i) the MOF, MOH and the respective Participating Region have executed the respective Subsidiary Loan Agreement pursuant to Section 3.02 (c) of this Agreement; and (ii) the RHCF and the respective Participating Region have entered into the respective Regional Participation Agreement in respect of the Project activities to be carried out within the respective Participating Region acceptable to the Bank; and (d) any expenditures under Categories (1) and (4) set forth in the table in paragraph 1 of this Schedule for medical equipment in any Participating Region, unless the Participating Region concerned has: (i) adopted a Regional Restructuring Plan acceptable to the Borrower and the Bank; and (ii) provided evidence satisfactory to the Bank that the legal framework for implementation of such plan is in place.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts not exceeding \$100,000 equivalent each; (b) services of consulting firms under contracts not exceeding \$100,000 equivalent each; (c) services of individual consultants under contracts not exceeding \$50,000 equivalent each; (d) all training; and (e) all operating costs, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) design a system of federal regulation required for effective governance and management of the health system; (ii) develop and implement strategic approaches to health sector reform in selected regions; (iii) strengthen the institutional capacity of the MOH as a federal executive agency; (iv) draw lessons from the implementation of regional programs and disseminate them to other regions; and (v) develop and implement an efficient scheme of restructuring of the health system, with emphasis on increasing access, quality, and efficiency of health services that would benefit from direct investment under the Project.

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

Part A: Rationalization of Health Services

1. Provision of goods, services, and training for:

(a) development of strategic approaches to comprehensive restructuring of health service delivery; new standards for health service institutions based on pilot program experience; guidelines and best practice manuals for implementation; and

(b) development of new criteria for licensing, standardization, and accreditation of health sector institutions, based on quality and outcome; updating and unifying the licensing, standardization and accreditation processes; strengthening institutional capacity for licensing, standardization and the accreditation system.

2. Provision of Subsidiary Loans to support the carrying out of Regional Restructuring Plans, consisting of implementation of tasks referred to in paragraph 1 above, in (a) Chuvashia Republic; and (b) Voronezh Oblast.

Part B: Strengthening of Financial and Economic Management

Provision of goods, consulting services, and training to: (i) develop analytical tools, including federal and regional financing models and equalization formulae, and to apply the models to costing of benefit packages and regional restructuring plans; (ii) develop training programs in economic and financial analysis; (iii) develop the best practice methods and manuals for financial management and business planning;

(iv) develop institutional capacity to carry out technology assessment; and (v) develop new approaches to contracting and paying health workers.

Part C: Sector Policy and Governance

Provision of consulting services and training to support the design of a consistent body of laws and other regulations to ensure adequate governance of the health sector at the federal level and compliance with federal regulations at the regional level.

Part D: Project Management

Provision of goods, consultants services, training, and operating costs to RHCF to support project implementation management and project audit.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

| <u>Date Payment Due</u> | <u>Payment of Principal (Expressed in Dollars)</u> |
|-----------------------------------|--|
| On each February 15 and August 15 | |
| beginning August 15, 2008 | 1,250,000 |
| through August 15, 2019 | 1,250,000 |
| On February 15, 2020 | 1,250,000 |

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Furniture for medical facilities, publishing of textbooks, manuals, and regulatory documents and other publications, which are estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$2,140,000 equivalent,

may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,490,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$560,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Subscriptions to specialized journals and proprietary spare parts and chemical reagents, which must be purchased from the original supplier to be compatible with existing equipment, and costing \$570,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods to be procured in accordance with the procedures referred to in Parts B.1 and C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts for goods to be procured in accordance with the procedures referred to in each of Parts C.2 and C.3 above, and each contract for goods to be procured in accordance with the procedures referred to in Part C.4 above, the following procedures shall apply:

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

2. In respect of consultants' services to be procured under contracts awarded in accordance with the provisions of Part B and Parts C.1 and C.2 of this Section, the short

list of consultants for services for contracts estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for monitoring of regional implementation activities and development of clinical guidelines and monitoring the application of the same, which are estimated to cost less than \$630,000 in the aggregate, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for critical assignments including monitoring activities under individual project components, studies of impacts of individual project interventions, development of training courses and materials, training programs involving study tours to foreign training centers, regional public information campaign activities, which are estimated to cost less than \$100,000 equivalent per contract, and \$1,540,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for advisory services of foreign and local experts to evaluate consultants' deliverables under critical assignments, under Parts A and C of the Project, which are estimated to cost less than \$140,000 equivalent in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, such as services to evaluate consultants' proposals and other deliverables under major assignments, training courses, translations, preparation and review of textbooks and publications, estimated to cost less than \$890,000 in the aggregate, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

5. Public Education, Training, and Research Institutions

Services of unique and exceptional nature may, with the Bank's prior agreement, be procured from public health, training, and research institutions in accordance with the procedures referred to in paragraphs 1-4 above if it has been satisfactorily established that no suitably qualified private sector consultant is readily available for the assignment.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

Section III. Other (Logistic Services)

When appropriate, a firm will be selected to provide logistic services in respect of training upon comparison of three price quotations presented by suitably qualified local contractors under agreed procedures. Individual contract values will normally not exceed the equivalent of \$50,000. Larger contracts estimated to cost more than \$50,000 will be advertised nationally or internationally and bids for such contacts will be invited.

SCHEDULE 5

Implementation Program

A. Overall Management and Implementation of the Project

1. MOH shall be responsible for overall management and implementation of the Project.
2. MOH shall maintain the Working Group for Preparation and Implementation of the Project comprising representatives of the MOH, MOF, Ministry of Economic Development and Trade, the Federal Center for Project Financing, RHCF, and administrations of Participating Regions, which shall be responsible for overall Project coordination, defining the Project implementation strategy, ensuring approval of documents related to the Project, and approving and controlling the fulfillment of the Project's work programs and budgets.
3. MOH shall maintain an Expert Council, which shall be responsible for: (i) provision of methodological support for Project implementation; (ii) review of terms of reference and technical specifications for goods and services to be procured under the Project; (iii) provision of technical support to the RHCF in the preparation of bidding documents; (iv) review of the reports and Project plans; and (v) preparation of documents for consideration by the Working Group referred to in paragraph 2 of this Schedule.
4. RHCF shall be responsible for day-to-day project management and implementation, and shall assist the Working Group in the overall coordination of the Project activities, and shall also be responsible for financial management, disbursement, and preparation of progress reports and annual reports in respect of or related to the Project.
5. The Borrower shall ensure that, until the completion of the Project, RHCF and Regional project management bodies at all times function in a manner, and with staff, consultants, facilities and other resources necessary for the management and implementation of the Project, satisfactory to the Bank.

B. Annual Reports and Work Program

1. The Borrower shall cause RHCF to provide to the Bank, by April 1 of each year throughout the execution of the Project, an annual report on the progress of Project implementation, of such scope and in such detail as the Bank shall reasonably request, including a draft annual project plan for the following year.

- (a) 2. In the specification and implementation of programs under Parts A.1 and B of the Project, the Borrower, through the RHCF, shall ensure the selection of beneficiaries in accordance with criteria satisfactory to the Bank.

C. Counterpart Funding Requirements for the Project

Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall ensure that sufficient annual allocations will be made in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project, with the exception of Part A.2 of the Project.

D. Monitoring and Evaluation

1. The Borrower shall:

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

- (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about May 1, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

- (c) review with the Bank, by June 1, 2006, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and

- (d) cause RHCF to submit to the Bank on a semi-annual basis project progress reports for its review and approval.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (10) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank

shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 7

Principal Terms and Conditions of the Subsidiary Loan Agreements

The following terms and conditions of on-lending shall apply for the purposes of the Subsidiary Loan Agreements entered into pursuant to Section 3.02 (c) of this Agreement:

1. Principal Amount of Subsidiary Loans

The Borrower shall make available to the Participating Region the proceeds of the Loan allocated to the Participating Region under the respective categories of the table set forth in paragraph 1 of Schedule 1 to this Agreement. One-half (50%) of such amount shall be on a grant basis and one-half (50%) shall be repayable. The principal amount of each Subsidiary Loan shall be denominated in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) and be equal to the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Subsidiary Loan.

2. Repayment Term

The Subsidiary Loan shall be repayable by the Participating Region over a period of up to seventeen (17) years, inclusive of a grace period of up to five (5) years.

3. Interest and Other Payments

The Participating Region shall pay: (i) interest on the repayable portion of the Subsidiary Loan withdrawn and outstanding from time to time, at a variable rate equivalent to two and one-half percent (2.50%) above the interest rate determined in accordance with the provisions of Section 2.06 of this Agreement; and (ii) a commitment charge on the repayable portion of the Subsidiary Loan at the rate equal to the rate payable by the Borrower according to Section 2.05 of this Agreement.

4. Conditions

The Participating Region shall undertake to:

(a) carry out the Regional Restructuring Plan with due diligence and efficiency and in conformity with appropriate administrative, financial and health practices, and to provide, promptly as needed, the funds, facilities, services and other resources required for such plan;

- (b) report to the Bank and the Borrower, annually, on the status of the indicators, referred to in paragraph D of Schedule 5 to this Agreement;
- (c) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its activities under Part A.2 of the Project and submit the required financial statements;
- (d) cooperate with RHCF to ensure procurement of goods, consultants services, and training required for Part A.2 of the Project and to be financed out of the proceeds of the Subsidiary Loan in accordance with the provisions of Schedule 4 of this Agreement;
- (e) carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions in respect of its activities under Part A.2 of the Project;
- (f) provide assistance to and cooperate with RHCF with respect to the RHCF's procurement, disbursement, accounting and reporting functions under Part A.2 of the Project;
- (g) give the Borrower the right to suspend or terminate the right of the Participating Region to the use of the proceeds of the Subsidiary Loan upon failure by such party to perform its obligations under the Subsidiary Loan Agreement; and
- (h) ensure that sufficient annual allocations will be made in the Participating Region's budget for its respective counterpart contribution to the costs of its activities under Part A.2 of the Project.