

CONFORMED COPY

LOAN NUMBER 7395-PH

Loan Agreement

(National Sector Support for Health Reform Project)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 3, 2006

LOAN NUMBER 7395-PH

LOAN AGREEMENT

AGREEMENT, dated October 3, 2006, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower is committed to implementing its health sector reform program through issuing the Health Sector Reform Agenda dated December 1999, Administrative Order No.2005-0023, entitled "Implementing Guidelines for Formula One for Health as Implementation Framework for Health Reforms", dated August 30, 2005, and preparing the medium term Health Sector Expenditure Framework in 2006;

(B) for the project as described in Schedule 2 to this Agreement (the Project), the Borrower has approved the Project proposal (DBCC Resolution No.2006-2, dated April 4, 2006), which includes, among other things, certain of the Department of Health's national health reform and budget reform measures; and the Borrower's Philippine Health Insurance Corporation (PHIC) has adopted its Board Resolution No. 892, dated March 24, 2006, which includes PHIC's health insurance financing reform measures;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project, has requested the Bank to assist in the financing of the Project;

(D) the Borrower expects to receive from the European Commission (EC), a grant (the EC Grant) in an amount of one million Euro (€1,000,000) to assist in financing Part D.3 of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Bank as Administrator of those grant funds received from EC (the EC Trust Fund Grant Agreement); 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; and

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 Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”.

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Administrative Order No.2005-0023” means the administrative order No.2005-0023 issued by DOH, dated August 30, 2005, entitled “Implementing Guidelines for Formula One for Health as Implementation Framework for Health Reforms”.

(b) “Bangko Sentral ng Pilipinas” means the central bank of the Republic of the Philippines, and any successor thereto.

(c) “Convergence Provinces” means provinces designated by the Borrower as priority provinces for the implementation of its health sector reform program implementation plan, as described in DOH Administrative Order No.2005-0023, dated August 30, 2005, and “Convergence Province” means any of the “Convergence Provinces.”

(d) “Convergence Province Partner” means a Convergence Province which has been selected, with the concurrence of the Bank, to receive a Local Health System Reform Grant from the Borrower for the purpose of carrying out activities under Part D.2 of the Project pursuant to the provisions of paragraph 7 of Schedule 5 to this Agreement, and “Convergence Province Partners” means, collectively, the plural thereof. The use of this term shall not be construed as creating a legal partnership under any law.

(e) “DBM” means the Borrower’s Department of Budget and Management, and any successor thereto.

(f) “DOH” means the Borrower’s Department of Health, and any successor thereto.

(g) “Eligible Categories” means Categories set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(h) “Eligible Expenditures” means the expenditures for goods and consultants’ services referred to in Section 2.02 of this Agreement.

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

(j) “Fiscal Year” or “FY” means the Borrower’s fiscal year, which begins on January 1 and ends on December 31 of each year.

(k) “Health Sector Expenditure Framework” and the acronym “HSEF” mean a plan and projection of health expenditure, prepared by DOH and updated from time to time, for the following three (3) to five (5) Fiscal Years, including the planned expenditures for DOH and agencies attached to DOH; and other health sector expenditures included in the Borrower’s national budget, foreign assisted projects and programs in the health sector.

(l) “Health Sector Reform Agenda” means the Borrower’s comprehensive framework for sector-wide reforms in the financing and provision of health care, published by DOH in December 1999, and as further updated as of the date of this Agreement.

(m) “Indigenous Peoples” means social groups with a distinct social and cultural identity that makes them vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) a

close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from the national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

(n) “Indigenous Peoples Planning Framework” means the Indigenous Peoples planning framework dated March 29, 2006, duly adopted by DOH, which sets forth the measures, satisfactory to the Bank, to ensure that the health sector reform program supported by the Project adequately addresses the needs and cultural preferences of Indigenous Peoples and that Indigenous People participate in the benefit of the reform program under the Project.

(o) “Indigents” means households with income below a level defined by the Borrower from time to time through socio-economic surveys or means tests in accordance with the provisions of the National Health Insurance Act of 1995, February 14, 1995 (R.A.7875) as amended by R.A.9241, and “Indigent” means any of the “Indigents”.

(p) “Indigent Program” means the indigent program of NHIP to provide health insurance for Indigents, established by the National Health Insurance Act of 1995, February 14, 1995 (R.A.7875) as amended by R.A.9241, under which Indigents are subsidized partially by LGUs where said Indigents reside.

(q) “LGU” means a local government unit which is a political subdivision of the Republic of the Philippines at the provincial, city, municipal, or Barangay level, and “LGUs” mean, collectively, the plural thereof.

(r) “LGU Partner” means a provincial LGU, a municipal LGU or a city LGU which: (i) meets the eligibility criteria set forth in the Operational Manual for Performance-based Public Health Awards; and (ii) has been selected by DOH, with concurrence of the Bank, to receive the proceeds of a Performance-based Public Health Award; and “LGU Partners” means, collectively, the plural thereof. The use of this term shall not be construed as creating a legal partnership under any law.

(s) “Local Health Systems Reform Grant” means a grant made by the Borrower through DOH to a Convergence Province Partner out of the proceeds of the Loan to finance, in part, the carrying out of activities under Part D.2 of the Project, according to the provisions of paragraph 7 of Schedule 5 to this Agreement; and “Local Health Systems Reform Grants” means, collectively, the plural thereof.

(t) “National Contribution Subsidy for Indigents” means a payment made by the Borrower to PHIC to finance, in part, the health insurance premiums of Indigents enrolled in NHIP’s Indigent Program, in accordance with the provisions of the National Health Insurance Act 1995, February 14, 1995 (R.A.7875) as Amended by R.A.9241.

(u) “National Health Insurance Program” and “NHIP” mean the Borrower’s compulsory health insurance program established pursuant to the Borrower’s National Health Insurance Act of 1995 (R.A.7875), as amended by R.A.9241, for the provision of universal health insurance coverage and ensuring affordable, acceptable, available and accessible health care services for all citizens of the Philippines.

(v) “Operational Manual for Performance-Based Public Health Awards” means the manual referred to in paragraph 4 of Schedule 5 to this Agreement, as said manual may be amended from time to time with the prior agreement of the Bank.

(w) “Operational Manual for Local Health System Reform Grants” means the manual referred to in paragraph 6 of Schedule 5 to this Agreement, as said manual may be amended from time to time with the prior agreement of the Bank.

(x) “Performance-based Public Health Award” means a grant made by the Borrower through DOH to an LGU Partner out of the proceeds of the Loan in accordance with the provisions of paragraph 5 of Schedule 5 to this Agreement, and “Performance-based Public Health Awards” means, collectively, the plural thereof.

(y) “PHIC” means the Philippine Health Insurance Corporation, a tax-exempt government corporation attached to the DOH, established pursuant to the Borrower’s National Health Insurance Act of 1995, February 14, 1995 (R.A.7875), as amended by R.A.9241, and designated by the Borrower as a provider of health insurance services under Part A of the Project, and any successor thereto.

(z) “Procurement Plan” means the Borrower’s procurement plan, dated May 8, 2006, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(aa) “Project Operational Manual” and “POM” mean the manual, satisfactory to the Bank, to be adopted, maintained and implemented by the Borrower in accordance with paragraph 2 of Schedule 5 to this Agreement, as said manual may be amended from time to time with the prior agreement of the Bank.

(bb) “Qualified LGU” means an LGU which has been evaluated by PHIC as having adopted methods of identifying and validating lists of Indigents enrolled in the LGU’s Indigent Program acceptable to the Borrower and the Bank.

(cc) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement.

(dd) “Sectoral Management and Coordination Team” means the team referred to in paragraph 1(a) of Schedule 5 to this Agreement.

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

(ff) “Technical Coordination Group” means the group referred to in paragraph 1(b) of Schedule 5 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to each of the LGUs implementing the Project.

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 one hundred and ten million Dollars (\$110,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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:

- (i) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a National Contribution Subsidy for Indigents under Part A of the Project to meet the reasonable cost of services required for the carrying out of said Part of the Project and in respect of which the withdrawal from the Loan Account is requested;
- (ii) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Performance-based Public Health Award under Part B.2 of the Project, and in respect of which the withdrawal from the Loan Account is requested;
- (iii) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Local Health Systems Reform Grant under Part D.2 of the Project to meet the reasonable cost of goods and services required for the carrying out of said Part of the Project, and in respect of which the withdrawal from the Loan Account is requested;

- (iv) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, consultants' services, training, workshops, and operating costs required for Parts C, D1, and D.2 of the Project, and to be financed out of the proceeds of the Loan;
- (v) in respect of the front-end fee referred to in Section 2.04 of this Agreement; and
- (vi) any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) The Borrower may for the purposes of the Project, open and maintain in Dollars a separate special deposit account for purposes of Parts B, C, and D of the Project to be carried out by DOH ("Special Account"). Said special deposit account shall be opened and maintained in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 1 to this Agreement.

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

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay itself the amount of such fee.

Section 2.05. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the unwithdrawn loan balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other

obligations under the Loan Agreement, shall, through DOH, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, managerial, economic, financial and public health practices and sound environmental and social standards acceptable to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the execution of the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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. (a) Except as the Bank shall otherwise agree, procurement of the goods 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through DOH, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than six (6) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; 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: (i) through DOH, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project; and (ii) cause PHIC to maintain a financial management system, including records and

accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of the Project.

(b) The Borrower shall:

- (i) (A) through DOH have its financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank; and (B) cause PHIC to have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall, through DOH:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 9 of Schedule 5 to this Agreement, the Borrower shall, through DOH, prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in implementation of the Project, 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 Management Report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified, namely, that any of the Borrower's National Health Insurance Act of 1995, February 14, 1995 (R.A.7875), as amended by R.A.9241, the Health Sector Reform Agenda or its implementation framework as described in Administrative Order No.2005-0023 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Borrower, through DOH, has adopted the Project Operational Manual, acceptable to the Bank.

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

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

For the Borrower:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Blvd.
Manila, Philippines

Cable address:

SECFIN
Manila

Facsimile:

(63-2) 523-9216

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Facsimile:

(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 Manila, Republic of the Philippines, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By: /s/ Margarito Teves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) National Contribution Subsidy for Indigents under Part A of the Project	40,000,000	100% of the amount for National Contribution Subsidy for Indigents Disbursed for Qualified LGUs
(2) Goods under Part B.1 of the Project	38,000,000	100%
(3) Goods, consultants' services, training, workshops, and operating costs under Parts C, D.1 and D.2 of the Project	1,225,000	100%
(4) Performance-based Public Health Awards under Part B.2 of the Project	500,000	100% of the amount for Performance-based Public Health Awards Disbursed
(5) Local Health Systems Reform Grants under Part D.2 of the Project	10,000,000	100% the amount for Local Health Systems Reform Grants disbursed
(6) Front end fee	275,000	Amount due under Section 2.04 of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures To be Financed</u>
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement
(8) Unallocated	<u>20,000,000</u>	
Total	<u>110,000,000</u>	

2. For the purposes of this Schedule, the term “operating costs” means the reasonable expenditures directly related to the Project incurred by the Borrower, on account of Project implementation, management, coordination, and monitoring and evaluation, in respect of local travel costs, fuel, vehicle and equipment maintenance and repair, office supplies, communications costs, logistics and translation services, production and reproduction of documents required for Project implementation, including training materials, and allowances for doctors and other health professionals to address issues of deployment and shortage of doctors and other health professionals.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$10,000,000, may be made in respect of Category (2) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 30, 2006;

(b) payments made for any National Contribution Subsidy for Indigents under Category (1) set forth in the table in paragraph 1 of this Schedule, until the Borrower has caused PHIC to duly adopted an Indigent Program Support Implementation Manual for implementation of Part A of the Project, acceptable to the Bank;

(c) payments made for Performance-based Public Health Awards under Category (4) set forth in the table in paragraph 1 of this Schedule, until the Borrower, through DOH, has duly adopted an Operational Manual for Performance-based Public Health Awards, acceptable to the Bank; and

(d) payments made for Local Health Systems Reform Grants under Category (5) set forth in the table in paragraph 1 of this Schedule, until the Borrower, through DOH, has duly adopted an Operational Manual for Local Health Systems Reform Grants, acceptable to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) for services of individual consultants costing less than \$50,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) National Contribution Subsidy for Indigents; (e) training, workshops, and operating costs; (f) Performance-based Public Health Awards; and (g) Local Health Systems Reform Grants; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. Subject to the Bank's approval, the Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account, in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment, for the purpose of Parts B, C and D of the Project to be carried out by DOH.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$1,200,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$200,000 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 \$44,000,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) improving priority public health outcomes and increasing the utilization of health services by the poor in areas and for conditions or diseases subject to intervention under the Project; and (ii) increasing financial protection of Indigents from health care costs.

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: Health Financing

Expanding and sustaining PHIC's Indigent Program for providing health insurance to Indigents through the payment of National Contribution Subsidies for Indigents identified using acceptable, defined methods of identification or means testing.

Part B: Public Health Services

1. Purchase of Expanded Program of Immunization (EPI) vaccines (including hepatitis B vaccines), tuberculosis control drugs, laboratory supplies, HIV/AIDS drugs, micronutrients, and other related drugs and commodities (excluding pesticides), and information and education materials to support diseases prevention and control measures to eliminate (where feasible), or reduce and control infectious disease and micronutrient deficiencies.

2. Supporting the development of: (a) pilot service performance agreements between DOH and participating LGUs for carrying out Part B.1 of the Project; and (b) a pilot Performance-based Public Health Awards scheme for LGUs that meet or exceed the performance targets set forth in the above-mentioned service performance agreements.

Part C: Health Sector Regulation

Strengthening the capacity of the Borrower's Bureau of Food and Drugs in regulating the manufacture, importation and distribution of pharmaceuticals through the provision of technical assistance for improving its business processes and improving the services of its quality control laboratories.

Part D: Health Sector Governance Reform

1. Provision of support to assist in the implementation of DOH's health human resources reform strategies for addressing health sector workforce issues, in particular, measures to improve deployment of health professionals to rural areas, and shortage of doctors and other health professionals.
2. Provision of Local Health Systems Reform Grants to Convergence Province Partners to assist them in implementing the Borrower's health sector reform program implementation plan in the areas of local capacity building, and monitoring and evaluation, pursuant to a sector development approach, based on a province-wide investment plan for health in each province.
3. Strengthening DOH's capacity in the area of public financial management, internal audit, information management and procurement, through provision of training, technical assistance, and required computer hardware and software.

* * *

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

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each June 15 and December 15 Beginning December 15, 2014 through December 15, 2025	4.17%
On June 15, 2026	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each

Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

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

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

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

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

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

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Bank agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions in the Annex to this Schedule.

3. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

5. Procurement from UN Agencies. Vaccines and drugs regardless of cost may be procured directly from the United Nations Children's Fund (UNICEF), World Health Organization (WHO), or Inter-Agency Procurement Services of the United Nations (IAPSO) in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

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

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

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract to be procured pursuant to paragraph B.5 of Section II of this Schedule, regardless of its contract value; (b) each contract for goods estimated to cost the equivalent of \$500,000 or more; (c) the first three (3) contracts for goods (including contracts for services (other

than Consultants' Services), regardless of their contract value; (d) each contract for goods procured pursuant to paragraph B.4 of Section II of this Schedule, regardless of its contract value; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (f) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (g) each contract for consultants' services procured on a single source or sole source basis. All other contracts shall be subject to Post Review by the Bank.

**Annex
To
SCHEDULE 4**

National Competitive Bidding Procedures

With respect to goods, works and services (other than consultants' services) to be procured in accordance with the procedures referred to in paragraph 2 of Part B of Section II to Schedule 4, the National Competitive Bidding (NCB) procedures of the Borrower shall apply, except that, unless otherwise agreed by the Bank in writing, the following procedures shall be followed:

1. Eligibility screening shall not be applied. However, bids that do not contain any of the following documents will not pass the documentary compliance check: (a) evidence of the required financial, technical or production capability; (b) audited financial statements; (c) credit line, or cash deposit certificate; (d) bid security; and (e) authority of the bid signatory.
2. In the case of prequalification, if any bidder is denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall be sought.
3. A ceiling may be applied to bid prices, with prior concurrence of the Bank in advance of bidding. However, the Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.
4. Domestic or regional preferences will not be applied in the evaluation of bids, and other preferences in effect in the Philippines will not be used except with the prior concurrence of the Bank.
5. Suppliers and contractors will not be required to purchase only local goods or supplies or materials.
6. In case of contracts for prior review, modifications exceeding fifteen percent (15%) of contract amount and material changes in the conditions during implementation require prior Bank concurrence.
7. Foreign suppliers and contractors shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture with, local firms. Moreover, foreign bidders shall be allowed to bid, even without registration, licensing, and other government authorizations, leaving these requirements for after award and before signing of contract.
8. For works contract, the experience qualification requirement shall be: (a) at least one (1) previous contract at eighty percent (80%) of the estimated cost of the contract being procured; and (b) an annual turnover from all works averaged over the last

three (3) years equal to one hundred percent (100%) of the estimated cost of the contract being procured.

SCHEDULE 5

Implementation Program

Project Management

1. The Borrower shall maintain until completion of the Project:
 - (a) the Sectoral Management and Coordination Team within DOH, assigned with such functions, staff, and responsibilities for the Project, satisfactory to the Bank, to be responsible for providing overall management and coordination of implementation of the health sector reform program, including the activities supported by the Project; and
 - (b) the Technical Coordination Group within DOH, assigned with such functions, staff, and responsibilities for the Project, satisfactory to the Bank, to be responsible for providing technical leadership on a regular basis for implementation of the health sector reform program, including the activities supported by the Project.

Project Implementation

2. The Borrower shall, through DOH:
 - (a) adopt and thereafter implement the Project Operational Manual, acceptable to the Bank, which includes, *inter alia*: (i) implementation arrangements; (ii) financial management and audit procedures consistent with Article IV of this Agreement; (iii) a procurement manual with procurement arrangements consistent with Schedule 4 to this Agreement; (iv) the Indigenous People Planning Framework; (v) monitoring and evaluation procedures, which are to be coordinated with monitoring and evaluation procedures for the overall implementation of the health sector reform program; and (vi) guidelines for the preparation of annual updates of the budget for expenditures to be financed from the Loan proceeds and implementation of work programs of DOH; and
 - (b) not amend, abrogate, suspend, or waive any provision of said Project Operational Manual without the prior concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of said Manual, the provisions of this Agreement shall prevail.
3. Carrying out Part A of the Project, the Borrower shall cause PHIC to:
 - (a) adopt and thereafter the Indigent Program Support Implementation Manual, acceptable to the Bank, which includes, among other things, the following:
 - (i) guidelines, procedures, and methods to be followed by PHIC for evaluating whether LGUs have adopted methods of identifying

Indigents and for validating the lists of the Indigents enrolled by LGUs in the Indigent Program, acceptable to the Borrower and the Bank (Qualified LGUs);

- (ii) requirements for PHIC to submit quarterly to DBM, a billing statement, accompanied by specified supporting documentation, including that the Bank's approval is required for the list of LGUs evaluated as adopting acceptable methods of identifying Indigents mentioned in sub-paragraph (a) above, the validated list of the Indigents in said LGUs, the calculation of National Contribution Subsidy for Indigents payable, and the certificate of availability of funds or certification from PHIC of actual remittance of premiums from the listed LGUs, as a basis for approval of each payment of the National Contribution Subsidy for Indigents from the proceeds of the Loan;
- (iii) requirements for DBM to submit quarterly withdrawal applications to the Bank for payment of the National Contribution Subsidy for Indigents from the proceeds of the Loan, accompanied by the supporting documentation referred to in the sub-paragraph (ii) above;
- (iv) requirements for PHIC to submit a quarterly report to the Bank within six (6) weeks after the end of each quarter showing the statement of income of the Indigent Program, including the premium financed by the Loan proceeds, and an overall statement of income and expenses for each of its insurance group (including government and private sector employees, Indigents, individually paying members, and retiree members of the National Health Insurance Program). The report shall be on a cumulative basis with current quarter figures shown separately; and
- (v) requirements for PHIC to submit an actuarial underwriting report to the Bank for each Fiscal Year of Project implementation as a whole within four (4) months after the end of such Fiscal Year.

(b) not amend, abrogate, suspend, or waive any provision of said Indigent Program Support Implementation Manual without the prior concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of said Manual, the provisions of this Agreement shall prevail.

4. For carrying out health service delivery reforms, supported in part by Part B of the Project, the Borrower shall, through DOH:

(a) adopt and thereafter implement the Operational Manual for Performance-based Public Health Awards, acceptable to the Bank, which includes, *inter alia*: (i) criteria and methodology for determining whether an LGU is eligible for a Performance-based Public Health Award; (ii) implementation responsibilities of DOH and LGU Partners in the operation of the Performance-based Public Health Awards program; (iii) specification of eligible expenditures that may be financed from the proceeds of Performance-based Public Health Award; (iv) financial management and audit procedures consistent with Article IV of this Agreement; and (v) monitoring and reporting arrangements.

(b) not amend, abrogate, suspend, or waive any provision of said Operational Manual for Performance-based Public Health Awards without the prior concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of said Manual, the provisions of this Agreement shall prevail.

5. No LGU Partner shall be eligible for financing from the proceeds of the Performance-based Public Health Award, until the following conditions have been met: (a) DOH and the relevant LGU have entered into a service performance agreement, with terms and conditions acceptable to the Bank; and (b) the concerned LGU has met or exceeded the performance targets set forth in the above mentioned service performance agreement.

6. For carrying out health sector governance reforms, supported in part by Part D of the Project, the Borrower shall, through DOH:

(a) adopt and thereafter implement the Operational Manual for Local Health Systems Reform Grants, acceptable to the Bank, which includes, *inter alia*: (i) implementation responsibilities of the Convergence Province Partners; (ii) financial management and audit procedures consistent with Article IV of this Agreement; (iii) procurement arrangements consistent with Schedule 4 to this Agreement; (iv) monitoring and reporting arrangements; and (v) arrangements for coordination of local health systems reform implementation among all stakeholders, including DOH, PHIC, and other organizations providing official development assistance to the Convergence Provinces.

(b) not amend, abrogate, suspend, or waive any provision of said Operational Manual for Local Health Systems Reform Grants without the prior concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of said Manual, the provisions of this Agreement shall prevail.

7. No Convergence Province Partner shall be eligible for financing from the proceeds of the Local Health Systems Reform Grant until the Convergence Province Partner has entered into a memorandum of agreement (MOA) with DOH, with terms and conditions acceptable to the Bank, whereby DOH has obtained rights adequate to protect the interests of the Borrower and the Bank, including the rights to:

(a) require said Convergence Province Partner to carry out the activities under Part D.2 of the Project with due diligence and in accordance with the provisions of the Operational Manual for Local Health Systems Reform Grant;

(b) require said Convergence Province Partner to carry out the activities under Part D.2 of the Project in accordance with sound financial management standards and maintain adequate records;

(c) inspect, by itself, or jointly with representatives of said Convergence Province Partner, and representatives of the Bank, if the Bank shall so request, any relevant records and documents; and

(d) suspend or terminate the right of said Convergence Province Partner to the use of the proceeds of Local Health Systems Reform Grant upon failure to meet any of its obligations under its respective MOA.

Indigenous Peoples

8. The Borrower shall, through DOH:

(a) carry out the Project in accordance with principles and measures set forth in the Indigenous Peoples Planning Framework to ensure that the design and implementation of said activities adequately addresses the needs and cultural preferences of Indigenous Peoples; and

(b) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Indigenous Peoples Planning Framework, and the achievement of the objectives of said Framework; and thereafter include the results of such monitoring and evaluation activities in each report referred to in paragraph 9 below.

Project Monitoring and Reporting

9. The Borrower shall, through DOH:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and 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, the following reports:

(i) annual reports, not later than March 31 in each calendar year, beginning by March 31, 2007: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to sub-

paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project by it during the twelve-month period preceding the date of said report; and (B) 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

(ii) a mid-term report, by June 30, 2008, integrating: (A) the results of the monitoring and evaluation activities performed pursuant to sub-paragraphs (a) and (b)(i) of this paragraph, 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; and (B) the expenditure projections of the health sector based on the updated Health Sector Expenditure Framework for Fiscal Year 2009-2011 and the proposed reallocation of the Loan proceeds from the unallocated portion of the Loan for Fiscal Year 2009 and 2010.

(c) after furnishing:

(i) each report referred to in sub-paragraph (b)(i) of this paragraph 9, review said report with the Bank, and promptly thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and

(ii) the report referred to in sub-paragraph (b)(ii) of this paragraph 9, review said report with the Bank, by September 30, 2008, or such later date as the Bank shall request, 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.

SCHEDULE 6

Performance Indicators/Results Framework

Indicators	Target Values				
	2006	2007	2008	2009	2010
Increase in proportion of DOH budget allocated on the basis of criteria of need and performance (1)	0	At least 5% of existing maintenance and other operating expenses (MOOE), and at least 5% of any increment in DOH MOOE budget	At least 5% of existing MOOE, and at least 5% of any increment in DOH MOOE budget	At least 5% of existing MOOE, and at least 5% of any increment in DOH MOOE budget	At least 5% of existing MOOE, and at least 5% of any increment in DOH MOOE budget
Increase in number of development projects or programs using HSEF to plan and program their health sector support (1)	1 Foreign Assisted Project	10% of Fourmula 1 PPAs (programs, projects & activities)	30% of Fourmula 1 PPAs (cumulative)	70% of Fourmula 1 PPAs (cumulative)	100% of Fourmula 1 PPAs (cumulative)
Increase in number of LGUs identifying the poor using acceptable, defined methods of means testing and enrolling them in NHIP Indigent Program (2)	65 LGUs	311 LGUs (cumulative)	507 LGUs (cumulative)	993 LGUs (cumulative)	993 LGUs (cumulative)

Increase coverage rate of fully immunized children above baseline	At least 3 percentage points increase	At least 5 percentage points increase	At least 7 percentage points increase	At least 9 percentage points increase	At least 10 percentage points increase
Increase TB case detection rate	72%	74%	78%	At least 80%	At least 80%
Increase TB cure rate	81%	83%	85%	At least 85%	At least 85%
Evidence of a statistically significant improvement (wherever feasible) or validation by an alternative scientific method of improvement, in prevention, diagnosis or treatment rates in participating LGUs for diseases or conditions subject to performance agreements and grants	0	0	5 LGUs	10 LGUs (cumulative)	15 LGUs (cumulative)
LGU scorecard implemented and scores improve in convergence sites	Scorecard methodology and guidelines completed and disseminated by end of year	Scorecard implemented and data issued by end of year	Mid-term evaluation finds progress in scores		End of term evaluation finds further progress in scores

Significant quantified reductions in date-expiry, stock-outs and losses of public health commodity stocks at defined levels in supply chain	Quarterly reporting on inventory & method of forecasting quantities required of public health commodities satisfactory to the Bank in place	Baseline data on stock levels and losses produced and targets agreed for years 3-5	Targets agreed in year 2 met	Targets agreed in year 3 met	Targets agreed in year 4 met
Full compliance with the Borrower's procurement law and standards, monitored using agency procurement benchmark indicators	DOH procurement manual completed	DOH procurement manual implemented	Processing lead times fully met	Agency indicators maintained or improved	Agency indicators maintained or improved
eNGAS roll out; quarterly reports to managers on performance against plan and budget under GAA program structure	eNGAS training in 16 regions; installation of eNGAS to 8 regions; reporting formats agreed	installation of eNGAS to 8 regions; reporting formats used	eNGAS roll out completed; quarterly reports initiated	Quarterly report generated from eNGAS	Quarterly report generated from eNGAS
IA staff trained; annual IA plan of scheduled audits implemented; updating and improvement in agency IA benchmark indicators	IA conducted for 2006; IA plan developed for 2007	At least 50% IA staff trained; 2007 IA plan implemented	2008 IA plan implemented	2009 IA plan implemented	At least 80% IA staff trained; 2010 IA plan implemented