

CONFORMED COPY

CREDIT NUMBER 3541-BO

Development Credit Agreement

(Health Sector Reform Project - Second Phase)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 31, 2001

CREDIT NUMBER 3541-BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 31, 2001, between REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter dated April 1, 1999 from the Borrower describing the Borrower's health sector reform program to be carried out in the period 1999 to 2008 (the Health Sector Reform Program), of which the Project constitutes the second phase;

(C) the Association has received a letter dated May 28, 2001 from the Borrower updating the Health Sector Reform Program, and providing specific assurances about the sustainability of the Expanded Immunization Program, the SBS and the Health Teams (all as hereinafter defined);

(D) the Association has received a letter dated May 18, 2001 from the Pan-American Health Organization (PAHO) expressing its interest to cooperate in the implementation of Parts A.2 and B.1 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 October 6, 1999), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries.";

(b) the second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

(c) Paragraph (c) of Section 9.06 of the General Conditions is modified in its entirety to read as follows:

"(c) No later than six (6) months before the Closing Date, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and continued operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement, and the accomplishment of the purposes of the Credit, and setting forth the Borrower's recommendations for the commencement and execution of the third phase of the Health Sector Reform Program."

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) "Annual Operating Plan" means any of the Project annual operating plans referred to in Section 3.10 of this Agreement;

(b) "Beneficiary" means: (i) any SEDES, DIDES or SMUS (all as hereinafter defined); and (ii) any civil association or non-governmental organization or community organization (all with legal personality) that is selected to benefit from a Health Subproject (as hereinafter defined) in accordance with the criteria set forth in the FPS Operational Manual (as hereinafter defined);

(c) "DGSS" means Dirección General de Servicios de Salud, the Borrower's General Directorate of Health Services within MSPS (as hereinafter defined);

(d) "DIDES" means Distrito de Salud, any of the Borrower's health services districts established pursuant to the Borrower's Supreme Decree No. 25233 of November

27, 1998;

(e) "Disbursement Letter" means the letter from the Association to the Borrower of even date herewith setting forth the procedures for the withdrawal of the proceeds of the Credit;

(f) "Expanded Immunization Program" means the Borrower's program to expand immunization established pursuant to the Borrower's Health Code of 1977;

(g) "EXTENSA" means Programa Nacional de Extensión de Cobertura, the Borrower's SBS (as hereinafter defined) coverage extension program;

(h) "FPS" means Fondo Nacional de Inversión Productiva y Social, the Borrower's national productive and social investment fund established pursuant to Article 14 of the Borrower's Supreme Decree No. 25984 of November 16, 2000 as the agency responsible for financing programs and projects in the areas of health and education in the Borrower's territory;

(i) "FPS Agreement" means the agreement referred to in Section 3.04 of this Agreement;

(j) "FPS Operational Manual" means the manual for Part B.2 of the Project referred to in Section 3.04 (c) (i) of this Agreement;

(k) "FPS Special Account" means the account referred to in Part B.1 (b) of Schedule 1 to this Agreement;

(l) "Health Subproject" means a specific investment subproject consisting of activities in a Project Area (as hereinafter defined) that have an impact on infant mortality selected in accordance with the criteria set forth in the FPS Operational Manual;

(m) "Health Teams" means health services delivery teams for rural areas in the territory of the Borrower that comprise: (i) local community agents; and (ii) itinerant health professionals and auxiliary nurses;

(n) "Integrated Management of Childhood Illness Strategy" means the Borrower's strategy to reduce mortality and improve health conditions for children under five (5) years of age included in the MSPS Strategic Plan (as hereinafter defined);

(o) "Management Arrangements" means any of the arrangements referred to in Section 3.06 of this Agreement;

(p) "Mancomunidad" means any municipal association (with legal personality) established by a group of Municipalities (as hereinafter defined);

(q) "Medical Waste Management Program" means the Borrower's program for the management of medical waste included in the MSPS Strategic Plan (as hereinafter defined);

(r) "MH" means Ministerio de Hacienda, the Borrower's Ministry of Finance;

(s) "Mother-Baby Package Strategy" means the Borrower's strategy to reduce maternal and neonatal mortality rates included in the MSPS Strategic Plan (as hereinafter defined);

(t) "MSPS" means Ministerio de Salud y Previsión Social, the Borrower's Ministry of Health and Social Security;

(u) "MSPS Operational Manual" means the manual for Parts A, B.1 and C of the Project referred to in Section 3.09 (a) of this Agreement;

(v) "MSPS Special Account" means the account referred to in Part B.1 (a) of Schedule 1 to this Agreement;

(w) "MSPS Strategic Plan" means the strategic plan of MSPS dated February 1998;

(x) "Municipality" means any of the municipal governments in the Borrower's territory selected to participate in Project implementation in accordance with criteria set forth in the MSPS Operational Manual;

(y) "National Compensation Policy" means the Borrower's policy set forth in Articles 1 through 10 of Supreme Decree No. 25984 of November 16, 2000 that defines the Borrower's approach to financing priority programs and projects at the local level;

(z) "Nutrition Program" means the Borrower's nutrition program (comprising non-food interventions) to reduce mortality and improve childhood health conditions included in the MSPS Strategic Plan;

(aa) "PAHO Agreements" means any of the agreements referred to in Section 3.05 of this Agreement;

(bb) "Performance Agreements" means any of the agreements referred to in Section 3.07 of this Agreement;

(cc) "Performance Benchmarks" means the benchmarks for monitoring and evaluating the progress towards the attainment of Project's objectives set forth in Schedule 4 to this Agreement;

(dd) "Prefecture" means any of the departmental administrations in the Borrower's territory selected to participate in Project implementation in accordance with criteria set forth in the MSPS Operational Manual;

(ee) "Project Area" means any area within the jurisdiction of a Prefecture and a Municipality selected for the purposes of Project implementation in accordance with criteria set forth in the MSPS Operational Manual or in the FPS Operational Manual;

(ff) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(gg) "SBS" means Seguro Básico de Salud, the Borrower's basic health insurance program established pursuant to the Borrower's Supreme Decree No. 25265 of December 31, 1998;

(hh) "SEDES" means Servicios Departamentales de Salud, the Prefectures' health services units established pursuant to Borrower's Supreme Decree No. 25233 of November 27, 1998;

(ii) "SMUS" means Servicios Municipales de Salud, the Municipalities' health services units established pursuant to Borrower's Supreme Decree No. 25233 of November 27, 1998;

(jj) "SNIS" means Sistema Nacional de Información en Salud, the Borrower's national system of health information established pursuant to MSPS' Ministerial Resolution No. 0471 dated October 28, 1998;

(kk) "Special Accounts" means, collectively, the MSPS Special Account and the FPS Special Account; and

(ll) "URS" means Unidad de Reforma de Salud, the Project unit within DGSS established pursuant to MSPS Ministerial Resolution No. 381 of July 25, 2000.

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 this Agreement, an amount in various currencies equivalent to twenty-seven million six-hundred thousand Special Drawing Rights (SDR27,600,000).

Section 2.02. 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 works, goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2006 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 (60) 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 December 15 and June 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each December 15 and June 15 commencing on December 15, 2011 and ending June 15, 2041. Each installment to and including the installment payable on June 15, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) 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 (6) 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 (5) 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. The Borrower declares its commitment to the objectives of the Project and, to this end: (i) shall carry out Parts A, B.1 and C of the Project through MSPS; and (ii) cause FPS to carry out Part B.2 of the Project pursuant to the FPS Agreement, all with due diligence and efficiency and in conformity with appropriate managerial, administrative, financial, health, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and 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. (a) At all times during the execution of the Project, the Borrower shall maintain URS, with structure and responsibilities satisfactory to the Association, including:

- (i) a central unit responsible for: (A) overall Project administration, including monitoring, evaluation and reporting; (B) contracting the: (1) auditors referred to in Section 4.01 (b) (i) of this Agreement and in paragraph 2 of Section III of Schedule 3 to this Agreement; and (2) the Project impact assessments referred to in Section 3.12 of this Agreement; (C) preparing Annual Operating Plans and the progress reports referred to in Section 3.11 (b) of this Agreement, in conjunction with FPS; and (D) promoting Project activities at the local level; and
- (ii) decentralized units in each Prefecture, responsible for: (A) preparing, in consultation with Mancomunidades, Municipalities and Beneficiaries, the Prefecture's proposal for each Annual Operating Plan; (B) coordinating the annual performance reviews referred to in Section 3.11 (c) of this Agreement; and (C) conducting physical and financial oversight and auditing of Health Subprojects under implementation within the jurisdiction of each Prefecture.

(b) The Borrower shall ensure that URS is staffed, at all times during the execution of the Project, by core professional staff in numbers and with experience and qualifications acceptable to the Association, operating under terms of reference satisfactory to the Association, and selected in accordance with procedures satisfactory to the Association, all as prescribed in the MSPS Operational Manual.

Section 3.04. With regard to Part B.2 of the Project, the Borrower (through

MSPS) shall enter into an agreement with FPS, under terms and conditions satisfactory to the Association, for the purposes of transferring the responsibility for the implementation of such Part of the Project to FPS, said agreement to provide, inter alia:

- (a) a term of one (1) year renewable on the basis of FPS performance;
- (b) the transfer to FPS of the proceeds of the Credit allocated to Category (1) of the table in Part A.1 of Schedule 1 to this Agreement on a grant basis;
- (c) the obligation of FPS to carry out Part B.2 of the Project in accordance with:
 - (i) an operational manual satisfactory to the Association, said manual to provide for: (A) the participation of Beneficiaries in the preparation and implementation of Health Subprojects; (B) monitoring, supervision and auditing of FPS procedures, including quarterly financial and physical progress reports; (C) effective distribution of FPS' resources in accordance with appropriate criteria; (D) standards for the design of Health Subprojects, including eligibility criteria for Mancomunidades, Municipalities, and Beneficiaries; and (E) procedures and guidelines for identification, preparation, approval and supervision of Health Subprojects, including: (I) environmental procedures and guidelines; and (II) a list of non-eligible civil works; and
 - (ii) the applicable Annual Operating Plan; and
- (d) the administration by FPS of the FPS Special Account in accordance with the provisions of Part B of Schedule 1 to this Agreement and the Disbursement Letter.

Section 3.05. The Borrower (through MSPS) shall enter into agreements with PAHO, under terms and conditions satisfactory to the Association, for the purposes of:

- (a) retaining PAHO's technical assistance for the supervision of the implementation of the Project; and
- (b) entrusting PAHO with the procurement of vaccines and syringes for immunization campaigns in unrestricted competitive markets, in accordance with procedures satisfactory to the Association.

Section 3.06. The Borrower (through URS) shall enter into arrangements with MSPS' directorates (other than DGSS), under terms and conditions satisfactory to the Association, for the purposes of ensuring close coordination among all such directorates in the implementation of the Project.

Section 3.07. The Borrower (through URS) shall enter into agreements with Prefectures, Mancomunidades and Municipalities, under terms and conditions satisfactory to the Association, for the purposes of ensuring the effective cooperation of such Prefectures, Mancomunidades and Municipalities in the implementation of relevant Parts of the Project and the achievement of the Performance Benchmarks.

Section 3.08. The Borrower shall exercise its rights and comply with its obligations under the PAHO Agreements, the FPS Agreement, each Management Arrangement and each Performance Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the PAHO Agreements or the FPS Agreement or any Management Arrangement or any Performance Agreement or any provision thereof.

Section 3.09. (a) The Borrower (through MSPS) shall carry out Parts A, B.1 and C of the Project in accordance with an operational manual, satisfactory to the

Association, said manual to provide regulations for Project implementation, including:

- (i) organizational structure of URS;
- (ii) disbursement, accounting, auditing and reporting procedures;
- (iii) procurement responsibilities, processes and internal controls; and
- (iv) procedures for the preparation of Annual Operating Plans.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall govern.

Section 3.10. (a) The Borrower, through URS, shall:

- (i) not later than December 1st of each year during Project implementation, furnish to the Association, for its review and approval, an annual operating plan for the following calendar year, such plan to specify: (A) the activities to be financed out of the proceeds of the Credit during such calendar year; and (B) the required financial and human resources;
- (ii) upon the Association's approval, carry out such Annual Operating Plan in accordance with its terms; and
- (iii) not later than June 1st of each year during Project implementation, furnish to the Association for its review and approval, an update of the Annual Operating Plan.

(b) The Association may refrain from approving any Annual Operating Plan if the Association has determined that the Borrower is not carrying out the Project as provided in this Agreement and no appropriate remedial actions, satisfactory to the Association, have been taken therefor.

Section 3.11. The Borrower (through URS) and FPS shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Benchmarks, the carrying out of the Project and the achievement of its objectives;

(b) by March 1st and September 1st of each year during Project implementation, commencing on September 1st, 2002, furnish to the Association progress reports on the execution of the Project, said reports to be of such scope and detail as the Association shall have reasonably requested and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section; and

(c) review with the Association by March 15 and September 15 of each year during the execution of the Project, commencing on September 15, 2002, or such later date as the Association shall establish, the reports referred to in paragraph (b) of this Section.

Section 3.12. The Borrower, through URS, and FPS shall:

(a) not later than September 30, 2005, start an assessment of overall Project impact, such assessment to be conducted with the assistance of independent consultants of experience and qualifications satisfactory to the Association, operating under terms of reference satisfactory to the Association;

(b) not later than March 30, 2006 furnish to the Association, for its review and comments, the findings and recommendations of such assessment; and

(c) not later than June 30, 2006 discuss the results of such assessment with representatives of the Borrower's Ministry of the Presidency, directorates of MSPS

(other than DGSS), Prefectures, Mancomunidades, Municipalities and Beneficiaries, taking into account the Association's comments thereon.

Section 3.13. (a) Prior to the approval of any proposed Health Subproject, the Borrower shall ensure that FPS follows the environmental procedures and guidelines referred to in Section 3.04 (c) (i) (E) (I) of this Agreement, in order to:

- (i) carry out an environmental screening and assessment of such proposed Health Subproject; and
- (ii) prepare recommendations for the prevention, mitigation and remediation of any potential environmental damage arising from the implementation of such proposed Health Subproject.

(b) During the implementation of any Health Subproject, the Borrower shall ensure that FPS carries out (and that FPS shall cause the Prefectures, Mancomunidades, Municipalities and Beneficiaries involved in such implementation to carry out) the recommendations referred to in subparagraph (a) (ii) above as prescribed in the FPS Operational Manual.

(c) The Borrower shall ensure that no Health Subproject involves the carrying out of civil works contained in the list referred to in Section 3.04 (c) (i) (E) (II) of this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain (within MSPS and FPS) financial management systems, including records and accounts, and prepare (through MSPS and FPS) financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to 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 Accounts, for each fiscal year audited in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) on opinion on such statements, records and accounts and report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts, and the audit thereof, and concerning said auditors as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Association has

received the audit report for the Fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such Fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of each of the MSPS and FPS financial management systems referred to in paragraph (a) of said Section 4.01 of this Agreement in order to enable MSPS and FPS, not later than March 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare (through MSPS and FPS), in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

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) that for any one year listed in the table in Schedule 4 to this Agreement, more than 3 out of 8 of the Performance Benchmarks have not reached the level indicated for such Performance Benchmarks in said table; and

(b) that the Borrower shall have suspended the automatic earmarking to SBS provided in the National Compensation Policy with respect to Municipalities covering no less than 25 percent of the population in the Borrower's territory. If any of these events occur, and without prejudice to the rights of the Association under Section 6.02 (1) of the General Conditions, the Borrower and the Association shall meet and review the situation in an effort to determine the most appropriate

remedial measures to ensure the achievement of the objectives of the Project

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower shall have established EXTENSA, in form and substance satisfactory to the Association; and

(b) the Borrower shall have issued the MSPS Operational Manual, in form and substance satisfactory to the Association.

Section 6.02. The date November 30, 2001 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:

Ministerio de Hacienda
Palacio de Comunicaciones, Piso 19
Av. Mariscal Santa Cruz, esq. Calle Oruro s/n
La Paz, Bolivia

Cable address:

FINANZA
La Paz, Bolivia

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

REPUBLIC OF BOLIVIA

By /s/ Jacques Trigo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A: General

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) Works		
(a) For Parts A, B.1, and C of the Project	790,000	85%
(b) For Health Subprojects	1,180,000	85%
(2) Goods		
(a) For Parts A, B.1, and C of the Project	5,110,000	100% of foreign expenditures and 77% of local expenditures
(b) For Health Subprojects	2,950,000	100% of foreign expenditures and 77% of local expenditures
(3) Consultants' services and training		
(a) For Parts A, B.1, and C of the Project (including audit fees)	5,360,000	100%
(b) For Health Subprojects	590,000	100%
(4) Health Teams Costs	10,670,000	For expenditures made on or before December 31, 2002: 100%; for expenditures made after December 31, 2002 but on or before December 31, 2004: 80%; and thereafter: 60%
(5) Operating	950,000	85%

Costs

TOTAL 27,600,000

2. For the purposes of this Schedule, the terms:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) "Health Teams Costs" means the following expenditures which would not have been incurred absent the Project: (i) the bonuses of current MSPS staff that become members of the Health Teams; (ii) the salaries of members of the Health Teams (other than current MSPS staff); and (iii) the reasonable travel cost and per diem of members of the Health Teams;

(c) "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(d) "Operating Costs" means all reasonable operating costs incurred by URS as a result of Project coordination, monitoring and evaluation, including rental of office space, office supplies, public utilities, communications and travel expenses; and

(e) "training" means reasonable expenditures incurred by URS in connection with the carrying out of training activities under the Project, including: (i) the travel cost and per diem of the trainers and trainees; and (ii) rental of facilities and training materials.

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 2,751,000, may be made in respect of Categories 1 through 5 of the table in Part A.1 of this Schedule on account of payments made for expenditures incurred before the date of this Agreement but after May 25, 2001; and

(b) payments made for expenditures under Categories 1 (b), 2 (b) and 3 (b) of the table in Part A.1 of this Schedule, unless: (i) the FPS Agreement has been executed and delivered and is legally binding upon the parties thereto; and (ii) the FPS Operational Manual has been issued, in form and substance satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for works, goods and services as set forth in the Disbursement Letter.

Part B. Special Accounts

1. The Borrower shall open and maintain in Dollars two separate special deposit accounts: (a) one for Parts A, B.1 and C of the Project, to be managed by MSPS; and (b) one for Part B.2 of the Project, to be managed by FPS, both in Banco Central de Bolivia, on terms and conditions satisfactory to the Association. Deposits into, and withdrawals from, the Special Accounts shall be made in accordance with the provisions of this Part B and the procedures set forth in the Disbursement Letter.

2. (a) For the purposes of this Part B of Schedule 1, the terms:

(i) "Eligible Categories" means: (A) in respect of the MSPS Special Account, Categories 1 (a), 2 (a), 3 (a), 4 and 5 of the table set forth in Part A.1 of this Schedule 1; and (B) in respect of the FPS Special Account, Categories 1 (b), 2 (b) and 3 (b) of the table set forth in Part A.1 of this Schedule 1; and

(ii) "Eligible Expenditures" means: (A) in respect of the MSPS Special Account, the expenditures for goods, works and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories for the MSPS Special Account; and (B) in respect of the FPS Special Account, the expenditures for goods, works and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories for the FPS Special Account.

(b) Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made out of the Special Accounts, 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. If the Association determines at any time that any payment out of the Special Accounts was made for an expenditure which is not an Eligible Expenditure, the Association may require the deposit into the Special Accounts (or, if the Association shall so determine, require the refund to the Association) of an amount equal to the amount of such payment.

3. The Association shall not be required to make further deposits into the Special Accounts if, at any time:

(a) 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 said Section in respect of the audit of the records and accounts for the Special Accounts; and

(b) 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce the rate of infant mortality in Bolivia by extending the coverage and quality of the Borrower's health services and strengthening local capacity to respond to health needs.

The Project, which constitutes the second phase of the Health Sector Reform Program, 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: Coverage and Quality Improvement of SBS and Empowerment of Communities.

1. Strengthening of Policy Development, Regulation and Monitoring of SBS.

(a) Improvement of the quality of the information on the health services and health status of the population in the territory of the Borrower, by:

(i) (A) carrying out surveys and operational research to measure health services outcomes and infant mortality, including a demographic and health survey in 2002; (B) implementing local surveillance committees for maternal and childhood mortality; and (C) following-up maternal mortality cases identified by the Borrower's 2002 population census; and

(ii) developing mechanisms to strengthen the reliability of SNIS

through the introduction of external controls like cluster surveys, interviews with community leaders and certification of in-hospital maternal and childhood mortality statistics by the local surveillance committees referred to in subparagraph (i) (B) above.

- (b) Development of new policies for the management of SBS by:
 - (i) providing technical assistance for: (A) designing and implementing new service delivery and payment mechanisms for SBS; (B) pooling of Municipalities' resources; (C) developing mechanisms for payments among Municipalities; and (D) extending SBS coverage among the poor; and
 - (ii) implementing SBS financial management systems and carrying out financial audits in selected Municipalities.
- (c) Development of new policies for the supervision of SBS by:
 - (i) developing and disseminating rules and procedures for the appropriate management of the Nutrition Program, the Medical Waste Management Program and related SBS practices;
 - (ii) training of key staff of MSPS, Prefectures, Mancomunidades, Municipalities and Beneficiaries in the application of the rules and procedures referred to in subparagraph (i) above; and
 - (iii) carrying out of supervision activities to ensure compliance with the rules and procedures referred to in subparagraph (i) above.
- (d) Empowerment of indigenous peoples users of SBS by:
 - (i) disseminating the rights of indigenous peoples as SBS users through appropriate information, education and communication activities in aymara, quechua and guarani, focus groups with women and health services providers, and complaint mechanisms;
 - (ii) provision of technical assistance and training to indigenous peoples representatives who oversee the compliance by health services providers with the rules and procedures of SBS;
 - (iii) carrying out of indigenous peoples' satisfaction surveys and disseminating the results thereof; and
 - (iv) organizing national and regional meetings of a national indigenous peoples health council.

2. Strengthening of the National Health Programs for Mothers and Children

- (a) Implementation of the second phase of the Expanded Immunization Program by:
 - (i) strengthening the management capacity of MSPS through the provision of technical assistance for: (A) monitoring the execution of the Borrower's national budget for vaccines and the utilization of appropriate procedures for vaccine purchases; (B) implementing logistical management software to track deliveries of inputs and the state of the vaccines' cold chain; (C) carrying out of a study on the effectiveness of the communications strategy of the Expanded Immunization Program among indigenous peoples; and (D) supervising of modern practices related to medical waste management;

- (ii) introducing new vaccines; and
- (iii) improving information and surveillance systems, through active institutional and community searches of vaccine preventable diseases and vaccination coverage surveys to verify the quality of MSPS reports.

(b) Preparation and implementation of multi-donor support initiatives for the Integrated Management of Childhood Illness Strategy, the Mother-Baby Package Strategy, the Nutrition Program and the Medical Waste Management Program by:

- (i) conducting a thorough evaluation of such strategies and programs;
- (ii) developing multi-donor action plans to strengthen the strategies and programs referred to in subparagraph (i) above;
- (iii) identifying financing gaps in the strategies and programs referred to in subparagraph (i) above; and
- (iv) establishing MSPS' system for monitoring and evaluation of the impact of related training activities.

Part B: Strengthening Local Capacity to Respond to Health Needs

1. Extension of SBS coverage through Health Teams

(a) Strengthening of EXTENSA management by:

- (i) identifying priority areas for extension of SBS coverage through a combination of poverty and cost-effectiveness criteria;
- (ii) design of work protocols for Health Teams and promotion of cross-fertilization activities across Project Areas; and
- (iii) monitoring and evaluation of Health Teams' performance;

(b) establishment and operation of Health Teams;

(c) (i) acquisition and utilization of basic equipment for Health Teams, including medical, dental, educational, communications and transportation equipment, as set forth in MSPS Operational Manual; and (ii) rehabilitation of health facilities; and

(d) preparation of local plans for Health Teams in consultation with Prefectures, Mancomunidades and Municipalities, aimed at ensuring that the Health Teams respond to local needs and are integrated in the existent supply of health services.

2. Health Subprojects

Carrying out of Health Subprojects to support the extension of SBS coverage through Health Teams, including, inter alia:

(a) acquisition and utilization of non-basic equipment for Health Teams, as set forth in FPS Operational Manual;

(b) strengthening of primary level services through rehabilitation of health posts and centers, training of health personnel, social communication campaigns and other promotional activities;

(c) community outreach programs and integrated nutritional education packages

for mothers and children that complement clinical services provided under SBS;

(d) early prevention, detection and treatment of prevalent communicable diseases in Project Areas; and

(e) environmental health investments like small scale treatment and rehabilitation of water supply, supply of latrines, and management of medical waste.

Part C: Monitoring of Performance Benchmarks and Project Coordination

Establishment and operation within MSPS of a management structure appropriate for:

1. coordinating Project activities;
2. Project monitoring and evaluation in accordance with the Performance Benchmarks; and
3. training of staff of MSPS, Prefectures, Mancomunidades, Municipalities and Beneficiaries.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

1. Guidelines

(a) Goods and works shall be procured in accordance with: (i) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), as such Guidelines may be revised by the Bank from time to time; and (ii) the applicable provisions of this Schedule.

(b) In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

2. Grouping of Contracts

(a) Contracts for goods and works shall be packaged in sizes adequate to attract maximum competition and to ensure economy and efficiency in the procurement process. Contracts shall not be divided into smaller units in order to make them less appropriate for competitive procedures. Any proposal to divide a contract into smaller packages shall require the prior approval of the Association.

(b) To the extent practicable: (i) contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each; and (ii) contracts for works shall be grouped in bid packages estimated to cost \$3,000,000 equivalent or more each.

3. 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.

4. Standard documents

In the procurement of goods or works under NCB, S(I/N) and PSW (as hereinafter defined) the Borrower shall use standard documents acceptable to the Association.

Section II: Employment of Consultants

Consultant Guidelines

(a) Consultants' services shall be procured in accordance with: (i) 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 and January 1999 (the Consultant Guidelines), as such Consultant Guidelines may be revised by the Bank from time to time; and (ii) the applicable provisions of this Schedule.

(b) In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Section III. Records and audits

1. Records

(a) The Borrower shall:

(i) maintain or cause to be maintained Procurement Records (as hereinafter defined) adequate to reflect in accordance with sound procurement practices (including related supervision, review and auditing) the procurement activities of MSPS and FPS; and

(ii) ensure that all such Procurement Records evidencing such procurement activities are retained until at least two (2) years after the Closing Date.

(b) For the purposes of this Section, the term "Procurement Records" means:

(i) with respect to procurement of goods and works: public notices of bidding opportunities; bidding documents and addenda; bid opening information; bid evaluation reports; formal appeals by bidders and outcomes; signed contracts, addenda and amendments; records on claims and dispute resolution; and records of time taken to complete key steps in the process; and

(ii) with respect to selection of consultants: public notices for expressions of interest; requests for proposals and addenda; technical and final evaluation reports; formal appeals by firms and related outcomes; signed contracts, addenda and amendments; records on claims and dispute resolution; and records of time taken to complete key steps in the process.

2. Audits:

The Borrower shall:

(a) have the Procurement Records audited annually, in accordance with internationally accepted procurement standards consistently applied, by independent procurement experts acceptable to the Association;

(b) furnish to the Association, as soon as available, but in any case no later than six (6) months after the end of each Project implementation calendar year, the report of said audit, of such scope and in such detail as the Association shall have reasonably requested; and

(c) at any time during Project implementation, furnish to the Association such other information concerning said audit, as the Association may reasonably request.

Section IV. Review of Procurement Action

1. Prior to the issuance of: (a) any invitations to bid for goods or works; or (b) any requests for proposals to consultants, the proposed procurement plan for the Project shall be furnished to the Association by MSPS and FPS, for the Association review and approval in accordance with the provisions of paragraphs 1 of Appendixes 1 to the Guidelines and the Consultant Guidelines. Procurement of all goods and works, and selection of all consultants' services shall be undertaken in accordance with such procurement plan as shall have been approved by the Association (the Procurement

Plan), and with the provisions of said paragraphs.

2. Not later than June 1st and December 1st of each year of Project implementation, the Borrower (through MSPS and FPS) shall furnish to the Association, for its review and approval, a detailed update of the Procurement Plan for the upcoming calendar semester, consistent with the applicable Annual Operating Plan. Such update shall include: (a) a firm list of contracts to be procured in the upcoming calendar semester and a tentative list of contracts to be procured in the subsequent semester; (b) estimated contract costs; (c) schedule for bidding; and (d) particular methods of procurement of goods and works, and selection of consultants.

3. The Borrower shall arrange the publication of a summary of the Procurement Plan and any update thereof in the UN Development Business Magazine** See footnote 19 to paragraph 2.7 of the Guidelines..

4. The Borrower and the Association shall meet from time to time to review progress in the implementation of the Procurement Plan.

5. Any modification to the Procurement Plan shall require the Association's prior review and approval.

Section V. Specific Provisions for Procurement of Goods and Works, and Employment of Consultants

PLEASE SEE ORIGINAL FOR THIS SECTION, FORMAT WOULD NOT FIT

Definitions:

1. "ICB" means the International Competitive Bidding procedure set forth in Section II of the Guidelines and paragraph 5 of Appendix 1 thereto;

2. "IC" means the Individual Consultants selection procedure set forth in paragraphs 5.1 through 5.3 of the Consultant Guidelines;

3. "NCB" means the National Competitive Bidding procedure set forth in paragraphs 3.3 and 3.4 of the Guidelines;

4. "Other Methods of Procurement" means the methods of procurement set forth in Section III of the Guidelines;

5. "Other Methods of Selection" means the methods of selection set forth in Section III of the Consultant Guidelines;

6. "Post Review for Consultants" means the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines, provided, however, that if the Association determines, at any time, that the proposed selection is inconsistent with the provisions of the Consultant Guidelines or this Schedule, it shall promptly inform the Borrower and state the reasons for its determination;

7. "Post Review" means the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines, provided, however, that if the Association determines, at any time, that the proposed procurement is inconsistent with the provisions of the Guidelines or this Schedule, it shall promptly inform the Borrower and state the reasons for its determination;

8. "Prior Review for Consultants" means the procedures set forth in paragraphs 1, 2 and 5 of Appendix 1 to the Consultant Guidelines;

9. "Prior Review" means the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines;

10. "PSW" means the Procurement of Small Works procedure for lump sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who

offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully;

11. "QCBS" means the Quality and Cost-based selection procedure set forth in Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the applicable provisions of paragraphs 3.13 through 3.18 thereof;

12. "RFP" means request for proposals;

13. "S(I/N)" means the Shopping (International or National) procedure referred to in paragraphs 3.5 and 3.6 of the Guidelines; and

14. "TORs" means terms of reference.

Section VI. Special Provisions

A. In addition to and without limitation on any other provision set forth in this Schedule or the Guidelines, the following rules shall govern all procurement of goods and works under NCB:

1. A merit point system shall not be used in the prequalification of bids.

2. The award of goods and works contracts shall be based exclusively on price and, whenever appropriate, shall also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.

3. The Borrower shall open all bids at the stipulated time and place in accordance with a procedure satisfactory to the Association.

4. The Borrower shall use a single envelope procedure.

5. Whenever there is a discrepancy between the amounts in figures and in words of a bid, the amounts in words shall govern.

6. Except as the Association shall otherwise agree, the bidding process shall not be declared void if only three (3) bids or less have been submitted unless such bids have been determined to be non-responsive.

7. Any standards and technical specifications (quoted in the bidding documents) which are at least substantially equivalent to the Borrower's standards and technical specifications shall be acceptable.

8. Foreign bidders shall be allowed to participate.

9. Foreign bidders shall not be required to legalize any documentation related to their bids with the Borrower's authorities as a prerequisite of bidding.

10. No margin of preference shall be granted for any particular category of bidders.

11. The auction procedure (Puja Abierta) shall not be used.

12. In the event that a bidder whose bid was evaluated as the bid with the lowest evaluated price withdraws its bid, the contract may be awarded to the bid with the second lowest evaluated price.

13. Foreign bidders shall not, as a condition for submitting bids, be required to enter into a joint venture agreement with local bidders.

14. No other procurement rules or regulations of MSPS or FPS shall apply without the prior review and approval of the Association.

B. In addition to and without limitation on any other provisions set forth in this Schedule or the Consultant Guidelines, the following rules shall govern all procurement of consultants' services referred to in this Schedule:

1. As a condition for participating in the selection process, foreign consultants shall not be required to enter into a joint venture agreement with local consultants,

unless the conditions stated in paragraph 1.12 of the Consultant Guidelines are met.

2. As a condition for participating in the selection process, foreign consultants shall not be required to legalize their proposals, or any documentation related to such proposals, with Bolivian authorities.

3. Foreign consultants shall not be required to be registered in the Borrower's National Registry of Consultants (Registro Nacional de Consultoría).

SCHEDULE 4

PLEASE SEE ORIGINAL FOR SCHEDULE, FORMAT WOULD NOT FIT

1. Scope: The coverage for all benchmarks is nationwide, except for benchmark 3 which refers to the 10 public hospitals with the highest number of births, as provided in the Operational Manual.

2. Source and methodology: the source of all benchmarks is SNIS except for benchmark 8 for which the source is the MH's executed budget.

3. Adjustment to Baseline Data: Performance Benchmarks are calculated on the basis of baseline data for year 2000. Whenever the Borrower shows, to the satisfaction of the Association, that it is necessary or advisable to adjust the baseline data, the corresponding Performance Benchmarks may be adjusted in a manner satisfactory to the Association.

4. Definitions:

1. Coverage of births attended by trained health personnel:

Numerator: Births attended by trained health personnel.

Denominator: Total number of births.

2. Complete prenatal care attendance:

Numerator: Number of pregnant women with four (4) prenatal care controls.

Denominator: Number of pregnant women with one (1) prenatal care control.

3. Early neonatal hospital mortality (per 1,000 live births):

Numerator: Number of deaths during the first seven (7) days of life.

Denominator: Total number of live births.

4. Percentage of children of less than five (5) years with three (3) iron doses:

Numerator: Number of children less than five (5) years of age who received three (3) iron doses.

Denominator: Total number of children less than five (5) year of age.

5. DPT/Hib/Hepatitis B vaccine coverage with three (3) doses:

Numerator: Number of children less than one (1) year of age who received three (3) doses of DPT/Hib/Hepatitis B vaccine.

Denominator: Total number of children less than one (1) year of age.

6. Borrower's financing of vaccines: expenditures on vaccines and syringes financed by the Borrower from sources other than external grants or loans.



