

**CONFORMED COPY**

**CREDIT NUMBER 3728 KH**

# **Development Credit Agreement**

**(Health Sector Support Project)**

**between**

**KINGDOM OF CAMBODIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated February 27, 2003**

**CREDIT NUMBER 3728 KH**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated February 27, 2003, between KINGDOM OF CAMBODIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has adopted a plan, including objectives, strategies and a program of actions, designed to improve the health of the people of the Kingdom of Cambodia to enable them to participate in the socio-economic development of the country and reduce poverty (the Health Sector Strategic Plan), as well as an approach and procedures for sector-wide management and planning (SWIM); and the Borrower has expressed its commitment to the execution of the Health Sector Strategic Plan and of the SWIM;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which forms part of the Health Sector Strategic Plan, has requested the Association to assist in the financing of the Project;

WHEREAS (C) the Borrower has also requested the Association to provide non-refundable assistance toward the financing of Part B of the Project; and in response to such request, by: (a) an agreement of even date herewith between the Borrower and the Association (the First Development Grant Agreement), the Association is making a grant to the Borrower in an amount in various currencies equivalent to SDR 1,600,000 from the Association's resources allocated to HIV/AIDS programs in IDA-only countries (the First Development Grant) to assist in financing Part B.1 (d) of the Project; and (b) an agreement of even date herewith between the Borrower and the Association (the Second Development Grant Agreement), the Association is making a grant in an amount in various currencies equivalent to SDR 6,000,000 from the Association's resources allocated to the poorest IDA-only countries (the Second Development Grant) to assist in financing Parts B.1 (a), (b) and (c) and B.2 of the Project;

WHEREAS (D) the Asian Development Bank (ADB) has agreed to make a loan to the Borrower from its Special Funds (the ADB Loan) to assist in: (a) the financing of a project parallel to the Project, but in provinces other than the Project Provinces (the ADB-financed Project); and (b) the co-financing of Part C of the Project;

WHEREAS (E) the Borrower expects to receive support from the United Kingdom of Great Britain and Northern Ireland, through its Department for International Development (DFID), for the Health Sector Strategic Plan through funding: (a) in part, for a project complementary to the Project and the ADB-financed Project and to be administered directly by DFID (the DFID-financed Project); (b) in part, as a grant to be

administered by the ADB for the purpose of assisting in the financing the ADB-financed Project; and (c) in an amount of approximately £1,260,000 to be administered by the Association (the DFID Grant) for the purpose of assisting in the financing of Parts A.2 (b) and B.1 (a) of the Project, on terms and conditions to be set forth in an agreement to be entered into between the Borrower and the Association as administrator of those grant funds to be received from DFID (the DFID Trust Fund Grant Agreement); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

## **ARTICLE I**

### **General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (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) “Affected Persons” means persons who, on account of the execution of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Affected Person” means any of the Affected Persons.

(b) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) “Coordination Committee” and “COCOM” mean the coordination committee established in 1992 by the Borrower’s Ministry of Health, comprising representatives of the Borrower, the donor community and NGOs active in the health sector, for the purposes of consultation and dissemination of information among stakeholders regarding the health sector and of monitoring the implementation of the Health Sector Strategic Plan.

(d) “Development Grants” means, collectively, the First Development Grant and the Second Development Grant referred to in Clause C of the Preamble to this Agreement; and a “Development Grant” means either of said Development Grants.

(e) “Development Grant Agreements” means, collectively, the First Development Grant Agreement and the Second Development Grant Agreement referred to in clause C of the Preamble to this Agreement; and a “Development Grant Agreement” means either of said Development Grant Agreements.

(f) “EMP” means the Environmental Management Plan dated September 20, 2002, adopted by the Borrower, and referred to in paragraph 6(a)(vii) of Schedule 4 to this Agreement, which sets forth measures to mitigate any adverse environmental impact that may result from the implementation of the Project, as said Plan may be amended from time to time with the prior agreement of the Association.

(g) “Equity Funds” means funds established by the Borrower at the Operational District level to implement user fee exemption mechanisms for the benefit of the poor by making user fee payments to public health facilities on behalf of the poor service users; and an “Equity Fund” means any of said Funds.

(h) “Ethnic Minorities Development Strategy” means the strategy dated September 20, 2002, adopted by the Borrower and referred to in paragraph 6(a)(vii) of Schedule 4 to this Agreement, which sets forth policies and procedures for full consultation with and informed participation of ethnic minorities within the Project area, as said strategy may be amended from time to time with the prior agreement of the Association.

(i) “Financial Monitoring Report” means each report prepared in accordance with the provisions of Section 4.02 of this Agreement.

(j) “Framework for Land Acquisition Policy and Procedures” means the policy framework for compensation, resettlement and rehabilitation of Affected Persons, dated October 1, 2002, adopted by the Borrower and referred to in paragraph 6(a)(vii) of Schedule 4 to this Agreement, as said Framework may be amended from time to time with the prior agreement of the Association.

(k) “Health Management Agreements” means the agreements to be entered into between MOH and the Project Provinces in accordance with the provisions of paragraph 7 of Schedule 4 to this Agreement; and a “Health Management Agreement” means any of said Agreements.

(l) “Implementation Working Group” means the group within MOH established and maintained in accordance with the provisions of paragraph 2(b) of Schedule 4 to this Agreement.

(m) “MEF” means the Borrower’s Ministry of Economy and Finance, and any successor thereto.

(n) “MOH” means the Borrower’s Ministry of Health, and any successor thereto.

(o) “National Center for HIV/AIDS, Dermatology and Sexually Transmitted Diseases Control” means the center established within MOH to carry the Borrower’s national program for the prevention and control of HIV/AIDS, and sexually transmitted diseases, and responsible for the implementation of Part B.1 (d) of the Project.

(p) “National Center for Parasitology, Entomology and Malaria Control” means the center established within MOH to carry out, inter alia, the Borrower’s national program for the prevention and control of malaria, and responsible for the implementation of Part B.1 (a) of the Project.

(q) “National Center for Tuberculosis and Leprosy Control” means the center established within MOH to carry out, inter alia, the Borrower’s national program for the prevention and control of tuberculosis, and responsible for the implementation of Part B.1 (b) of the Project

(r) “Operational Districts” means administrative sub-divisions of a province of the Borrower, established for purposes of health services management and budgeting; and an “Operational District” means any of said Operational Districts.

(s) “Pesticide Management and Monitoring Plan” means the plan dated September 20, 2002, adopted by the Borrower, and referred to in paragraph 6(a)(vii) of Schedule 4 to this Agreement, which sets forth measures designed to ensure occupational health safety and environmental protection in the procurement, transport, handling and distribution of pesticides used in the malaria and dengue vector control programs under Part B.1 of the Project.

(t) “Project Account” means the account referred to in Section 3.02 of this Agreement.

(u) “Project Implementation Plan” means the plan dated October 2002, adopted by the Borrower for the implementation of the Project, in accordance with the provisions of paragraph 6 of Schedule 4 to this Agreement, as said plan may be amended from time to time with the prior agreement of the Association.

(v) “Project Provinces” means those provinces of the Borrower listed in the Annex to Schedule 2 to this Agreement, as said Annex may be amended from time to

time by mutual agreement between the Borrower and the Association, and a “Project Province” means any of said Project Provinces.

(w) “Senior Management Group” and “SMG” mean the group established and maintained by the Borrower in accordance with the provisions of paragraph 2(a) of Schedule 4 to this Agreement.

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

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

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million one hundred thousand Special Drawing Rights (SDR 13,100,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account at the National Bank of Cambodia on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts

shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing February 15, 2013 and ending August 15, 2042. Each installment to and including the installment payable on August 15, 2022 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided,

however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (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, financial and public health and safety practices, and environmental and social standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, for purposes of financing its contribution to expenditures under the Project:

(a) open an account at the National Bank of Cambodia (the Project Account) and, thereafter, maintain said Project account under terms and conditions acceptable to the Association until the completion of the Project;



(b) deposit into the Project Account, out of its own resources, an initial amount equivalent to two hundred thousand Dollars (\$200,000);

(c) thereafter, out of its own resources, replenish the Project Account on a quarterly basis by depositing therein the amounts needed in accordance with the annual action plan and budget referred to in paragraph 8 (b)(iv) of Schedule 4 to this Agreement;

(d) ensure that funds deposited into the Project Account in accordance with paragraphs (b) and (c) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit, the Development Grants or the DFID Grant; and

(e) for purposes of this Section, the term “own resources” referred to in paragraphs (b) and (c) of this Section means resources of the Borrower other than those derived from the proceeds of the Credit, the Development Grants, the DFID Grant or the ADB Loan.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association by no later than the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a final Project evaluation report together with a plan for the continued achievement of the objectives of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) for purposes of preparing the Project evaluation report and the plan referred to in paragraph (a) of this Section, the Borrower shall, by no later than three (3) months prior to the Closing Date, carry out an evaluation survey of the impacts of the Project, under terms of reference satisfactory to the Association.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower 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 Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during

such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 19 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, 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 financial monitoring report shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each financial monitoring report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

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

(a) a situation shall have arisen which shall make it improbable that the Health Sector Strategic Plan, or a significant part thereof, or the SWIM will be carried out;

(b) the Health Sector Strategic Plan, or any part thereof, shall have been abrogated, amended or otherwise significantly modified, without the prior concurrence of the Association;

- (c) (i) Subject to subparagraph (ii) of this paragraph (c), (A) the right of the Borrower to withdraw the proceeds of any grant or of the ADB Loan, made to the Borrower for the financing of the Project or part thereof, as the case may be, shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or (B) the ADB Loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph (c) shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(d) the DFID Trust Fund Grant Agreement shall have failed to become effective by June 30, 2003.

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

(a) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur; and

(b) any cancellation or termination of any grant made to the Borrower for the financing of the Project or any part thereof, or any acceleration of the ADB Loan, as specified in paragraph (c)(i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c)(ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

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

(a) the Borrower has made the initial deposit into the Project Account in accordance with the provisions of Section 3.02 (b) of this Agreement;

(b) (i) the First Development Grant Agreement, (ii) the Second Development Grant Agreement, and (iii) the ADB Loan Agreement have been executed and delivered and all conditions precedent to their respective effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(c) The Borrower had adopted a financial management manual satisfactory to the Association, in accordance with the provisions of paragraph 6 (a)(i) of Schedule 4 to this Agreement; and

(d) the Borrower has established a computerized system, satisfactory to the Association, at the financial management group of MOH's Department of Budget and Finance, and completed training in the operation of such system for the staff of said group.

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 Economy and 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 Economy and Finance  
92<sup>nd</sup> Street, Sangkat Wat Phnom  
Phnom Penh  
Kingdom of Cambodia

Facsimile:

(855-23) 427 - 798  
(855-23) 725 - 341

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1- 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 the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF CAMBODIA

By /s/ Roland Eng

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jemal-ud-din Kassum

Authorized Representative

### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Part A of the Project	1,700,000	90%
(2) Goods under Parts A and C of the Project	1,040,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost), and 85% of local expenditures for other items procured locally
(3) Consultants' Services under Parts A and C of the Project	1,050,000	95%
(4) Training under Parts A and C of the Project	470,000	100%
(5) Incremental Costs under Parts A and C of the Project	1,400,000	100% of expenditures through December 2003, 90% through December 2004, 80% through December 2005, and 70% thereafter
(6) Unallocated	7,440,000	
	<hr/>	
TOTAL	<u>13,100,000</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; and

(c) the term “incremental costs” means the reasonable costs of incremental expenditures incurred by the Borrower on account of implementation of Parts A and C of the Project, for surveillance and monitoring activities, information collection and reporting, transportation and accommodations for Project staff in carrying out monitoring and supervision activities, office supplies and consumables and communication costs, which expenditures would not have been incurred absent the Project, but excluding salaries or salary supplements.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,310,000 may be made in respect of Categories (1), (2), (3), (4) and (5) on account of payments made for expenditures before that date but after September 30, 2002.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$300,000 equivalent each; (b) goods, including drugs, under contracts costing less than \$200,000 equivalent each; (c) consultants’ services under contracts awarded to consulting firms costing less than \$100,000 equivalent each; (d) consultants’ services under contracts awarded to individual consultants costing less than \$50,000 equivalent each; (e) training; and (f) incremental costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.



## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist the Kingdom of Cambodia to improve the health status of its population, particularly the poor and rural population, through: (i) improvement in the accessibility, quality and affordability of health services in selected Provinces, and (ii) support for the implementation of its Health Sector Strategic Plan and strengthening of its capacity to carry out the health sector reform and to manage the health sector resources efficiently.

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

#### **PART A: Health Services Delivery to the Poor and Rural Population**

Carrying out a program to improve the delivery of health services to the poor and rural population, consisting of:

1. Improving the accessibility and quality of health services in the Project Provinces including:

(a) rehabilitation and extension of about 16 existing district or provincial hospitals; construction of about 24 new health centers, and rehabilitation and extension of about 46 existing health centers; construction of about 6 Operational District offices and 10 drug warehouses;

(b) provision of equipment to support the minimum package of activities (MPA) in newly constructed and rehabilitated health facilities, and provision of equipment to support the complementary package of activities (CPA) in rehabilitated facilities;

(c) establishment of health facility and equipment maintenance units and strengthening of their activities through the provision of equipment, training and consultants' services;

(d) improvement in the delivery of MPA and CPA, in particular the MPA on child health, through the provision of training; development and application of standards and indicators to monitor the quality of services in health care facilities; development and implementation of performance-based reward systems for health services providers; and support for increased participation of health services users and civil society in evaluating and making decisions regarding the quality of services; and

(e) improvement in the quality, utilization and availability of drugs throughout the health services by: upgrading the National Drug Quality Control

Laboratory; strengthening the capacity of the Food and Drug Department; supplying drugs kits to health facilities to support the MPA and CPA; and improving procedures and facilities for the procurement, stock management and distribution of drugs.

2. Improving the affordability and sustainability of health care services for the poor and underserved population in the Project Provinces, by:

(a) supporting alternative services delivery systems in selected low performing and low income districts, including the use of contracts for the management and provision of health services; and

(b) developing financing mechanisms, including the application of user fee, establishment of equity funds, and increased local funding.

PART B: Programs addressing Public Health Priorities

1. Support for national infectious diseases control programs, consisting of:

(a) support for the Malaria Strategic and Operational Master Plan;

(b) support for the Tuberculosis Control Strategic Plan;

(c) support for the National Dengue Control Program; and

(d) support for the STD/HIV/AIDS Prevention Program;

through the provision of training, equipment and support for recurrent expenditures to, inter alia: (i) strengthen the capacity for prevention, case detection, management and treatment; (ii) carry out campaigns of information, education and communication and other outreach activities; (iii) integrate prevention and treatment activities into the health care delivery services; and (iv) support vector control measures, including provision of insecticides and impregnated bed- and hammock-nets.

2. Carrying out an essential package of preventive and curative nutrition activities, including: (a) promotion of cost-effective nutrition behaviors such as exclusive breast feeding for young infants, timely and adequate use of complementary foods and food supplements for older infants, young children and women of reproductive age, use of iodized salt, and distribution of such food supplements; (b) strengthening of health service activities in the area of nutrition, including improvement in the quality of nutrition protocols and counseling; and (c) strengthening of the institutional capacity at the national and provincial levels to provide technical assistance and to monitor nutrition activities.

PART C: Health Sector Institutional Strengthening

Carrying out a program to strengthen essential health sector functions, consisting of:

1. Developing the capacity of the Ministry of Health to formulate and implement an enabling policy, legal and regulatory framework for the health sector, and to disseminate information to the public, the personnel within the sector and local authorities.
2. Enhancing sector planning and program coordination by: (a) strengthening the analytical capabilities of the Ministry of Health in respect of the financial, human and material needs and resources of the health sector; (b) improving the planning process and developing the planning roles and budgeting capabilities at the central and local administrative levels; and (c) carrying out annual sector reviews.
3. Improving the management of sector resources and supporting Project implementation by strengthening: (a) human resource development, (b) financial resource management, and (c) procurement capabilities.
4. Strengthening monitoring and evaluation systems and activities.

\* \* \*

The Project is expected to be completed by June 30, 2007.

**Annex to Schedule 2**

**List of Project Provinces**

1. Banteay Meanchey
2. Battambang
3. Kampong Thom
4. Kampong Speu
5. Kampot
6. Kratie
7. Krong Kep
8. Krong Pailin
9. Oddar Meanchey
10. Pursat
11. Preah Vihear
12. Stung Treng

### **SCHEDULE 3**

#### **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, 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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works 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 and works shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

###### Part C: Other Procurement Procedures

1. Limited International Bidding

Drugs estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$350,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) (i) Impregnated bed nets and hammock nets under Part B.1 of the Project, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent; and (ii) works for the construction and

rehabilitation of hospitals, estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under this paragraph 2, Part C, shall further follow those set forth in the Annex to this Schedule 3.

3. International and National Shopping

(a) Goods, such as medical equipment for health centers, clinical equipment, computers, printers and other office equipment, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$820,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures; and (b) simple office equipment and office consumables for the nutrition program in various provinces under Part B.2 of the Project, estimated to cost less than \$10,000 equivalent per contract, up to an aggregate not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping; in either case in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Medical equipment for the nutrition program under Part B.2 of the Project, such as scales, estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount of \$10,000 equivalent, may be procured from the World Health Organization or UNICEF in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works for the rehabilitation and repair of health centers, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association 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 Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated annually during the implementation of the Project and each such updating shall be furnished to the Association for its review and approval. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as updated from time to time and as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract for works estimated to cost the equivalent of \$300,000 or more; (ii) the first two contracts for works procured in accordance with the procedures set forth in paragraph 2 of Part C above; (iii) the first two contracts for works procured in accordance with the procedures set forth in paragraph 5 of Part C above; (iv) each contract for goods estimated to cost the equivalent of \$200,000 or more; and (v) the first contract for goods procured in accordance with the procedures set forth respectively in paragraphs 1, 2 and 3(a) of Part C above.

(b) With respect to each contract for works or goods referred to in clauses (iii) and (v) of sub-paragraph (a) of this paragraph 2, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures or under procedure for procurement of small works, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures or under procedures for procurement of small works, the Borrower shall provide to the Association 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

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, the following provisions of this Section II, and the provisions of the Annex to this Schedule 3.

### 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. Least-cost Selection

Services for the audit of project accounts, estimated to cost an aggregate amount of \$150,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 2. Selection Based on Consultants' Qualifications

Services for: (a) technical assistance to strengthen the National Laboratory for Drug Quality Control, for the establishment and financial management of a drug revolving fund, for drug stock management and logistics, under Part A.1 (e) of the Project; (b) equity fund management supervision under Part A.2 (b) of the Project; and (c) Parts B.1 and B.2 of the Project; in each case estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$661,000 equivalent, 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 the dengue control program, including diagnosis, clinical management and vector control, under Part B.1 (c) of the Project, may, with the Association'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 shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines, and may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Part D: Review by the Association 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 Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated annually during the implementation of the Project, and each updating shall be furnished to the Association 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 and as shall have been approved by the Association.

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 estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, or in the event of sole source selection the qualifications and experience of the consultants, and the terms of reference and terms of employment of the consultants shall be furnished to the Association 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.

**Annex to Schedule 3**

**Additional Procurement Provisions**

The following provisions shall apply in respect of: (i) contracts for goods and works financed under the Project and procured according to national competitive bidding procedures; and (ii) contracts for consultants' services financed under the Project.

**A. Contracts for goods and works**

(a) Foreign suppliers and contractors from eligible countries shall, if they are interested, be allowed to participate without being required to associate or form joint ventures with local suppliers or contractors.

(b) Prior registration shall not be a requirement to participate in bidding procedures; but it may be required in the case of a selected bidder as a condition of signing a contract.

(c) Pre-qualification of contractors shall be required for competitive bidding in the case of large or complex works; in all other cases, pre-qualification shall only be required in justifiable cases and with the prior approval of the Association.

(d) When pre-qualification is required, the evaluation methodology shall be based on pass/fail criteria relating to the firm's experience, technical, financial, physical and human resource capacities.

(e) A public bid opening ceremony shall take place immediately after the deadline for presentation of bids, and without any intervening time lag, and, during such public bid opening ceremony, bids shall be opened and read out in public, and in the presence of bidders' representatives who wish to attend.

(f) In all cases, the award shall be made to the lowest evaluated responsive and complying bid and, except with the prior approval of the Association, no negotiations shall take place with any bidder prior to the award, even when all bids exceed the cost estimates.

(g) In the case of all contracts with a duration in excess of 18 months, bidding documents shall allow for price adjustment formulae.

(h) Bidders, who disagree with arithmetic corrections made by the evaluating committee during the evaluation stage, shall not be allowed to withdraw their bids without forfeiting their bid security.

(i) The Association reserves the right to require that all contracts under national competitive bidding procedures financed by the Association, include a provision requiring suppliers and contractors to permit the Association to inspect their accounts and records relating the performance of the contracts and to have them audited by auditors appointed by the Association.

**B. Contracts for Consultants' Services**

(a) If negotiations with the selected consulting firm ranked first do not result in a contract, the Borrower shall terminate negotiations with that firm and immediately proceed to negotiate a contract with the second ranked firm.

(b) Subject to prior approval of the Association, price may be used as a factor in the evaluation of consultancy proposals.

## **SCHEDULE 4**

### **Implementation Program**

#### Project Management

1. The Borrower shall, throughout the period of implementation of the Project, maintain a steering committee with membership acceptable to the Association, including representation from, inter alia, the Borrower's Ministries of Planning, of Economy and Finance and of Health, responsible for providing oversight and direction for the reform of the health sector and the implementation of the Health Sector Strategic Plan; and for providing over all guidance in the implementation of the Project, including reviewing and approving the Annual Operational Plans referred to in paragraph 8 of this Schedule.

2. The Borrower shall throughout the period of implementation of the Project, maintain within MOH:

(a) a senior management group, under terms of reference acceptable to the Association, responsible for the overall management of the implementation of the Health Sector Strategic Plan and the Project; said Senior Management Group to be under the direction of a Project Director assisted by the Project Coordinator, with members representing the Directorates General for Administration and Finance and for Health, and the Department of Planning and Health Information of the Ministry of Health, with competent staff in sufficient numbers, and provided with adequate resources; and

(b) an implementation working group, under terms of reference acceptable to the Association, responsible for the daily coordination of Project activities among, inter alia, the operational units of MOH, the Borrower's agencies in charge of the various national infectious diseases control programs, and the operational units within the Project Provinces and Operational Districts; said Implementation Working Group to be under the direction of a Project Coordinator acceptable to the Association, with competent staff in sufficient numbers, and provided with adequate resources.

3. (a) The Borrower shall maintain a financial management group within the Department of Budget and Finance of the Ministry of Health, acceptable to the Association, responsible for, inter alia, budgeting, preparation of cash forecasts and financial monitoring reports, consolidation of central, provincial and district levels expenditures; said financial management group to be under the direction of a qualified and experienced financial management officer acceptable to the Association, with competent staff in sufficient numbers, and provided with adequate resources.

(b) For the purposes of strengthening the financial management capacity of staff of the financial management group, the Borrower shall, by no later than June 30, 2003, complete a program of training for such staff acceptable to the Association.

4. The Borrower shall:

(a) establish and thereafter maintain an internal audit function within MOH, satisfactory to the Association; and

(b) for this purpose, appoint an internal auditor and a core group of audit staff acceptable to the Association, under terms of reference satisfactory to the Association.

5. The Borrower shall:

(a) by no later than April 1, 2003, appoint a qualified and experienced financial advisor, acceptable to the Association, to the Director of MOH's Department of Budget and Finance, under terms of reference satisfactory to the Association; and

(b) by no later than June 30, 2003, complete a program of financial management training, acceptable to the Association, for all health service managers.

#### Project Implementation

6. The Borrower shall:

(a) carry out the Project in accordance with a project implementation plan satisfactory to the Association, which shall include, inter alia: (i) a financial management manual incorporating policy and procedures satisfactory to the Association regarding accounting, reporting and internal control mechanisms and procedures, including the management, control and auditing of the Special Account; (ii) criteria for the selection of primary health care facilities and first referral and provincial hospitals to be rehabilitated or to be constructed, including site, design type, utilization rate, population distribution in the catchment area, distance from the next available facility; (iii) policy and procedures for the execution of management contracts between the Project Provinces or the Operational Districts and health services management organizations, including for the selection of such organizations; (iv) policy and procedures for the execution of performance contracts between the Operational Districts and their respective health department staffs; (v) criteria for the selection of Operational Districts for the establishment of equity funds under Part A.2 (b) of the Project, and policy and procedures for the establishment of such funds; (vi) policy and procedures in regard to the execution of Health Management Plans between the Ministry of Health and the Project Provinces; (vii) measures required under the Ethnic Minorities Development Strategy, the Framework for Land Acquisition Policy and Procedures, the Environmental Management Plan and the Pesticide Management and Monitoring Plan; (viii) procurement procedures, as set forth in Schedule 3 to this Agreement; and (ix) monitoring requirements and processes, including monitoring by the beneficiaries, and reporting; and

(b) not amend, abrogate or waive any provision of said project implementation plan without the prior concurrence of the Association.

7. For purposes of the participation of the Project Provinces in the Project, MOH shall enter into a Health Management Agreement satisfactory to the Association with each Project Province. The Borrower shall take all necessary measures to ensure that:

(a) each Project Province perform its obligations under its respective Health Management Agreement and in accordance with the Project Implementation Plan referred to in paragraph 6 above;

(b) all Health Management Agreements are updated by not later than December 31 of each year, in such scope and detail as the Association may reasonable require; and

(c) expenditures for works or goods for any Project Province under Part A of the Project shall not be financed unless said Project Province has entered into its respective Health Management Agreement with MOH, satisfactory to the Association, covering the first year of Project implementation.

8. (a) By no later than April 30 of each year throughout the period of Project implementation, commencing in 2003, the Borrower shall carry out an annual review of its health sector with the participation of the Association, other international and bilateral donors involved in the sector, representatives of relevant agencies of the Borrower, including, inter alia, the Ministries of Social Affairs, of Women Affairs, and of Education, representatives of beneficiaries, and representatives of services providers, among other stakeholders.

(b) For this purpose, the Borrower shall, through MOH, by no later than two weeks prior to the scheduled review, provide to all participants in the annual review, a report on: (i) the performance of the health sector, using selected performance indicators and trends therein; (ii) progress in the implementation of policy measures and institutional reforms; (iii) progress in the implementation of the Institutional Capacity Building Plan, the Health Workforce Development Plan and the Infrastructure Development Plan, respectively referred to in paragraphs 10, 11 and 12 below; (iv) a procurement audit report and details of government budget and actual expenditures in the health sector for the preceding fiscal year; (v) a report on the purchase of medicines, reagents, consumables and vaccines necessary for the implementation of MPA and CPA at public health facilities and the funding for such purchase during the preceding fiscal year, and the plan for such purchase and the funding for such purchase for the current fiscal year; and (vi) a draft three-year rolling plan for health sector development, including therein detailed proposed activities, projected costs and resources for the first year of such rolling three-year period (the Annual Operation Plan).

9. Each year throughout the period of Project implementation, commencing in 2003, following the annual review referred to in paragraph 8 above, the Borrower shall, through MOH:

(a) revise the draft Annual Operational Plan for the following year, giving due consideration to the comments from said annual review thereon, and, by no later than May 31, provide to the Association for its review and comments, said revised draft Annual Operational Plan;

(b) by no later than July 31, finalize said Annual Operational Plan together with the accompanying three-year rolling plan taking into consideration the Association's view thereon;

(c) by no later than October 15, provide to the Association for its review and comments the final version of the Annual Operational Plan as approved by the Ministry of Economy and Finance; and

(d) thereafter, take all necessary actions to implement said Annual Operational Plan in a manner satisfactory to the Association.

10. For purpose of the annual review to be held in 2004, the Borrower shall, through MOH:

(a) prepare and by no later than April 30, 2004 provide to the Association and all participants in said annual review, a plan for strengthening the administration of health services (Institutional Capacity Building Plan) for the period 2004 through 2007, said Plan to include: a review of current and future administrative responsibilities at the central, provincial and district levels, revised organizational charts, numbers of professional profiles of core staff, and a training plan for developing capabilities;

(b) review said Institutional Capacity Building Plan with the Association and other annual review participants; and thereafter, take all necessary actions to implement said Plan taking into consideration the comments thereon from the annual review.

11. For purpose of the annual review to be held in 2004, the Borrower shall, through MOH:

(a) prepare and, by no later than April 30, 2004, provide to the Association and all participants in said annual review, a report on the implementation and results of its current Health Workforce Development Plan (1996-2005);

(b) prepare and, by no later than April 30, 2004, provide to the Association and all participants in said annual review, a draft Health Workforce Development Plan for the period from 2005 through 2013, said Plan to include: (i) measures to strengthen the deployment, management, supervision and training of health service providers in the public sector; and (ii) formulation of measures to address issues of salaries and incentives

for these civil servants, including proposals for a sector-wide solution or solutions to the issue of low salaries; and

(c) review said Health Workforce Development Plan with the Association and other annual review participants; and thereafter take all necessary actions to implement said Plan taking into consideration the comments thereon from the annual review.

12. For purpose of the annual review to be held in 2004, the Borrower shall, through MOH:

(a) prepare and, by no later than April 30, 2004, provide to the Association and all participants in said annual review, a health infrastructure development plan (Infrastructure Development Plan) and a maintenance plan (Maintenance Plan) for the period 2004 through 2007; said Infrastructure Development Plan to address the types of health facilities to be developed, their locations, the nature of civil works required therefor, and the anticipated staffing needs and equipment needs of such facilities; and said Maintenance Plan to address the maintenance of buildings, equipment and vehicles; and

(b) review said Infrastructure Development Plan and Maintenance Plan with the Association and all other annual review participants; and thereafter, take all necessary actions to implement said Plans taking into consideration the comments thereon from the annual review.

13. The Borrower shall, through MOH:

(a) for each fiscal year commencing in fiscal year 2003, allocate at least sixty percent (60%) of any increase over the preceding fiscal year of the budgetary allocation to recurrent expenditures in the health sector, to provincial and district hospitals and commune health centers, and to health programs which directly benefit the poor, including without limitations programs of health education and prevention;

(b) for purpose of the annual review to be held in 2004, review exemptions to cost recovery arrangements in the health sector; formulate cost recovery mechanisms designed to benefit the poor, acceptable to the Association; and take all necessary actions to implement the proposed mechanisms, taking into consideration the comments thereon from the annual review;

(c) by September 2006, evaluate various initiatives to improve the affordability of health services to the poor and, on the basis of such evaluation, mainstream the implementation of such arrangements in its health sector strategy; and

(d) in the allocation of the health sector budget to provinces and districts, develop a formula acceptable to the Association, which incorporates, inter alia, poverty



criteria acceptable to the Association, and disease burden, and commencing in fiscal year 2004, put into effect such formula.

14. The Borrower shall, for each of its fiscal years commencing in 2003 through 2007, propose to Parliament the allocation of at least ten percent (10%) of the national budget for public recurrent expenditures to recurrent expenditures in the health sector.

15. The Borrower, through MOH, shall ensure that:

(a) budgetary funds disbursed for actual salary and non-salary expenditures in the health sector shall be: (i) in fiscal years 2003 and 2004, no less than ninety percent (90%) of the amount allocated to such expenditures; and (ii) in fiscal years 2005 and 2006, no less than ninety-five percent (95%) of the amount allocated to such expenditures; and

(b) in each fiscal year commencing in 2003, at least fifty percent (50%) of budgetary funds allocated to the health sector shall have been disbursed by no later than September 30 of each such year.

16. In each fiscal year commencing in 2004 through 2007, the Borrower, through MOH, shall increase the budgetary allocation to programs of health education and health services consumer behavior, acceptable to the Association, by no less than ten percent (10%).

17. In respect of Operational Districts subject to health services delivery contracts, the Borrower, through MOH, shall:

(a) ensure that said Operational Districts receive budgetary allocations comparable to those of other Operational Districts which are not subject to health services delivery contracts; and

(b) ensure that said Operational Districts receive their budgetary share of civil service salaries, and receive on a timely basis necessary equipment and supplies of consumables, including increased supplies of necessary drugs to enable them to respond to increased utilization of public health facilities in said Districts.

18. By no later than April 30, 2004, the Borrower shall, through MOH, complete under terms of reference acceptable to the Association: (a) a feasibility study on the establishment of a central drug procurement unit, and (b) a feasibility study on mechanisms to ensure timely and adequate funding for the purchase of medicines, reagents, laboratory consumables and vaccines to allow the implementation and gradual expansion of MPA and CPA to all public health facilities; and provide the reports and recommendation of said studies to the Association for its review and comments.

Monitoring and Reporting

19. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by no later than April 30 and October 31 of each year, commencing October 31, 2003, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 19, on the progress achieved in the carrying out of the Project during the preceding calendar semester (with each report covering the last calendar semester of the year covering the entire year) 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) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by no later than April 30, 2005, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 19, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) promptly review with the Association each of the reports referred to in sub-paragraphs (b) and (c) of this paragraph 19, 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 each report and the Association's views on the matter.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4) and (5) 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 Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$1,700,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B)

deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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