

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4737 TU

Loan Agreement

(Health Transition Project)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 11 , 2004

Public Disclosure Authorized



LOAN NUMBER 4737 TU

LOAN AGREEMENT

AGREEMENT, dated June 11, 2004, between the REPUBLIC OF TURKEY (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated March 10, 2004 from the Minister of Health of the Republic of Turkey and a letter dated March 5, 2004 from the Minister of Labor and Social Security of the Republic of Turkey on behalf of the Borrower describing a program of actions, objectives and policies designed to improve the governance, efficiency, user and provider satisfaction, and long-term fiscal sustainability of the health care system (the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested the Bank's support in the execution of the Program through a series of two (2) loans over a period of approximately seven (7) years to be utilized by the Borrower for implementing the Program;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), with the following modification set forth below, constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower

shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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

(b) “Fiscal Year” means the twelve-month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(c) “Inter Agency Steering Committee” or “IASC” means the committee established to provide inter-agency coordination, oversight and policy guidance for overall implementation of the Project and referred to in paragraph 2 of Section A of Schedule 5 to this Agreement;

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

(e) “MOLSS” means the Borrower’s Ministry of Labor and Social Security;

(f) “National Advisory Board” means the board established by the MOH to provide guidance on the overall implementation of the Program;

(g) “Operational Manual” means the manual adopted by the MOH and MOLSS and setting forth the procedures and rules related to Project implementation;

(h) “PIU” means each of the Project Implementation Unit established within the MOH and MOLSS, responsible for day to day Project management and coordination, and the term “PIUs” means said project implementation units collectively;

(i) “PMSU” means the Project Management and Support Unit established within the MOH responsible for overall Project management and supervision.;

(j) “Pilot Sub-projects” means the sub-projects to be financed by the MOH and MOLSS under Parts C.1, C.2, C.3 and E of the Project through provision of goods and consultants’ services to pilot family medicine based primary health care, hospital autonomization, the referral system, and infostructure;

(k) "Population Health Grants" means grants made or proposed to be made out of the proceeds of the Loan under Part C.4 of the Project to support initiatives to prevent disease and promote population health;

(l) "School of Public Health" means the school of public health of the Borrower established pursuant to the General Hygiene Law dated December 30, 1940 (Law No. 3959); and

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to forty nine million four hundred thousand Euro (€49,400,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, services, training and incremental operating costs required for the Project and to be financed out of the proceeds of the Loan; (ii) amounts paid (or, if the Bank shall so agree, amounts to be paid) on account of withdrawals under a Population Health Grant to meet the reasonable cost of goods and services required under Part C.4 of the Project in respect of which the withdrawal from the Loan Account is requested; and (iii) in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special account in its Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

(b) For the purposes of this Section:

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

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

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

notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Parts A, C, D, E.1 and F of the Project through the MOH and Parts B, D.1, E.2 and F of the Project through the MOLSS with due diligence and efficiency and in conformity with appropriate health, administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation 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, through the PMSU, shall 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.

(b) The Borrower, through the PMSU, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the 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 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 such 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 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 statements of expenditure, the Borrower, through the PMSU, shall:

- (i) retain, and ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations specified in paragraphs 7 and 8 of Section C of Schedule 5 to this Agreement, the Borrower, through the PMSU, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

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

(b) The first FMR 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 event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of Treasury 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:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek-Ankara
Republic of Turkey

Cable address:	Telex:	Facsimile:
HAZINE Hazine, Ankara	44232 HZM-TR or 44404 HZM-TR	(312) 212-8550

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD 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 Ankara, Republic of Turkey, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ İbrahim Çanakçı

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 85% of local expenditures for other items procured locally
(a) under Parts A, B C, D.1, E and F of the Project	2,050,000	
(b) under Part D.2 of the Project	350,000	
(2) Consultants' services	23,750,000	78%
(3) Training	15,650,000	100%
(4) Population Health Grants under Part C.4 of the Project	1,630,000	100% of amounts disbursed
(5) Pilot Sub-projects under Parts C.1, C.2, C.3 and E of the Project	700,000	80%
(6) Incremental operating costs		
(a) under Parts A, B and F of the Project	500,000	80%
(b) under Part D.2 of the Project	150,000	50%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euros)</u>	<u>% of Expenditures to be Financed</u>
(7) Fee	494,000	Amount due under Section 2.04 of this Agreement
(8) Unallocated	<u>4,126,000</u>	
TOTAL	<u>49,400,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “training” means expenditures incurred to finance the cost of workshops, training materials, rent for training facilities, training fees, tuitions and related travel expenditures, accommodation and per diem allowances provided to the participants in such training, and the cost of study tours abroad; and

(d) the term “incremental operating costs” means expenditures incurred to finance the reasonable and necessary incremental expenses incurred by the Borrower, through the PMSU, PIUs, the School of Public Health, the National Advisory Board and the fund for health insurance and other units established under the Project on account of Project implementation, management and monitoring, including office equipment and supplies, maintenance of equipment, utilities, communication, the cost of advertisement for procurement under the Project, travel expenses, accommodation and per diem during field trips of the staff of the above listed entities, workshops for project launch and implementation; provided, however, that such expenditures shall have been previously budgeted and agreed with the Bank in the MOH’s and MOLSS’s annual budget.

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

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

(b) expenditures under Category (1) (b) of this Schedule unless the Law on the School of Public Health, satisfactory to the Bank, has been enacted;

(c) expenditures under Category (4) of this Schedule unless the operational and administrative procedures in respect of the preparation, approval, processing, financing, implementation and supervision of Population Health Grants, satisfactory to the Bank, have been adopted by the MOH, and Population Health Grants are made in accordance with such terms and conditions; and

(d) expenditures under Category (5) of this Schedule unless the Pilot Sub-project has been approved by the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, under contracts costing less than \$100,000 equivalent each, but excluding those referred to in paragraph 2 (b) (i) of Part D of Section I of Schedule 4 to this Agreement; (ii) services of consulting firms under contracts costing less than \$200,000 equivalent each; (iii) services of individual consultants under contracts costing less than \$50,000 equivalent each; (iv) training; and (v) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to strengthen the institutional environment for the implementation of the Program that will improve system stewardship, streamline financing and service delivery, and build the institutional capacity to extend health insurance coverage to the whole population in a fiscally sustainable manner.

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: Restructuring of the MOH for Effective Stewardship

1. Restructuring of the MOH

Carrying out the reorganization of the functional and administrative structure of the MOH, through the provision of executive management and in-service training and technical assistance for building the MOH's strategic planning capacity and designing and implementing a public awareness campaign.

2. Establishment of the National Pharmaceuticals and Medical Devices Agency

Support for the establishment of a national agency for pharmaceuticals and medical devices, including the development of its legislative and regulatory framework through the provision of technical assistance, training and equipment.

3. Quality Assurance and Accreditation of Health Facilities

Development of an accreditation and licensing system, including the establishment of a unit within the MOH, identification of the in-service training needs and accreditation of the National Hygiene Laboratory through provision of training, technical assistance and office equipment.

4. Establishing Monitoring and Evaluation Capacity

Establishment of a monitoring and evaluation framework for the Program, including the establishment of a unit within the MOH and strengthening of its institutional capacity through provision of technical assistance, training, goods and incremental operating costs.

Part B: Building Capacity of the Health Insurance and Social Security Institutions

Support for the establishment of a national health insurance fund and social security institutions and strengthening of their institutional capacity, including the development of the legislative and regulatory framework, assessing and projecting medium and long term costs and revenues for the universal health insurance, developing new provider payment systems for family physicians and hospitals, and carrying out training programs on health insurance functions through provision of technical assistance, goods, training and incremental operating costs.

Part C: Reorganizing the Delivery of Health Care Services

1. Introducing Family Medicine for Primary Health Care

Design and development of a family medicine based primary health care organization, including definition of task profiles for family physicians, piloting the family medicine based primary health care model through financing Pilot Sub-projects, and identifying resource needs for full scale implementation through provision of technical assistance, training and goods.

2. Autonomization of Public Hospitals

Development of an autonomous hospital model, including the carrying out of the assessment of the current financial management capacity of the public hospitals, projection of future resource needs, designing of accounting, performance monitoring models and a financing plan, piloting the autonomization of hospitals through financing Pilot Sub-projects, and provision of technical assistance and training.

3. Development of an Effective Referral System

Design and development of a registration system for referral and counter-referral, including the preparation of guidelines for patient referral and the incentive mechanisms for compliance, identifying the roles and responsibilities of the family physicians, assessing their training needs, implementing a public education campaign through provision of technical assistance and training and piloting the referral system through financing Pilot Sub-projects.

4. Strengthening Population Health

Carrying out of programs to strengthen the health of the population, including the assessment of health and service needs and identification of resources, improving the disease surveillance system, implementing innovative demand driven population health programs, and provision of Population Health Grants for disease prevention and health promotion.

Part D: Strengthening Human Resources Capacity

1. Health and Social Security Human Resources Policy and Planning

Support for the establishment of an inter agency working group and developing projections for long term human resources needs and identification of training and other capacity building needs through provision of technical assistance and training.

2. Strengthening the School of Public Health

Development of training courses in health management and administration, health economics and financing, flagship programs, rational drug use and epidemiological intelligence system, and population health and establishment of a training facility and library within the School of Public Health through provision of technical assistance, training, goods and incremental operating costs.

Part E: Infostructure for Health and Social Security

1. Building the Health Information System

Development of a health information system through the establishment of data architecture and platform, system design, developing and pilot testing of software through financing Pilot Sub-projects and assessment of training needs through provision of technical assistance, training and equipment.

2. Building the Social Security Information System

Development of a social security information system through the establishment of data architecture and platform, system design, developing and pilot testing of software through financing Pilot Subprojects and assessment of training needs through provision of technical assistance, training and equipment.

Part F: Project Management

Establishment and strengthening of the institutional capacity of the PMSU and the PIUs to support Project management and coordination through provision of technical assistance, training, office equipment and incremental operating costs.

* * *

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

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Euro)*</u>
November 15, 2008	1,610,000
May 15, 2009	1,630,000
November 15, 2009	1,655,000
May 15, 2010	1,675,000
November 15, 2010	1,695,000
May 15, 2011	1,720,000
November 15, 2011	1,740,000
May 15, 2012	1,765,000
November 15, 2012	1,785,000
May 15, 2013	1,810,000
November 15, 2013	1,830,000
May 15, 2014	1,855,000
November 15, 2014	1,880,000
May 15, 2015	1,905,000
November 15, 2015	1,930,000
May 15, 2016	1,955,000
November 15, 2016	1,980,000
May 15, 2017	2,005,000
November 15, 2017	2,030,000
May 15, 2018	2,055,000
November 15, 2018	2,080,000
May 15, 2019	2,110,000
November 15, 2019	2,135,000
May 15, 2020	2,165,000
November 15, 2020	2,190,000
May 15, 2021	2,210,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

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

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which should be procured as an extension of an existing contract, or must be purchased from the original supplier to be compatible with existing equipment or which are of a proprietary nature such as software licenses and library materials may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods to be awarded in accordance with the provisions of Part B of this Section I the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contracts for goods to be awarded in accordance with the provisions of Parts C.1 and C.2 of this Section I; and (ii) each contract for goods to be awarded in accordance with the provisions of Part C.3 of this Section I, the following procedures shall apply:

- (aa) prior to the selection of any supplier and the execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (bb) prior to the execution of any contract procured under direct contracting or shopping, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (cc) 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 and training shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services and in-service training shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for construction supervision and monitoring and evaluation, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services under Parts A.1, A.2, A.4 and D.2 and E.2 of the Project 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 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Parts B, C.1, C.4 and D.2 of the Project estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants under Parts A.1, A.2, A.3, C.2, D.2 and F of the Project and 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.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more; and (ii) each contract for the employment of consulting firms to be selected in accordance with the provisions of Part C.1 of this Section II, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be

furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply; provided, however, that prior review and approval by the Bank shall still apply to the terms of reference for each such contract.

SCHEDULE 5

Implementation Program

Section A: Institutional Arrangements

1. The PMSU shall have the overall responsibility for Project management and supervision. The PMSU shall be headed by a project manager, selected jointly by the MOH and MOLSS, with qualifications and under terms of reference satisfactory to the Bank. PIUs shall be in charge of day to day Project management and coordination. To that end, the Borrower, through the MOH and MOLSS, shall maintain the PMSU and the PIUs throughout Project implementation under terms of reference satisfactory to the Bank and with sufficient and suitable human, financial and technical resources.

2. The Borrower shall maintain the IASC, throughout the implementation of the Project, comprising two representatives from the MOH and the MOLSS, a representative from the State Planning Organization and the Undersecretariat of Treasury and chaired by a representative from the MOH, to provide inter-agency coordination, oversight and policy guidance for overall implementation of the Project.

Section B: Project Implementation Arrangements

3. The Borrower shall ensure that the Project shall be implemented in accordance with the Operational Manual. The Borrower shall maintain the Operational Manual in form and content satisfactory to the Bank, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Bank.

4. The Borrower shall ensure that the Population Health Grants under Part C.4 of the Project are made in accordance with terms and conditions, and the beneficiaries of such Population Health Grants are selected, in accordance with criteria as agreed by the Bank. The PIU within the MOH shall conclude an agreement with the beneficiaries in the form as agreed by the Bank, including, *inter alia*:

- (a) a description of the sub-project, together with an estimate of the cost thereof;
- (b) the amount of the Population Health Grant to be provided to assist in the carrying out of the sub-project;
- (c) the implementation schedule for the sub-project;

- (d) the obligation of the beneficiary to procure goods and services to be financed under the Population Health Grant in accordance with the procedures agreed with the Bank;
- (e) the obligation of the beneficiary to report to the MOH on the progress of sub-project implementation and to enable the representatives of the MOH, the PIU and of the Bank, if the Bank shall so request, to visit the sub-project site;
- (f) the obligation of the beneficiary to maintain records and accounts for expenditures incurred under the sub-project and to submit to the PIU at regular intervals statements with respect to such records and accounts; and
- (g) agreement of the beneficiary to have the Population Health Grant be suspended or terminated upon the beneficiary's failure to perform the obligations set forth in the agreement.

5. The Borrower shall ensure that the Pilot Sub-projects under Parts C.1, C.2, C.3 and E of the Project are carried out in accordance with terms and conditions set forth in the Operational Manual.

6. For the purposes of the training consisting of workshops, seminars and study tours to be provided under the Project, the Borrower, through the PMSU, shall:

- (a) furnish to the Bank for its approval, the content of each such training, including an explanation on how such training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;
- (b) select the trainees in accordance with a transparent process and criteria satisfactory to the Bank;
- (c) not later than July 31 of each year, exchange views with the Bank on the training to be carried out during the following calendar year; and
- (d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training and the benefits to be derived therefrom.

Section C: Project Reporting Arrangements

7. The Borrower, through the MOH and MOLSS, shall:

(a) without limitation upon the provisions of Section 9.07 of the General Conditions, not later than June 30 and December 31 in each calendar year, commencing on December 31, 2004, and until Project completion, cause the PMSU to prepare and submit to the Bank for its review, a progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with evolving parameters acceptable to the Bank, the progress achieved by the Borrower in the implementation of the Project and the Program during the preceding six (6) month period; and

(b) not later than July 31 in each calendar year, commencing on July 31, 2005, and until the completion of the Project, carry out a review together with the Bank and other relevant third parties, of the progress in the carrying out of the Program and implementation of the Project during the preceding twelve (12) month period, and thereafter, take all measures required to carry out the measures resulting from the recommendations agreed upon by the Bank to ensure the efficient carrying out of the Program and implementation of the Project and the achievement of the objectives thereof during the twelve (12) month period following such date.

8. The Borrower, through the MOH and MOLSS, shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by March 31, 2006 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the Program 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

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$2,000,000 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 \$10,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

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

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to

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

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

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

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