

CONFORMED COPY

LOAN NUMBER 4408 LV

Loan Agreement

(Health Reform Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated November 25, 1998

LOAN NUMBER 4408 LV

LOAN AGREEMENT

AGREEMENT, dated November 25, 1998, between REPUBLIC OF LATVIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated September 16, 1998, from the Borrower describing a two-phased program of policies and actions (the Program) designed to achieve reforms in the Borrower's health sector, and declaring the Borrower's commitment to implementation of the Program;

(B) the Borrower has requested the Bank to support the execution of the two phases of the Program through extension to the Borrower of Loans up to the equivalent of \$32,000,000 over a period of seven (7) years;

(C) to assist in financing the Project, the Borrower intends to obtain from the Swedish International Development Agency (Sida) a Grant in the amount of \$2,000,000 equivalent (the Sida Grant) under an arrangement (the Sida Grant Arrangement) to be agreed upon between the Borrower and Sida;

(D) the Borrower intends to cause its Ministry of Finance and its Ministry of Welfare to enter into arrangements regulating the use of the loan proceeds to be made available under this Agreement as well as the repayment thereof; and

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Central Fund" means the State Compulsory Health Insurance Central Fund, a separate health insurance fund managed by MOW;
- (b) "CHSMT" means the Center for Health Statistics and Medical Technology established under MOW, or any successor thereto;
- (c) "Deutsche Mark" and "DEM" means the lawful currency of the Federal Republic of Germany;
- (d) "MOW" means the Ministry of Welfare of the Borrower;
- (e) "PCU" means the Project Coordination Unit; established under MOW;
- (f) "PHC" means primary health care within the Borrower's health care system;
- (g) "Pilot Operation Agreement" means the agreement referred to in Section 3.01 (d) of this Agreement;
- (h) "RSF" means any of the Regional Sickness Funds, incorporated as a municipal limited-liability company or managed by the Central Fund;
- (i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (j) "Steering Committee" means the committee established under the chairmanship of the Borrower's Minister of Welfare to be responsible for overall management of the Project; and
- (k) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Central Fund pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time with the Bank's concurrence, and such term includes all schedules to the Subsidiary Loan Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty-one million seven hundred fifteen thousand Deutsche Mark (DEM 21,715,000).

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

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

Section 2.03. The Closing Date shall be December 31, 2001, 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 said 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in accordance with the provisions of Schedule 3 to this Agreement.

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOW and PCU with due diligence and efficiency and in conformity with appropriate financial, administrative and health care standards, 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.

(c) For the purposes of Part A of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Categories (1) (a) and (2) (a) of the table in paragraph 1 of Schedule 1 to this Agreement to the Central Fund under a subsidiary loan agreement to be entered into between the Borrower of the Central Fund (the Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Bank. Except as the Bank shall otherwise agree, such terms and conditions shall include the following:

(i) the principal amount of the subsidiary loan shall be repaid by the Central Fund to the Borrower in semi-annual installments over the same period specified for repayment of the Loan according to Schedule 3 to this Agreement; and

(ii) the Central Fund shall pay:

(A) a commitment charge on the unwithdrawn amount of the Subsidiary Loan at the same rate for commitment charge on the Loan according to Section 2.05 of this Agreement; and

(B) interest on the amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate payable by the Borrower from time to time on the Loan pursuant to

Section 2.06 of this

Agreement.

(d) For the purposes of Part B (3) (iv) of the Project, the Borrower, acting through an appropriate instrumentality, shall:

(i) conclude, on terms which shall have been agreed upon with the Bank, an agreement with relevant municipalities or hospitals in the Latgale Region or any other region agreed upon with the Bank (the Pilot Operation Agreement) whereby the proceeds of the Loan allocated from time to time to Categories 1 (b) and 2 (b) of the table in paragraph 1 of Schedule 1 to this Agreement shall be made available to such municipalities or hospitals on terms and conditions which shall have been agreed upon with the Bank; and

(ii) exercise its rights under the Subsidiary Agreement and the Pilot Operation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or the Pilot Operations Agreement or any provision thereof.

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

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project and the Program; 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 establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Loan

Account were made on the basis of statements of expenditure, the Borrower shall:

- (a) of this (i) maintain or cause to be maintained, in accordance with paragraph Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02 (a) the Borrower shall cause the Central Fund to maintain records in accordance with sound accounting practices to adequately reflect its operations and financial condition.

(b) The Borrower shall cause the Central Fund to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, or such scope and in such detail as the Bank shall have reasonably requested;
- (iii) provide the Bank, within two (2) months of furnishing the audit report referred to in the preceding paragraph (ii), with a statement as to the comments, if any, contained in said report and the action to be taken by the Central Fund to address such comments; and
- (iv) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

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

- (a) a situation shall have arisen, which shall make it improbable that the Program or a significant part thereof will be carried out;
- (b) Central Fund regulations shall have been amended, suspended, abrogated, repealed or waived without the Bank's concurrence, so as to affect materially and adversely the ability of the Central Fund to perform any of its obligations under the Project;
- (c) the Sida Grant Arrangement shall have failed to become effective by June 30, 1999, or such later date as the Bank may agree; provided, however, that the

provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(d) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower established to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) the event specified in Section 5.01 (b) of this Agreement; or

(b) the event specified in Section 5.01 (a) (i) of this Agreement (subject to the proviso of subparagraph (ii) thereof) shall occur.

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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Central Fund.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
1 Smilsu Street
Riga, LV-1919
Latvia

Facsimile:

371 7820010

For the Bank:

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

United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF LATVIA

By /s/ Ojars Kalnins

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President
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:

Category	Amount of the Loan Allocated (Expressed in DEM Equivalent)	% of Expenditures to be Financed
(1) Works:		85%
(a) Part A of the Project	65,000	
(b) Part B.3 (iv) of the Project	1,626,000	
(c) Other Parts of the Project	542,000	
(2) Goods:		100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) Part A of the Project	6,324,000	
(b) Part B.3 (iv) of the Project	904,000	
(c) Other Parts of the Project	1,626,000	
(3) Consultants' services and	8,673,000	100%

	training		
(4)	Fee	215,000	Amount due under Section 2.04 of this Agreement
(5)	Unallocated	1,740,000	
	TOTAL	21,715,000	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) under Categories (1) (b) and (2) (b) until the Pilot Operation Agreement has been concluded in accordance with the provision of Section 3.01 (d) of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than DEM 530,000 equivalent each; (b) services of consulting firms under contracts costing less than DEM 175,000 equivalent each; and (c) services of individual consultants under contracts costing less than DEM 85,000 each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project constitutes a part of the Program, and has the objective of improving financial management of the health sector and developing a framework for restructuring health services.

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

Part A: Reform of Health Care Financing

1. Establishment of an appropriate policy framework for managing revenues and expenditures of the health financing system including: (i) development of a model for state budget allocation for health; (ii) development of a model for health care services payment; (iii) review of the health services entitlement packages; and (iv) establishment of an appropriate legal and operational framework for the Central Fund and the RSFs.

2. Strengthening of the capacity of the Central Fund and the RSFs, including: (i) renovation of the Central Fund's building; (ii) training of staff and managers at the Central Fund, RSFs and other groups operating in the health insurance system; (iii) strengthening of the medical and financial audit system; and (iv) strengthening of the public relations function of the health insurance system.

3. Establishment of an initial country-wide health management information system.

Part B: Health Care Services Restructuring

1. Strengthening the capacity for formulation and implementation of health investment policies, including: (i) preparation of Investment Procedures Guidelines for MOW; (ii) assistance to CHSMT in the development of health technology assessment

capacity; (iii) development of methodology for and training in the appraisal of health investment projects; and (iv) development of a model legal framework for hospitals for accessing investment funds.

2. Implementation of measures for Reform of PHC, including: (i) development for MOW of a legal/operational framework for general practitioners; (ii) training of general practitioners and other PHC professionals; and (iii) establishment of PHC pilot practices in selected areas.

3. Support of hospital restructuring through: (i) preparation of regional health services masterplans; (ii) implementing hospital management training program; (iii) implementing emergency medicine training program; (iv) implementing a pilot hospital restructuring operation in RSFs in the Latgale region, or any other region agreed upon with the Bank.

4. Implementation of measures in support of public health reform, including: (i) development of a survey function to measure key health status determinants; (ii) regular reporting on national public health status and development of a national public health strategy; (iii) training of staff of public health institutions; (iv) establishment of a framework for debate/study of public health issues and policies, including discussion of appropriate regulatory acts; and (v) implementation of selected health promotion programs.

Part C: Health Reform Communication Strategy

Implementation of measures to gain public acceptance of and support for health reform activities included in the Program.

Part D: Project Management

Provision of technical services, materials and equipment to assist MOW and PCU in project management and implementation.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

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

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

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

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

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

B. Interest

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

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

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

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

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

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

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Deutsche Mark for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

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

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

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

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

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

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

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

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

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed

Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

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

C. Repayment

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

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after February, 15, 2014, the Borrower shall also pay on said date the aggregate amount of all such installments.

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

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

Part B: International Competitive Bidding

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

2. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto, related to preference for domestically manufactured goods, shall apply to goods manufactured in the territory of the Borrower and procured in accordance with the provision of paragraph 1 of this Part B.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works under the Project estimated to cost less than \$500,000 shall be procured under contracts awarded on the basis of national competitive procedures in accordance with the provision of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts

awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines.

(b) Goods estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (a) each contract for goods and works to be procured in accordance with the procedures referred to in Part B of this Schedule; and (b) the first contract to be procured in accordance with the procedures referred to Parts C.1 and C.2 of this Schedule; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection under a Fixed Budget

Services under Parts B and D 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 3.5 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

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

3. Post Review

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

SCHEDULE 5

Implementation Program

Part A: Management of Project Implementation

1. The Borrower shall assign the general responsibility for management of Project implementation to MOW which shall, for this purpose:

(a) maintain the Steering Committee until Project Completion and assign to it the overall responsibility for Project management; and

(b) maintain the PCU until Project Completion with such staff and resources as shall be required for the PCU to perform the following functions under the Project:

(i) coordination of the activities of various entities involved in Project implementation;

(ii) coordination and supervision of the Preparation of bidding and contract documents under the Project, including coordination of the recruitment of foreign and local consultants required for Project implementation;

(iii) technical monitoring of Project progress, on the basis of indicators set forth in the Program;

(iv) maintenance of the project financial records and accounts and arranging for the audit thereof; and

(v) preparation and furnishing to the Bank, starting in February 1999, of semi-annual reports on the progress of Project implementation, measuring actual progress against the targets set

forth in the Program.

2. The Borrower shall ensure in the preparation of the draft budget to be submitted for Parliamentary approval: (a) that the proposed allocations for health expenditures in the fiscal year 1999 (excluding external financing and patient fees) shall increase by not less than 17% in nominal terms over such allocations for the fiscal year 1998; (b) that the proposed allocations for health expenditures (excluding patient fees) for the fiscal year 2000 and thereafter shall account for not less than 10% of the revenue estimate in the state basic budget and that allocations for health investments shall be included in the draft special health insurance budget; and (c) that not less than 28.4% of the estimated income tax revenues shall be allocated in the draft budgets for the three fiscal years 1999, 2000 and 2001 for health care services.

3. For purposes of Part A.1 (iv) of the Project, the Borrower shall: (a) by June 30, 1999, prepare and furnish to the Bank, for its review and comments, draft regulations for the re-establishment of the Central Fund as a financially and operationally autonomous entity, and (b) thereafter enact such regulations, taking into account the Bank's comments thereon, in accordance with a time-schedule satisfactory to the Bank.

4. The Borrower shall maintain a specialist on the design and operation of management information systems and a working group within the Central Fund to assist such specialist in the establishment of the country-wide management information system for the health sector, referred to in Part A.3 of the Project.

5. For purposes of Part B.2 (ii) of the Project the Borrower, acting through MOW, shall employ by March 31, 1999, an institution for re-training of general practitioners under procedures and terms of reference acceptable to the Bank.

6. For purposes of Part B.3 (ii) of the Project the Borrower, acting through MOW, shall employ by March 31, 1999, an institution for development and implementation of hospital management training under procedures and terms of reference acceptable to the Bank.

Part B: Monitoring and Evaluation

The Borrower shall:

(1) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Program, the carrying out of the Project and of measures included in the Program;

(2) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Part B, 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

(3) review with the Bank, by March 15, 2001, or such later date as the Bank shall request, the report referred to in paragraph (2) of this Part, and, thereafter, take all measures required to ensure the efficient carrying out 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 views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out

of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to DEM 1,900,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the 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 equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice

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

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

(b) If the Bank shall have determined at any time that any amount outstanding in 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.

