

CONFORMED COPY

LOAN NUMBER 4374 IND

Loan Agreement

(Fifth Health Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 31, 1998

LOAN NUMBER 4374 IND

LOAN AGREEMENT

AGREEMENT, dated July 31, 1998, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "BAPELKES" means a health in-service training facility;
- (b) "Central Project Secretariat" means the secretariat established by the Borrower in its Ministry of Health under the Secretary-General and maintained in accordance with paragraph 1 of Schedule 5 to this Agreement;
- (c) "Decentralization Plan" means the Ministry of Health's decentralization plan of training and health personnel functions in the Project Provinces dated April 14, 1998;
- (d) "Deployment Innovations Guidelines" means the guidelines, dated April 30, 1998, acceptable to the Bank, setting forth the procedures and conditions for the financing of deployment innovations under Part A.2 (d) of the Project, as such Guidelines may be amended from time to time with the agreement of the Bank;
- (e) "Dinas" means the local government health office;
- (f) "Fiscal Year" means the fiscal year of the Borrower commencing April 1 and ending March 31;
- (g) "Kanwil" means the provincial health office of the Ministry of Health;
- (h) "Project Implementation Unit" means the unit established in the Kanwil in each of the Project Provinces and maintained in accordance with paragraph 2 of Schedule 5 to this Agreement;
- (i) "Project Provinces" means the Borrower's provinces of Jawa Tengah, Kalimantan Tengah and Sulawesi Selatan;
- (j) "Puskesmas" means a public health center;
- (k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (l) "SPK" means a school for basic nurse training; and
- (m) "Unit Swadana" means an autonomous health facility.

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 this Agreement, an amount equal to forty four million seven hundred thousand Dollars (\$44,700,000).

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 special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including, in the case of a state commercial bank, 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 7 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2004, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on May 15 and November 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, health and financial practices, 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement. Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan 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 records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

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

ARTICLE V

Termination

Section 5.01 The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Dorodjatun Kuntjoro-Jakti,

Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category Financed	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be
(1) Civil works	500,000	10%
(2) Goods, excluding vehicles	3,800,000	60%
(3) Training, workshops and in-country fellowships	14,700,000	100%
(4) Studies, research and overseas fellowships	12,900,000	100%
(5) Deployment innovations	2,000,000	60%
(6) Service delivery contractors	2,900,000	100%
(7) Project administration	1,800,000	100%
(8) Consultants' services	3,200,000	100%
(9) Unallocated	2,900,000	
TOTAL	44,700,000	

2. For the purposes of this Schedule:

(a) the term "Deployment innovations" means expenditures for activities under Part A. 2 (d) of the Project approved in accordance with paragraph 4 of Schedule 5 to this Agreement; and

(b) the term "Project administration" means expenditures on account of the Project by the Central Project Secretariat and the Project Implementation Units within the respective Kanwils for honoraria and travel expenditures, but excluding salaries.

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

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4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works and goods under contracts costing less than \$200,000 equivalent each; (ii) training, workshops, and in-country fellowships; (iii) studies, research and overseas fellowships costing less than \$100,000 equivalent each; (iv) Deployment innovations; (v) Project administration; (vi) service delivery contracts costing less than \$100,000 equivalent each; and (vii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each, and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (i) achieving greater efficiency of utilization and equity of distribution of health personnel in the Project Provinces, (ii) increasing the skills of health professionals in the Project Provinces, and (iii) improving the quality of health professional practices in the Project Provinces.

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: Improvement of the Efficiency of Utilization and the Equity of Distribution of Health Professionals in the Project Provinces

1. Strengthening planning and public sector management of health professionals in the Project Provinces by:

(a) strengthening planning, analysis and personnel management capabilities of the provincial and district health managers, and hospital and Puskesmas managers, including identification of the scope of management responsibilities, and a program of workshops, on-the-job training, and local and overseas fellowships;

(b) developing a practical personnel management information system (MIS) at the provincial and district levels, including procurement and installation of relevant hardware and software, and training of operators and managers in the use of the system;

(c) designing and implementing at the provincial and district levels the staffing deployment system for health service personnel, Daftar Susunan Pegawai (DSP), including a decentralized recruitment system for placement of staff according to demonstrated local demand for services; and

(d) implementing the Ministry of Health's Decentralization Plan for the Project Provinces relating to in-service training, pre-service training and health personnel functions.

2. Implementation of innovations to support allocative efficiency and productivity in the Project Provinces, by:

(a) strengthening of the deployment and performance of professional health staff in Puskesmas and hospitals through the design and introduction of recruitment incentives for service in remote locations, a performance-based system of incentives for Puskesmas staff and for hospital staff in districts, and incentives to reduce over-staffing at facilities in more attractive locations;

(b) training medical doctors, midwives and nurses in basic health care business management, and preparation of individual action plans for becoming private practitioners;

(c) support for the acceleration of Unit Swadana functions, including: (i) dissemination of guidelines and information for local governments who own hospitals to be converted; (ii) technical support for best practices, including management training and specialized advice in areas such as marketing, equipment maintenance, and budgeting; and (iii) training for hospital managers of district hospitals to be converted; and

(d) the development and implementation, at the provincial and district level, of innovations in the deployment of health professionals to improve productivity and community participation in the assessment of the provision of health services, and to address the issues of the imbalance between urban and rural health staff distribution and low utilization in rural areas, especially by poor people.

Part B: Improvement of the Quality of Health Professionals Practices in the Project Provinces

1. Strengthening of the regulatory system for the licensing of health professionals and for the accreditation of educational institutions and continuing education courses, through (a) the development and implementation in the Project Provinces of a national model for statutory regulation and licensing of health professionals, and (b) adaptation and piloting in the Project Provinces of national level standard criteria and implementation steps for accrediting nursing and midwifery academies, including training and seminars.

2. Strengthening of the professional associations for medical doctors (IDI), nursing (PPNI) and midwives (IBI) and other selected associations in the Project Provinces through: (a) the establishment of provincial administrative offices, including provision of equipment and communication facilities; (b) the provision of orientation activities, studies and network development, and (c) the establishment of an information system and a desktop publishing capability, including provision of communication equipment for linkage with district offices.

3. Establishment of an integrated system of quality assurance and assessment in health centers, hospitals and training institutions through: (a) training of trainers on total quality management and quality assurance implementation; strengthening training materials to adapt quality assurance programs for local use within hospitals, health centers and sub-health centers; and short-term fellowships for hospital and health center clinical role models and teachers in in-service and pre-service training institutions; (b) technical assistance by other provinces that are experienced with quality assurance programs in hospitals and health centers; and (c) carrying out of operations research and evaluation studies.

Part C: Improvement of the Quality of Health Professional Training in the Project Provinces

1. Improvement of training methods and programs through:

(a) training, fellowships, and study tours for in-service trainers and pre-service teaching staff; rehabilitation and equipping of hospital and field-based learning resource centers; training of supplemental teaching staff in areas of critical skills; development of district training teams; establishment of educational information networks; development of curricula and preparation of course materials; and workshops and training courses for on-the-job skill development;

(b) establishment of learning resource centers within selected district offices, hospitals, educational institutions and training centers;

(c) development of linkages with sister schools within and outside Indonesia to assist in the process of conversion from SPK to academy level for nursing and midwifery;

(d) strengthening distance learning; and

(e) carrying out of studies for monitoring and evaluation of training methods and programs.

2. Strengthening training institutions by:

(a) strengthening BAPELKES through the construction and equipping of facilities, provision of fellowships to in-service health trainers to increase the range and skills of the teaching capacity and the understanding of quality assurance and competency-based training, and provision of consultants' services for, among others, planning and conducting operations research and evaluation;

(b) support for conversion of selected SPK to academies for nurses and midwives and upgrading the quality of selected SPK and academies for nurses and midwives, through: review and revision of curricula based on competency need profiles; fellowships for teachers; upgrading of facilities; review of the accreditation criteria; workshops and studies; and development of memoranda of understanding on training with clinical facility sites;

(c) establishment of a multi-stream academy in the province of Kalimantan Tengah for the development of adequate numbers of different types of health care providers, including nursing, midwifery and nutrition; and

(d) strengthening, in the province of Sulawesi Selatan, the facilities of the academies for sanitarians, physiotherapists, nutritionists and dentists through the upgrading of classroom laboratories and the provision of language training.

Part D: Project Management in the Project Provinces

Strengthening the Project Provinces' Project Implementation Units' capacity for Project management including provision of office equipment, supplies, workshops and technical assistance.

Part E: Building Central Support for Health Professionals

1. Strengthening planning capacity and technical support at the national level by:

(a) strengthening the capacity of the Ministry of Health and its supporting agencies for health personnel and training, to analyze and adjust policies governing the distribution, quality and performance, training, education and career development of health professionals employed in public service, including studies, training, workshops and technical assistance;

(b) developing an integrated data management system for health professionals at the central offices of the Ministry of Health, at the Kanwil and Dinas offices and at their respective agencies at the Kabupaten and Kecamatan level; and

(c) providing technical support to provincial and district health management units for the staffing deployment system (DSP), the recruitment and performance incentive systems, monitoring and evaluation activities, and quality assurance system development and monitoring.

2. Improvement of the professional environment for health professionals through:

(a) the preparation of draft regulations and procedures for licensing and controlling the practice of individuals within key health professional groups and for the accreditation of health training institutions; and

(b) the strengthening of selected national health professional associations, including provision of equipment for communication, networking and desktop publishing; fellowships and work study tours; operations research and studies; and seminars, workshops and meetings for organizations needing strengthening.

Part F: Central Project Management

Strengthening the Central Project Secretariat's capacity for Project management including provision of office equipment, supplies, technical assistance and renovation of office space.

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The Project is expected to be completed by September 30, 2003.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "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.

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

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, 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 day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank

and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) 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 such Disbursed Amount for such Interest Period;

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

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, 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 to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

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

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, 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 this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn 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.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after November 15, 2013, the Borrower shall also pay on said

date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (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 \$200,000 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

(a) Except as otherwise provided in this Part, goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Except as otherwise provided in this Part, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 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.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$600,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph 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

With respect to each contract for goods or works estimated to cost the equivalent of \$200,000 or more the procedures set forth in paragraphs 2 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

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, 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 Project management, personnel planning and development of innovations under Part A of the Project and training methodology development under Part B of the Project, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Service Delivery Contractors

Services to be provided by contractors for training institution and training methodology development under Parts B and C of the Project shall be procured in accordance with procedures acceptable to the Bank.

3. Individual Consultants

Services for implementation of the staffing deployment system under Part A of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall

be undertaken in accordance with such selection 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 the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second sub-paragraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, 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.

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.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain until completion of the Project, a Central Project Secretariat for Project coordination, with terms of reference, staffing and resources acceptable to the Bank.

2. The Borrower shall maintain until completion of the Project, a Project Implementation Unit within the Kanwil in each Project Province for Project coordination at the provincial level, with terms of reference, staffing and resources acceptable to the Bank.

3. The Borrower shall carry out the Decentralization Plan under Part A.1 (d) of the Project in accordance with a timetable agreed with the Bank.

4. In carrying out Part A.2 (d) of the Project, the Borrower shall review and approve deployment innovations in accordance with the Deployment Innovations Guidelines.

5. In carrying out Part B.1 of the Project, the Borrower shall, not later than July 15, 2001, furnish to the Bank for comments a proposal on the linking of accreditation and licensing to quality assurance and competency based training and, thereafter, prepare and carry out an action plan, acceptable to the Bank, for the establishment of such a linkage.

6. The Borrower shall:

(a) carry out the training, including fellowships, under the Project in accordance with guidelines and a training program acceptable to the Bank; and

(b) not later than March 31, 1999, furnish to the Bank for comments a training strategy setting out the role and scope of quality assurance and competency based training; and, promptly thereafter, carry out such strategy taking into account the comments of the Bank.

7. The Borrower shall provide the vehicles required under the Project in accordance with a schedule acceptable to the Bank.

8. The Borrower shall:

(a) carry out the studies under Parts A, B, C and E of the Project in accordance with terms of reference and timing acceptable to the Bank;

(b) furnish the recommendations of the studies to the Bank for comments not later than four months after the completion of each study; and

(c) promptly thereafter, prepare and carry out action plans, taking into account the Bank's comments on the recommendations of the studies.

9. The Borrower 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 Bank, and furnish to the Bank, on or about July 15 in each year, commencing July 15, 1999, and until completion of the Project, 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 August 31 in each year, commencing August 31, 1999, or such later date as the Bank shall request, and until completion of the Project, 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;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 15, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and since the start of the Project, 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

(e) review with the Bank, by August 31, 2001, or such later date as the Bank shall request, and until completion of the Project, the report referred to in paragraph (d) 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.

10. The Borrower shall cause the Central Project Secretariat, no later than July 15 in each year commencing July 15, 1999, to furnish to the Bank for its review and comment, a detailed work plan for the subsequent Fiscal Year, including proposed procurement requirements, fellowships and budgets for each Project Implementation Unit for such year.

SCHEDULE 6

Project Performance Indicators

1. Decentralization

Achievement, by September 30, 2003, of the decentralization of all Project-related agency functions in accordance with the Decentralization Plan.

2. Management

(a) By August 31, 2001, 30% of District health management teams trained in

quality assurance and competency-based training, human resource management, financial management, and information systems; and 90% of such teams trained by September 30, 2003.

(b) By August 31, 2001, 50% of Provincial health management teams trained in quality assurance and competency-based training, human resource management, financial management, and information systems; and 90% of such teams trained by September 30, 2003.

3. Increased use of health services and equity of access to health professionals

(a) By August 31, 2001, the number of unfilled Puskesmas and district hospital positions for nurses, midwives, and physicians reduced by 20%; and reduced by 60% by September 30, 2003.

(b) By August 31, 2001, the gap between capacity and actual use of health services reduced by 20%; and reduced by 50% by September 30, 2003.

(c) By August 31, 2001, the proportion of the population without regular access to trained health professionals, including public and private practitioners, reduced by 20%; and reduced by 50% by September 30, 2003.

4. Improve quality of health professional practices through regulatory mechanisms

(a) By August 31, 2001, a system in place for the systematic registration of professionals in nursing, midwifery, and medicine; and by September 30, 2003 at least 90% of professionals in nursing, midwifery and medicine registered in accordance with such system.

(b) By August 31, 2002, an accreditation system established; and by September 30, 2003, an operational system in place in all Project Provinces.

(c) By August 31, 2002, a system in place for licensing professionals in nursing, midwifery, and medicine; and by September 30, 2003 provisions for annual licensing of new graduates initiated.

5. Improve quality of health professional practices through quality assurance and competency-based training

By August 31, 2001, 20% of doctors, midwives and nurses trained through comprehensive programs in quality assurance and competency-based training; and by September 30, 2003 an additional 40% of professionals trained.

6. Improve quality of training

(a) By August 31, 2001, 50% of teachers and in-service trainers trained in quality assurance and competency-based training; and by September 30, 2003 95% trained in quality assurance and competency-based training.

(b) By August 31, 2001, 50% of planned pre-service training institutions upgraded; and by September 30, 2003 95% of these institutions upgraded.

7. Fellowships

By August 31, 2001, 25% of overseas fellowships and 25% of in-country fellowships placed; and by September 30, 2003 100% of both overseas and in-country fellowships completed.

8. Professional Associations

By August 31, 2001, training and information system completed; and by Project completion fully functioning and self-sustaining professional associations in place in nursing, midwifery, and medicine with current membership, procedures for collecting dues, capacity for participating in accreditation, and delivery of in-service programs for members.

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,800,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,400,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,600,000.

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

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

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

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

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

