

CONFORMED COPY

CREDIT NUMBER 3075 CHA

Development Credit Agreement

(Basic Health Services Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 1998

CREDIT NUMBER 3075 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 12, 1998, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit

Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997) (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, wherever used in this Agreement, 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) "Allocated Amount" means, in respect of each Project Province, an amount of the Credit allocated by the Borrower to said Project Province and to be utilized by said Project Province for purposes of carrying out its Respective Part of the Project.

(b) "Anhui" means the Borrower's Province of Anhui and any successor thereto.

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

(d) "Chongqing" means the Borrower's Municipality of Chongqing, and any successor thereto.

(e) "CMS" means, in respect of a Project County, the cooperative medical financing system to be developed under Part A(6) of the Project in selected townships of said county.

(f) "County Health Resource Plan" means, in respect of each Project County of a Part A Province, the five-year health resource plan to be developed by said Project County under Part A(1) of the Project.

(g) "Expert Team" means, in respect of each Project Province, the team of experts to be established and maintained by said Project Province in accordance with the provisions of Section II, Part A.1(b) of the Annex to Schedule 4 to this Agreement.

(h) "Gansu" means the Borrower's Province of Gansu, and any successor thereto.

(i) "Guizhou" means the Borrower's Province of Guizhou, and any successor thereto.

(j) "Health Program" means, in respect of each Project County in a Project Province, the specific program of activities under the Project which is to be carried out in said county utilizing part of the proceeds of said province's respective Allocated Amount.

(k) "Henan" means the Borrower's Province of Henan, and any successor thereto.

(l) "Implementation Agreement" means, in respect of each Project Province, the agreement to be entered into between the Borrower and said Project Province in accordance with the provisions of Part B.1 of Schedule 4 to this Agreement, as the same may be amended from time to time.

(m) "MFA Program" means, in respect of a Project County, the medical financial assistance program to be established in said county under Part A(7) or Part B(2) of the Project.

(n) "MOH" means the Borrower's Ministry of Health, and any successor thereto.

(o) "National Experts Panel" means the panel of experts to be established and maintained by the Borrower in accordance with the provisions of Part A.2 of Schedule 4 to this Agreement.

(p) "National Health Policy" means the Borrower's national health policy, set forth in the Decision of the Central Committee of the Chinese Communist Party and the State Council on Health Reform and Development dated January 15, 1997, to improve the quality, equity and efficiency of health services provided in the Borrower's territory.

(q) "Ningxia" means the Borrower's Autonomous Region of Ningxia, and any successor thereto.

(r) "Part A Provinces" means, collectively, the Borrower's Provinces of Qinghai, Henan, Guizhou, Gansu, Anhui and Shanxi, and the Borrower's Municipality of Chongqing, and any successor to any of said provinces and municipality; and "Part A Province" means any of the Part A Provinces.

(s) "Part B Provinces" means, collectively, the Borrower's Provinces of Shaanxi and Sichuan, and the Borrower's Autonomous Region of Ningxia, and any successor thereto; and "Part B Province" means any of the Part B Provinces.

(t) "Project Counties" means, in respect of each Project Province, those counties in said province in which Health Programs are proposed to be carried out; and "Project County" means any of the Project Counties.

(u) "Project Provinces" means, collectively, Anhui, Chongqing, Gansu, Guizhou, Henan, Ningxia, Qinghai, Shaanxi, Shanxi and Sichuan; and "Project Province" means any of the Project Provinces.

(v) "Qinghai" means the Borrower's Province of Qinghai and any successor thereto.

(w) "Respective Part of the Project" means, in respect of each Project Province, the Health Programs to be carried out in its Project Counties, and the activities to be carried out by it under Part A(8) or B(3) of the Project, and in respect of the Borrower, Parts A(8)(a) and B(3)(a) of the Project.

(x) "Respective Special Account" means, in respect of each Respective Part of the Project, the Special Account for said Part.

(y) "Shaanxi" means the Borrower's Province of Shaanxi, and any successor thereto.

(z) "Shanxi" means the Borrower's Province of Shanxi, and any successor thereto.

(aa) "Sichuan" means the Borrower's Province of Sichuan and any successor thereto.

(bb) "Special Accounts" means, collectively, the 11 accounts referred to in Section 2.02(b) of this Agreement; and "Special Account" means, individually, any of the Special Accounts.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixty-three million Special Drawing Rights (SDR 63,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may open and maintain in Dollars, 11 separate special deposit accounts, one for each Respective Part of the Project, in one or more commercial banks acceptable to the Association, and on terms and conditions acceptable to the Association, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the

Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 2008 and ending April 15, 2033. Each installment to and including the installment payable on April 15, 2018 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A(8)(a) and B(3)(a) of the Project through MOH, shall cause the Part A Provinces to carry out Parts A(1) through A(7) of the Project and Part A(8)(b) thereof directly or through their Project Counties, and shall cause the Part B Provinces to carry out Parts B(1) and B(2) of the Project and Part B(3)(b) thereof directly or through their Project Counties, all with due diligence and efficiency and in conformity with appropriate health, economic, financial, administrative, technical and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the actions set forth in Schedule 4 to this Agreement in order to ensure the proper implementation of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. 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 Association and furnish to Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

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

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

(i) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of a Special Account was made, all records (contracts, orders,

invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) ensure that said 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 expenditures submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Any Project Province shall have failed to perform any of its obligations under the Implementation Agreement to which it is a party.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project Province will be able to perform its obligations under the Implementation Agreement to which it is a party.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01(a) of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) Implementation Agreements have been executed between the Borrower and at least four Project Provinces; and

(b) The National Experts Panel has been established and the members of said panel have been appointed in accordance with the provisions of Part A.2 of Schedule 4 to this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Implementation Agreement with each of the Project Provinces referred to in Section 6.01(a) of this Agreement has been duly authorized or ratified by the Borrower and said Project Province and is legally binding upon the Borrower and said Project Province in accordance with its respective terms.

Section 6.03. 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
Sanlihe, Beijing 100820
People's Republic of China

Cable address:

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Zhaoxing

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) For Anhui's Respective Part of the Project:		
(a) Civil Works	2,188,000	55%
(b) Goods (excluding supplies and materials under Program Support)	2,834,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost), and 75% of local expenditures

			for other items procured locally
	(c) Consultants' services and training	1,435,000	100% for consultants; and 70% for training
	(d) Program Support	1,495,000	85%
	(e) Unallocated	599,000	
(2)	For Chongqin's Respective Part of the Project:		
	(a) Civil Works	1,655,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	2,535,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services and training	1,337,000	100% for consultants; and 70% for training
	(d) Program Support	1,438,000	85%
	(e) Unallocated	524,000	
(3)	For Gansu's Respective Part of the Project:		
	(a) Civil Works	1,731,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	2,200,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services and training	1,248,000	100% for consultants; and 70% for training
	(d) Program Support	1,331,000	85%
	(e) Unallocated	490,000	
(4)	For Guizhou's Respective Part of the Project:		
	(a) Civil Works	1,775,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	2,810,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost), and 75% of local expenditures for other items

			procured locally
	(c) Consultants' services and training	1,422,000	100% for consultants; and 70% for training
	(d) Program Support	1,433,000	85%
	(e) Unallocated	560,000	
(5)	For Henan's Respective Part of the Project:		
	(a) Civil Works	1,750,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	3,476,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services and training	2,155,000	100% for consultants; and 70% for training
	(d) Program Support	812,000	85%
	(e) Unallocated	617,000	
(6)	For Qinghai's Respective Part of the Project:		
	(a) Civil Works	1,388,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	1,381,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services and training	745,000	100% for consultants; and 70% for training
	(d) Program Support	1,266,000	85%
	(e) Unallocated	360,000	
(7)	For Shanxi's Respective Part of the Project:		
	(a) Civil Works	1,216,000	55%
	(b) Goods (excluding supplies and materials under Program Support)	1,709,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally

	(c) Consultants' services and training	835,000	100% for consultants; and 70% for training
	(d) Program Support	964,000	85%
	(e) Unallocated	357,000	
(8)	For Ningxia's Respective Part of the Project:		
	(a) Civil Works	121,000	40%
	(b) Goods (excluding supplies and materials under Program Support)	682,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services and training	195,000	100% for consultants; and 90% for training
	(d) Program Support	233,000	80%
	(e) Health Services	239,000	90% of expenditures incurred in calendar years 1998 and 1999; 60% of expenditures incurred in calendar years 2000 and 2001; and 30% of expenditures incurred thereafter
	(f) Unallocated	80,000	
(9)	For Shaanxi's Respective Part of the Project:		
	(a) Civil Works	444,000	40%
	(b) Goods (excluding supplies and materials under Program Support)	1,422,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services (excluding Health Services) and training	422,000	100% for consultants; and 90% for training
	(d) Program Support	781,000	80%
	(e) Health Services	560,000	90% of expenditures incurred in calendar years 1998 and 1999; 60% of expenditures incurred in calendar years 2000 and 2001; and 30% of expenditures

		incurred thereafter
	(f) Unallocated	191,000
(10)	For Sichuan's Respective Part of the Project:	
	(a) Civil Works	600,000 40%
	(b) Goods (excluding supplies and materials under Program Support)	2,286,000 100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(c) Consultants' services (excluding Health Services) and training	736,000 100% for consultants; and 90% for training
	(d) Program Support	948,000 80%
	(e) Health Services	603,000 90% of expenditures incurred in calendar years 1998 and 1999; 60% of expenditures incurred in calendar years 2000 and 2001; and 30% of expenditures incurred thereafter
	(f) Unallocated	277,000
(11)	The Borrower's Respective Part of the Project:	
	(a) Consultants' services and training for Part A(8)(a) of the Project	1,791,000 100%
	(b) Consultants' services and training for Part B(3)(a) of the Project	300,000 100%
	TOTAL	63,000,000

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; provided that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said Region shall be deemed to be "foreign expenditures";

(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 "Program Support" means logistical support, medical supplies (excluding vaccines), non-medical supplies and materials, transportation, accommodations and allowances for staff, but excluding staff salaries, all as required by personnel at all levels in carrying out the Project; and

(d) the term "Health Services" means services provided by health service providers under Part B(2) of the Project, the cost of which is determined on the basis of unit costs acceptable to the Association.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 6,000,000 may be made: (i) on account of payments made for expenditures under Part A of the Project before the date of this Agreement but after February 1, 1998; and (ii) on account of payments made for expenditures under Part B of the Project before the date of this Agreement, but after November 1, 1997; and

(b) expenditures under a Project Province's Respective Part of the Project, unless and until the Association shall have notified the Borrower and said Project Province of its receipt of evidence satisfactory to it that an Implementation Agreement has been entered into between the Borrower and said Project Province and that said Implementation Agreement has been duly authorized or ratified by the Borrower and said Project Province and is legally binding upon the Borrower and said Project Province in accordance with its terms.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for:

(a) works under contracts costing less than \$300,000 equivalent each (other than those referred to in Section I, Part D.2(a) of Schedule 3 to this Agreement);

(b) goods under contracts costing less than \$30,000 equivalent each;

(c) consulting services (including Health Services) under contracts awarded to consulting firms costing less than \$100,000 equivalent each;

(d) consulting services (including Health Services) under contracts awarded to individual consultants costing less than \$50,000 equivalent each;

(e) training; and

(f) Program Support; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in providing quality health care on a sustainable basis to all people in poor rural areas of the Project Provinces, consistent with the policies and objectives of the National Health Policy.

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

Part A:

Carrying out of culturally appropriate programs of activities to improve, within each Part A Province, the health sector planning, health infrastructure and institutional capabilities in the health sector, to improve the quality and effectiveness of health services provided in said province, and to introduce effective and efficient financing mechanisms to ensure affordability of health services for its population, said programs to consist of the following:

(1) Development and implementation in each Project County of the Part A Provinces of five-year health resource plans covering the entire county, and provision of training to health officials to strengthen their capabilities in preparation and implementation of such plans.

(2) Construction, rehabilitation and equipping of township health facilities in each Project County of the Part A Provinces, and development and implementation of maintenance and repair programs for said facilities, including provision of training required therefor; all in a manner consistent with said county's County Health Resource Plan.

(3) Development and application of improved health management information systems in each Project County of the Part A Provinces, including provision of equipment and training required therefor.

(4) Development and introduction within each Project County of the Part A Provinces of: (a) appropriate policies and procedures for the provision and oversight of health services, and the referral of patients, at the village, township and county levels; (b) appropriate policies and procedures applicable to each health facility in said county for case management of common health problems, for infection control and for X-ray safety; (c) lists of essential drugs which may be prescribed by health personnel so as to reduce dangerous or excessive prescription of drugs; and (d) a system of visiting services to be provided by clinical experts at the township level.

(5) Development and implementation in each Project County of the Part A Provinces of a program of cost-effective, health interventions appropriate for the health conditions of said county, with a particular emphasis on maternal and child health care, tuberculosis control, immunization, and control of other diseases of local significance, said program to include mechanisms to ensure the affordability of the services provided thereunder; and provision of equipment and training required therefor.

(6) Development and introduction of cooperative medical financing systems in selected townships in the Project Counties of the Part A Provinces, designed to ensure the provision of quality health services to families living in said townships on an affordable and sustainable basis.

(7) Development and implementation of a medical financial assistance program for each township in which a health facility is proposed to be constructed or rehabilitated under Part A(2) of the Project and for other selected townships in Project Counties of the Part A Provinces, to cover part of the costs of providing essential selected health services to the poorest families living in said townships.

(8) Strengthening of the: (a) Borrower's capabilities in respect of national-level oversight (including monitoring, evaluation and survey analysis) and financial management of Part A of the Project; and (b) the Part A Provinces' capabilities in respect of provincial-level appraisal and management (including monitoring, evaluation and survey analysis and financial management) of their Respective Parts of the Project, through the provision of consultants' services, and the development and provision of training programs for personnel responsible for such activities.

Part B:

(1) Development and implementation in each Project County of each of the Part B Provinces, of culturally appropriate programs of health activities, consisting of: (a) maternal and child health programs, including safe motherhood and childhood disease prevention programs; (b) immunization programs to improve coverage of childhood immunization and provide tetanus immunization for women of child bearing age; and (c) priority disease intervention programs, with a particular focus on tuberculosis control, childhood deworming, iodine deficiency disorders control, and control of other diseases of local significance.

(2) Development and implementation of a medical financial assistance program in each Project County of the Part B Provinces, to cover part of the costs of providing essential health care and inpatient services to the poorest families living in said townships.

(3) Strengthening of: (a) the Borrower's capabilities in respect of national-level oversight (including monitoring, evaluation and survey analysis) and financial management of Part B of the Project; and (b) the Part B Provinces' capabilities in respect of provincial-level management (including monitoring,

evaluation and survey analysis) of their Respective Parts of the Project, through the provision of consultants' services and development and provision of training programs for personnel responsible for said oversight and management.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

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 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 \$300,000 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, excluding the Hong Kong Special Administrative Region.

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding

Except as provided in Part C.1(b) and C.1(c) of this Section I, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$26,600,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(c) Force Account

Minor repairs and works which meet the requirements of paragraph 3.8 of the Guidelines, and are estimated to cost less than \$25,000 equivalent per assignment, up

to an aggregate amount not to exceed \$4,130,000 equivalent, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

2. Goods

(a) Limited International Bidding

Drugs for tuberculosis treatment estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, and goods, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

(b) National Competitive Bidding

Goods (excluding vehicles and drugs for tuberculosis treatment) estimated to cost less than \$300,000 equivalent per contract but not less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$13,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines

(c) National Shopping

Goods (excluding vehicles, drugs for tuberculosis treatment, ophthalmic and other specialized medical equipment) estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$3,650,000 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.

(d) Direct Contracting

Goods which (i) should be procured as an extension of an existing contract, or (ii) must be purchased from the original supplier to be compatible with existing equipment, or (iii) are of a proprietary nature, or (iv) must be procured from a particular supplier as a condition of a performance guarantee and costing \$1,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association 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 Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) Subject to the provisions of paragraph (b) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to the following contracts:

(i) in each calendar year, the first two contracts for works, regardless of the cost thereof, procured by each Project Province for which invitations to bid are issued in that calendar year;

(ii) each contract for works estimated to cost the equivalent of \$300,000 or more; and

(iii) each contract for goods to be procured in accordance with the provisions of Part B, Part C.2(a) or Part C.2(b) of this Section I.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any of the contracts referred to in subparagraph (i) thereof are to be procured under small works procedures in accordance with the provisions of Part C.1(b) of this Section I, the following procedures shall apply:

(i) prior to the selection of any contractor under such procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under such procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of 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 this Section.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for design of buildings under Part A(2) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants Qualifications

Services (other than those referred to in Section 1 of this Part C) 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. Service Delivery Contractors

Services to be provided by health workers or medical personnel under Parts A(5), B(1) and B(2) of the Project shall be in procured in accordance with procedures acceptable to the Association.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 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 Association 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 Association 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 Association, 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 \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of 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 Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, the terms of reference of each consultant to be employed under Parts A(8)(a) and B(3)(a) of the Project shall be furnished to the Association for its prior review and approval.

3. Post Review

With respect to each contract not governed by paragraph 2(a) or 2(b) of this Part, and subject to the provisions of paragraph 2(c) of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Project Management

In order to facilitate the proper carrying out of the Project, the Borrower shall take the following actions.

1. The Borrower shall at all times maintain throughout the period of Project implementation, with terms of reference, composition and resources acceptable to the Association:

(a) a Project leading group, to be responsible for policy coordination under the Project; and

(b) a Project management office, to be responsible for oversight of the Project and coordination among the Project Provinces.

2. The Borrower shall establish and thereafter at all times maintain throughout the period of Project implementation, a panel of experts, with terms of reference, membership and resources acceptable to the Association, to be responsible for (a) providing technical advice to the Project Provinces and Project Counties in the development and implementation of their Health Programs, (b) reviewing the County Health Resource Plans and the annual action plans of the Project Provinces and of selected Project Counties, referred to in Part D of this Schedule and (c) assisting in carrying out the monitoring activities referred to in Part D of this Schedule.

B. Implementation Agreements

1. For purposes of carrying out the Project, the Borrower shall make available to each Project Province the latter's respective Allocated Amount on the principal terms set forth in the Annex to this Schedule, and on conditions which shall be acceptable to the Association and shall be set forth in an implementation agreement to be entered into between the Borrower and said Project Province in accordance with the provisions of said Annex.

2. The Borrower shall: (a) cause each Project Province to perform, in accordance with the provisions of the Implementation Agreement to which said province is a party, all of the obligations of said province therein set forth; (b) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said province to perform such obligations; and (c) not take or permit to be taken any action which would prevent or interfere with such performance.

3. The Borrower shall: (a) exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit; and (b) except as the Association shall otherwise agree, not assign, amend, abrogate or waive any Implementation Agreement or any provision thereof.

C. National Level Activities

(a) In order to ensure the proper implementation of Parts A(8)(a) and B(3)(a) of the Project, the Borrower shall prepare an annual action plan for such activities, in accordance with guidelines acceptable to the Association, and furnish said plan to the Association not later than November 15 in each calendar year.

(b) The Borrower shall afford the Association a reasonable opportunity to exchange views with the Borrower on each said plan, and thereafter, take all measures necessary to carry out said activities in accordance with said plan, taking into account the views of the Association on the matter.

D. Annual Action Plans; Monitoring and Reporting

1. The Borrower shall maintain policies and procedures, and shall ensure that each Project Province and Project County shall maintain policies and procedures, adequate to enable each of them to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof.

2. The Borrower shall ensure that annual and semi-annual progress reports and mid-term reports in respect of the carrying out the Project, and annual action plans for the implementation of the Project, are prepared, in accordance with guidelines acceptable to the Association, as follows.

(a) Annual Progress Reports

(i) After the end of each calendar year, each Project County shall prepare and furnish to its Project Province, an annual report which: (A) summarizes the monitoring and evaluation activities carried out by it pursuant to paragraph 1 of this Part D in respect of said calendar year; and (B) sets out measures recommended to ensure the efficient continuation of its Health Program and to further the objectives of its Health Program during the then current calendar year.

(ii) After the end of each calendar year, each Project Province shall, promptly upon receipt of said annual reports from its Project Counties, prepare and furnish to the Borrower an annual report which: (A) sets forth an evaluation of the Health Programs carried out by its Project Counties and includes a copy of selected Project Counties' annual reports; (B) summarizes the monitoring and evaluation activities relating to its Respective Part of the Project, carried out by it pursuant to paragraph 1 of this Part D in respect of said calendar year; and (C) sets out the measures recommended to ensure the efficient carrying

out of its Respective Part of the Project and to further the objectives of its Respective Part of the Project during the then current calendar year.

(iii) The Borrower shall, promptly upon receipt of the annual reports from the Project Provinces for the previous calendar year, but in any event not later than April 30 in each calendar year, prepare and furnish to the Association, an annual report which: (A) sets forth an evaluation of the Respective Parts of the Project carried out by the Project Provinces and their Project Counties, and includes a copy of said Project Provinces' annual reports; (B) summarizes the monitoring and evaluation activities carried out by it pursuant to paragraph 1 of this Part D in respect of said previous calendar year; and (C) sets out the measures recommended to ensure the efficient carrying out of the Project, and to further the objectives thereof, during the then current calendar year.

(b) Semi-annual Progress Reports and Annual Action Plans

(i) Each Project County in a Part A Province shall prepare and furnish to its Project Province, a report, during the second semester of each calendar year which: (A) summarizes the monitoring and evaluation activities carried out by it pursuant to paragraph 1 of this Part D in respect of the first calendar semester of said year; (B) sets out measures recommended to ensure the efficient carrying out of its Health Program during the then current calendar semester; and (C) sets forth an action plan for the implementation of its Health Program during the following calendar year.

(ii) (A) During the second semester of each calendar year, each Part A Province shall, promptly upon receipt of said reports from its Project Counties, prepare and furnish to the Borrower a report which: (1) sets forth an evaluation of the Health Programs carried out by its Project Counties during the first semester of said year based on said reports; (2) summarizes the monitoring and evaluation activities relating to its Respective Part of the Project, carried out by it pursuant to paragraph 1 of this Part D in respect of said first semester; (3) sets out measures recommended to ensure the efficient carrying out of its Respective Part of the Project during the then current semester; and (4) sets forth an action plan for the implementation of its Respective Part of the Project during the following calendar year, based in part on the action plans furnished to it by its Project Counties.

(B) During the second semester of each calendar year, each Part B Province shall prepare and furnish to the Borrower, an annual implementation plan for training activities proposed to be carried out by it under its Respective Part of the Project and for civil works proposed to be carried out by its Project Counties during the following calendar year.

(iii) The Borrower shall, promptly upon receipt of said reports from the Project Provinces, but in any event not later than November 15 in each calendar year, prepare and furnish to the Association, a report which: (A) sets forth an evaluation of the Respective Parts of the Project carried out by the Part A Provinces and their Project Counties, based on the reports furnished by the Project Provinces; (B) summarizes the monitoring and evaluation activities carried out by it pursuant to paragraph 1 of this Part D in respect of said calendar year; (C) sets out the measures recommended to ensure the efficient carrying out of Part A of the Project, and to further the objectives thereof, during the then current calendar year; and (D) includes an action plan for the implementation of the Project during the following

calendar year, which summarizes the action plans
furnished to it by the Project Provinces and sets forth any
revisions proposed by the Borrower thereto.

(c) Mid-term Reports

(i) Each Project County shall prepare and furnish to its Project Province, not later than August 15, 2001, a mid-term report which: (A) summarizes the monitoring and evaluation activities carried out by it pursuant to paragraph 1 of this Part D from the inception of its Health Program; and (B) sets out the measures recommended to ensure the efficient completion of its Health Program and to further the objectives of its Health Program.

(ii) Each Project Province shall prepare and furnish to the Borrower promptly upon receipt of the mid-term reports from its Project Counties, but in any event not later than September 15, 2001, a mid-term report which: (A) summarizes the monitoring and evaluation activities carried out by it and its Project Counties pursuant to paragraph 1 of this Part D from the inception of its Respective Part of the Project; and (B) sets out the measures recommended to ensure the efficient completion of its Respective Part of the Project and to further the objectives of its Respective Part of the Project.

(iii) The Borrower shall prepare and furnish to the Association promptly upon receipt of the mid-term reports received from the Project Provinces, but in any event not later than October 15, 2001, a mid-term report which: (A) summarizes the monitoring and evaluation activities carried out by it, the Project Provinces and the Project Counties, pursuant to paragraph 1 of this Part D from the inception of the Project; (B) includes copies of the mid-term reports furnished to it by the Project Provinces; and (C) sets out the measures recommended to ensure the efficient completion of the Project and to further the objectives thereof.

3. After furnishing each said report, the Borrower shall afford the Association a reasonable opportunity to exchange views with the Borrower, the Project Provinces and the Project Counties on said report, and thereafter, the Borrower shall:

(a) promptly take and cause each Project Province and Project County to take all measures in relation to said report that apply to said entity, as shall have been agreed between the Borrower and the Association; and

(b) in respect of each action plan for a given year furnished to the Association pursuant to paragraph 2(b) of this Part D, carry out and ensure that the Project Province and Project County concerned shall carry out such action plan for the implementation of the Project in said administration's jurisdiction during said year as shall have been agreed between the Borrower and the Association.

Annex to SCHEDULE 4

IMPLEMENTATION AGREEMENTS

For the purposes of Part B.1 of Schedule 4 to this Agreement, the terms of availability of each Allocated Amount shall be those set forth in Section I of this Annex, and the Implementation Agreements shall be entered into on the conditions set forth in Section II of this Annex.

I. Terms of Availability of the Respective Allocated Amounts

A. The principal amount of the Allocated Amount made available to each Project Province which shall be recovered by the Borrower from said Project Province:

(a) shall be the equivalent in terms of SDR (determined as of the date, or respective dates, of withdrawal from the Credit Account) of the value of the currency

or currencies so withdrawn on account of the cost of goods and services required for said Project Province's Respective Part of the Project, and to be financed out of the proceeds of the Credit (the SDR Amount); and

(b) shall be recovered by the Borrower in dollars in an amount equivalent to the SDR Amount (determined as of the date or respective dates of repayment).

B. The Borrower shall recover from each Project Province said province's respective SDR Amount in semi-annual installments payable over a period of 17 years, inclusive of a grace period of 5 years.

C. The Borrower shall collect from each Project Province interest on said province's respective Allocated Amount withdrawn and outstanding from time to time, at a rate equal to or less than one and one tenth of one percent (1.1%) per annum.

II. Implementation Agreements with Project Provinces

Each Implementation Agreement with a Project Province shall contain provisions pursuant to which said Project Province shall be obligated to carry out the actions applicable to it set forth in Part D of Schedule 4 to this Agreement and to carry out the following actions.

A. Management of Each Project Province's Respective Part of the Project

1. Part A Provinces

In order to facilitate the implementation of its Respective Part of the Project, each Part A Province shall maintain throughout the period of Project implementation, with terms of reference, composition and resources acceptable to the Association:

(a) a Project management office, to be responsible for management at the provincial level of its Respective Part of the Project; and

(b) a team of experts, to provide technical support to its Project Counties in the implementation of their Health Programs.

2. Part B Provinces

In order to facilitate the implementation of its Respective Part of the Project, each Part B Province shall maintain a Project management office throughout the period of Project implementation, with terms of reference, composition and resources acceptable to the Association, to be responsible for management at the provincial level of its Respective Part of the Project.

B. General Implementation of the Project Province's Respective Part of the Project

1. The Project Province shall carry out its Respective Part of the Project with due diligence and efficiency, and in conformity with appropriate health, economic, financial, administrative, technical and environmental practices, and provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

2. Without limitation upon the foregoing, if any Health Program included in its Respective Part of the Project would involve the involuntary resettlement of persons, the Project Province shall ensure that all such persons shall be resettled prior to the implementation of said Health Program in accordance with a resettlement plan approved by the Association, which shall have been designed on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Association, so as to improve the living standards and production levels of said persons.

3. The Project Province shall ensure that: (a) the goods, works and services required for its Respective Part of the Project (including its Project Counties' Health Programs) and to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement; (b) said goods shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be

made payable in a currency freely usable by the purchaser thereof to replace or repair such goods; and (c) said goods, works and services shall be utilized exclusively for the purpose of carrying out its Respective Part of the Project.

4. The Project Province shall enable the Borrower and the Association to examine all goods, facilities, sites and works included in its Respective Part of the Project (including its Project Counties' Health Programs), the operation thereof, and any relevant records and documents.

5. The Project Province shall ensure that any facilities, equipment and other property relevant to its Respective Part of the Project (including its Project Counties' Health Programs) shall at all times be operated and maintained, and that all necessary repairs and renewals thereof shall be promptly made, as needed, all in accordance with sound engineering, financial, administrative and public health practices.

C. Financial Reporting

1. Each Project Province shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its Respective Part of the Project of the departments or agencies of said province responsible for carrying out its Respective Part of the Project or any part thereof.

2. Each Project Province shall:

(a) have the records and accounts referred to in paragraph 1 of this Part C, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

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

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

D. Project County Health Programs

1. Eligibility

Each Project Province shall ensure that an appraisal of each program of activities proposed to be carried out by a Project County within its jurisdiction and to be included in the Project as a Health Program, shall be carried out in accordance with guidelines acceptable to the Association. Each such program shall qualify as a Health Program eligible for financing out of the proceeds of the Credit only if and to the extent said Project County shall have demonstrated to the satisfaction of the Borrower and the Association, on the basis of said appraisal, that the conditions set forth below in this Section 1 have been met and the Association shall have communicated to the Borrower its approval of said Health Program.

(a) National Health Policy

The Project County has adopted a strategy designed to ensure the implementation of its Health Program in a manner consistent with the National Health Policy.

(b) Project Management

The Project County has: (i) established a project office, with terms of reference, staffing and other resources acceptable to the Association, for purposes of carrying out said Health Program; and (ii) developed the policies and procedures referred to in Part D.1 of Schedule 4 to this Agreement.

(c) County Health Resource Plan; Action Plan

In the case of a Project County in a Part A Province, the county has developed, in accordance with guidelines acceptable to the Association, and the Expert Team, the National Experts Panel and the Borrower, through MOH, have approved: (i) its County Health Resource Plan for the entire county; and (ii) a detailed action plan for the first year of implementation of its Health Program.

(d) Health Program Expenditure Balance

In the case of a Project County in a Part A Province, (i) the total estimated cost of works and goods required for all Health Programs in said province (including said county's proposed Health Program), does not exceed 50% of the total estimated cost of all said Health Programs; and (ii) the total estimated cost of the activities included in all Health Programs under Parts A(4) and A(5) of the Project (including said county's proposed Health Program) represents at least 25% of the total estimated cost of all said Health Programs.

(e) Resettlement

If the Health Program is expected to involve the involuntary resettlement of persons, a resettlement plan for said persons has been developed and approved by the Association in accordance with the provisions of Part B.2 of this Section II.

2. Terms of Availability of Credit Proceeds to Project Counties

Each Project Province shall undertake to make available to each of its Project Counties part of the proceeds of its Allocated Amount either on a grant basis or on other terms whereby:

(a) the amount so made available which shall be recovered by said Project Province from said Project County, shall be the equivalent in terms of the currency of the Borrower (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for the Health Program to be carried out in said Project County and to be financed out of the proceeds of the Credit;

(b) the principal amount so made available shall be recovered by said Project Province over a period of not less than the number of years which said province shall have in which to repay its Allocated Amount to the Borrower under Section I, Part B of this Annex, inclusive of a grace period of not less than the number of years of grace granted to said Project Province pursuant to said Part B; and

(c) interest, if any, shall be charged, on the principal amount so made available and withdrawn and remaining unrecovered from time to time, at a rate or rates which shall not exceed the rate payable by said Project Province pursuant to Section I, Part C of this Annex.

3. Implementation of Health Programs

Each Project Province shall ensure that each of its Project Counties shall take the following actions.

(a) General

The Project County shall: (i) at all times maintain throughout the period of implementation of its Health Program, its project office referred to above in Part D.1(b) of this Section II in accordance with the provisions thereof; (ii) carry out its Health Program with due diligence and efficiency, in conformity with appropriate health, economic, financial, administrative, technical and environmental practices and the National Health Policy and in accordance with guidelines acceptable to the Association, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose; (iii) if its Health Program involves the involuntary resettlement of persons, take all measures necessary to ensure that all such persons shall be resettled in accordance with the resettlement plan for said persons, referred to in Part D.1(e) of this Section II; and (iv) procure the goods, works and services required for its Health Program in accordance with the provisions of Schedule 3 to this Agreement.

(b) Budgetary Allocations for Health

The Project County shall ensure that in each fiscal year during which the Project is implemented: (i) if the total amount of its budget for said year increases relative to its previous year's budget, then the total amount of its budgetary allocations for said year for health shall be increased by the same rate; and (ii) the ratio of (A) the total amount of its budgetary allocations in said fiscal year for rural and public health to (B) the total amount of its budgetary allocation for said year for health shall be equal to or greater than said ratio for its fiscal year ending December 31, 1996; all as shall be calculated in accordance with guidelines acceptable to the Association.

(c) MFA Programs

(i) The Project County shall develop and implement an MFA Program, in accordance with guidelines acceptable to the Association, designed to reimburse service providers for the difference between the cost of providing essential health services to the poorest families living in said county and the amount paid, if any, by said families for such services.

(ii) In the case of a Project County in a Part A Province, the County shall ensure that no civil works shall be undertaken in a township under its Health Program unless and until an action plan, acceptable to the Borrower and the Association, for the development and implementation of the MFA Program for said township has been developed.

(d) CMS

In the case of a Project County in a Part A Province, the Project County shall ensure that each of its townships that proposes to include a CMS in the county's Health Program shall establish and thereafter at all times operate said system in accordance with policies and procedures acceptable to the Association, said policies and procedures to define: (i) the health expenditures to be covered by said systems; (ii) the health service providers and families eligible to participate in such system; (iii) the terms and conditions of financial coverage under such system; and (iv) the operational guidelines for the determination of such eligibility and for the operation and management of said system.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in respect of each of the Respective Parts of the Project, the Categories set forth in the Annex to this Schedule.

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

(c) the term "Authorized Allocation" means, in respect of each Respective Special Account the amount set forth as the Authorized Allocation for said Respective Special Account in the Annex to this Schedule, provided, however, that unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to the amount set forth in said Annex as the "Initial Deposit" in respect of said Authorized Amount until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of the amount set forth in said Annex as the "Aggregate Amount" in respect of said Authorized Allocation.

2. Payments out of each Special Account shall be made exclusively for eligible

expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation for said Special Account and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for said Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said eligible Categories, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for said Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in said Special Account as of the date of such notice will be utilized in

making payments for eligible expenditures.

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

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

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

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

