

CONFORMED COPY

LOAN NUMBER 3852 PH

Loan Agreement

(Women's Health and Safe Motherhood Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 28, 1995

LOAN AGREEMENT

LOAN NUMBER 3852 PH

AGREEMENT, dated April 28, 1995, between REPUBLIC OF THE PHILIPPINES (the "Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

WHEREAS: (A) The Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of Parts A (3), A (4), A (5), A (7), B (2), B (3) and D of the Project;

WHEREAS: (B) By an agreement dated January 20, 1995 (the "ADB Loan Agreement"), the Asian Development Bank (the "ADB") has agreed to make a concessional loan (the "ADB Loan") to the Borrower in an aggregate principal amount equivalent to thirty-six million eight hundred thousand Special Drawing Rights (SDR36,800,00) (equivalent to approximately fifty-four million dollars (\$54,000,000)) to assist in financing Parts A (1), A (2), A (6), A (7), B (1), B (4) and B (5) of the Project on the terms and conditions set forth in the ADB Loan Agreement;

WHEREAS: (C) The Borrower intends to obtain from the Australian International Development Assistance Bureau (the "AIDAB") a grant (the "AIDAB Grant") in an amount equivalent to fifteen million one hundred thousand Australian dollars (AUD15,100,000) (equivalent to approximately ten million five hundred fifty thousand dollars (\$10,550,000)) to assist in financing Part B (2) of the Project on terms and conditions set forth in an agreement (the "AIDAB Grant Agreement") to be entered into between the Borrower and AIDAB;

WHEREAS: (D) The Borrower intends to obtain from the European Commission (the "EC") a grant (the "EC Grant") in an amount equivalent to fifteen million six hundred thousand European Currency Units (ECU 15,600,000) (equivalent to approximately thirteen million dollars (\$13,000,000)) to assist in financing Part C of the Project on terms and conditions set forth in an agreement (the "EC Grant Agreement") to be entered into between the Borrower and the EC;

WHEREAS: (E) The Borrower intends to obtain from the Kreditanstalt fur Wiederaufbau (the "KfW") a grant (the "KfW Grant") in an amount equivalent to twenty-four million two hundred thousand Deutsche Mark (DM 24,200,000) (equivalent to approximately fourteen million two hundred forty thousand dollars (\$14,240,000)) to assist in financing Parts A (1), A (2), A (3) (b), A (4) and A (7) of the Project on terms and conditions set forth in an agreement (the "KfW Grant Agreement") to be entered into between the Borrower and the KfW; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the "General Conditions") constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Central Bank" means the Borrower's Bangko Sentral ng Pilipinas, established and operating pursuant to the Borrower's Republic Act 7653, dated July 3, 1993;

(b) "CHCA" means a Comprehensive Health Care Agreement entered into between the DOH and any LGU (as such terms are respectively defined in Sub-paragraphs (c) and (e) hereinafter), describing for a one-year period the health care programs to be undertaken in such LGU in that year, and the related cost sharing arrangements between the DOH and such LGU in respect of such programs;

(c) "DOH" means the Borrower's Department of Health, established pursuant to the Borrower's Executive Order No. 119, dated January 30, 1987;

(d) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's financial years, which period commences on January 1 and ends on December 31 in each

calendar year; and the term "Fiscal Years" means, collectively, each of said Fiscal Year;

(e) "LGU" means each of the Borrower's Local Government Units existing under the Borrower's administrative organization, and includes any province, city, municipality or barangay; and the term "LGUs" means, collectively, each of said LGU;

(f) "PIA" means Project Implementation Agreement which is any agreement between the Borrower, acting through the DOH, and any LGU regarding the implementation and financing arrangements in relation to the Project, referred to in Sections 3.04 of, and Paragraph 6 of Schedule 5 to, this Agreement; and the term "PIAs" means, collectively, each of said PIA;

(g) "PMO" means the Project Management Office referred to in Sections 3.03 and 6.01 of this Agreement; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of eighteen million dollars (\$18,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower may, for the purposes of Parts A (3), A (4), A (5), A (7), B (2), B (3) and D of the Project, open and maintain in dollars a special deposit account in the Central Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the DOH and concerned LGUs with due diligence and efficiency and in conformity with appropriate administrative, economic, environmental, financial and public health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall, through the DOH:

(a) Prepare and furnish to the Bank, not later than six (6) months after the Closing Date, or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

(b) Afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) Thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.03. The Borrower shall establish within the DOH, and thereafter maintain until the completion of the Project, a Project Management Office ("PMO") to be headed by a qualified Project Manager, assisted by qualified personnel in adequate numbers. The PMO shall be responsible for the overall management, administration and coordination of the day-to-day implementation of the Project, including, inter alia, the preparation and consolidation of Project plans and budgets, the preparation of semi-annual reports referred to in Paragraph 8 of Schedule 5 to this Agreement, and the procurement of all goods, works and services required for the Project.

Section 3.04. (a) The Borrower shall, through the DOH, enter into a PIA with each concerned LGU, which PIA shall form an integral part of such LGU's CHCA, which shall set forth, inter alia, the parties' respective rights and obligations for carrying out the Project and an overall cost-sharing arrangement therefor, as described in Paragraph 6 of Schedule 5 to this Agreement.

(b) Without any restriction or limitation upon any of the provisions of this Agreement, the Borrower shall exercise its rights and comply with its obligations, and shall cause the LGUs to exercise their rights and comply with their respective obligations, under their corresponding CHCA and PIA in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the objectives of the Project.

Section 3.05. Without any restriction or limitation upon any of the provisions of the General conditions or of this Agreement: (a) not later than June 30, 1998, or such other date as the Borrower and the Bank may agree, the Borrower shall conduct, on the basis of terms of reference developed in consultation with the Bank, a comprehensive mid-term review of the progress achieved to date by the Borrower in implementing the Project; and (b) promptly thereafter, taking into account the recommendations of such review, the Borrower shall carry out the Project with due diligence and efficiency and shall take all remedial measures needed to achieve the objectives thereof.

Section 3.06. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A (3), A (4), A (5), A (7), B (2), B (3) and D of the Project, and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A (3), A (4), A (5), A (7), B (2), B (3) and D of the Project of the departments or agencies of the Borrower, including the DOH and concerned LGUs, 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 Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine (9) 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 Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified,

namely, that:

(a) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of the ADB Loan or the AIDAB Grant or the KfW Grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement therefor, or
- (B) the ADB Loan shall have become due and payable prior to the agreed maturity thereof.

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

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (a) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower shall have established the PMO and appointed the Project Manager, pursuant to the provisions of Sections 3.03 of this Agreement.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Secretary of Finance
Department of Finance
Manila
Republic of the Philippines

Cable address:

SECFIN

Telex:

40268

Manila

CB-CONF

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC);
64145 (WUI); or
197688 (TRT).

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

REPUBLIC OF THE PHILIPPINES

By /s/ Roberto de Ocampo

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Callisto Madavo

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	2,400,000	90%
(2) Goods, including drugs and reagents (except for Part A (4) of the Project), medical supplies, equipment, vehicles, and furniture	6,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Drugs and reagents	3,300,000	

for Part A (4))		
of the Project)		
(4) Consultants' services, studies and training (except for Part B (2) of the Project)		2,700,000	100%
(5) Consultants' services, studies and training for Part B (2) of the Project		2,500,000	100%
(6) Unallocated		900,000	
TOTAL		\$18,000,000	

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; and

(b) The term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for: (a) expenditures prior to the date of this Agreement; or (b) expenditures under Category (3) of the table set forth in Paragraph 1 of Schedule 1 to this Agreement in respect of Part A (4) of the Project, unless the KfW Grant Agreement shall have become effective; or (c) expenditures under Category (5) of the table set forth in Paragraph 1 of Schedule 1 to this Agreement in respect of Part B (2) of the Project, unless the AIDAB Grant Agreement shall have become effective; or (d) expenditures for contraceptives.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under individual contracts for: (a) works not exceeding the equivalent of two hundred thousand dollars (\$200,000); (b) goods not exceeding the equivalent of two hundred thousand dollars (\$200,000); (c) consulting firms not exceeding the equivalent of one hundred thousand dollars (\$100,000); (d) individual consultants not exceeding the equivalent of fifty thousand dollars (\$50,000); all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The overall objective of the Project is to assist the Borrower improve the health status of women residing within its territory, particularly those of reproductive age, by inter alia: (i) improving the quality and range of women's health and safe motherhood services; (ii) strengthening the capacity of LGUs to manage the provision of such services, and of the DOH to provide related policy, technical, financial and logistical support; (iii) enhancing the effectiveness and sustainability of health interventions through the participation of local communities and non-governmental organizations; and (iv) expanding the knowledge base upon which to draw policy and technical guidance for women's health programs.

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

Part A: Service Delivery.

1. Strengthening existing maternal care services of the DOH and LGUs through the provision, on a nation-wide basis, of: (a) micronutrients (iron/folate, iodine and vitamin A) to pregnant and lactating women; (b) tetanus toxoid immunizations for pregnant women; (c) about eleven thousand five hundred (11,500) obstetrical kits for mid-wives; (d) about nine thousand (9,000) obstetrical kits for traditional birth attendants; (e) about two million (2,000,000) disposable home delivery kits for low income women; and (f) emergency obstetrical drugs and supplies.
2. Improving the quality and accessibility of first referral level LGU hospitals and health units through: (a) upgrading the obstetric facilities of about ninety-two (92) selected first referral level district hospitals; (b) renovating about one hundred sixty (160) selected rural health units; and (c) upgrading about two hundred eighty (280) selected barangay health stations.
3. Strengthening the Borrower's women's health services through: (a) upgrading about seventy-two (72) selected rural health units and seventy-two (72) selected barangay health stations; and (b) provision, on a nation-wide basis, of necessary drugs and medical supplies and equipment.
4. Reducing morbidity and mortality rates due to sexually and non-sexually transmitted reproductive tract infections and sexually transmitted diseases, through the provision of diagnostic, referral and first line treatment services based on the syndromic approach, as well as the provision of counselling services.
5. Reducing the prevalence of cervical cancer through the provision of: (a) pap smear screening services, cervical biopsies and cryotherapy and surgical treatments; and (b) specialized medical equipment and training.
6. Carrying out of a pilot on the life cycle approach for the delivery of women's health services.
7. Provision of technical assistance services, training and medical equipment and supplies, including drugs and medicines, in respect of the activities referred to hereinabove.

Part B: Institutional Development.

1. Producing, distributing and disseminating, on a nation-wide basis, an integrated information, education and communication program, and related materials (including training videos and research data), for promoting maternal care and other women's health services.
2. Provision of in-service training for first referral regional and provincial public sector health care workers responsible for delivering maternal care and other women's health services, and the development, piloting and expansion of distance learning programs.
3. Strengthening logistics services and capabilities provided to the Borrower's public health system, so as to improve the supply of drugs and medicines, vaccines, reagents and other medical supplies to health service facilities throughout the Borrower's territory, through: (a) provision of integrated logistics support information and procurement computerized systems; (b) provision of technical assistance and

training in logistics management and information systems; (c) contracting of private drug distributors or other commercial materials handlers, where they prove cost-effective, to deliver drugs and medicines, vaccines, reagents and other medical supplies; and (d) rehabilitation or expansion of public logistics facilities, where private logistics contractors are unable to cost-effectively meet the requirements, including the provision of equipment and vehicles, financing of related operational costs and expenses, constructing or rehabilitating, as the case may be, and otherwise equipping of about four (4) DOH central and about seventy-six (76) provincial warehouses, as well as upgrading of storage and materials handling systems and inventory facilities.

4. Strengthening the capacity of the DOH to provide policy guidance, technical assistance, training and logistical and financial support for the proper implementation of the Borrower's national public health programs.

5. Strengthening the capabilities of the PMO for supervising the day-to-day implementation of the Project, including the provision of technical assistance services and necessary office equipment, vehicles, supplies and support of incremental operating costs.

Part C: Community Partnerships.

1. Strengthening the capabilities of non-governmental organizations involved in women's health issues within selected areas of the Borrower's territory, and establishing partnerships, consultative fora and information networks between the non-governmental organizations, the DOH, the LGUs and local communities and other advocacy groups involved in such issues.

2. Carrying out of community-based initiatives in women's health care, family planning education and related information and communication programs.

Part D: Policy and Operations Research.

1. Conducting research and carrying out studies to assess the cost-effectiveness of various service delivery options.

2. Conducting research on priority issues affecting women's health within the Borrower's territory.

3. Carrying out of Project-related monitoring and evaluation studies.

* * * * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
October 1, 2000	345,000
April 1, 2001	360,000
October 1, 2001	370,000
April 1, 2002	385,000
October 1, 2002	400,000
April 1, 2003	410,000

October 1, 2003	425,000
April 1, 2004	440,000
October 1, 2004	455,000
April 1, 2005	475,000
October 1, 2005	490,000
April 1, 2006	510,000
October 1, 2006	525,000
April 1, 2007	545,000
October 1, 2007	565,000
April 1, 2008	585,000
October 1, 2008	605,000
April 1, 2009	625,000
October 1, 2009	650,000
April 1, 2010	670,000
October 1, 2010	695,000
April 1, 2011	720,000
October 1, 2011	745,000
April 1, 2012	770,000
October 1, 2012	800,000
April 1, 2013	825,000
October 1, 2013	855,000
April 1, 2014	885,000
October 1, 2014	920,000
April 1, 2015	950,000

*The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines"), and in accordance with the following procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of Paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. In the case of fixed-price contracts, the bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1. of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period, if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, items of goods shall be grouped into bid packages estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1. hereof, goods manufactured in the territory of the Borrower may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Local Competitive Bidding. Contracts for goods estimated to cost the equivalent of less than two hundred thousand dollars (\$200,000) per contract, up to an aggregate amount not to exceed the equivalent of four million two hundred thousand dollars (\$4,200,000), and contracts for works, up to an aggregate amount not to exceed the equivalent of four million three hundred thousand dollars (\$4,300,000), may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures and standard bidding documents satisfactory to the Bank.

2. Shopping. Contracts for goods estimated to cost the equivalent of less than one hundred thousand dollars (\$100,000), up to an aggregate amount not to exceed the equivalent of two million two hundred thousand dollars

(\$2,200,000), may be awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Limited International Bidding and Direct Contracting. Contracts for specialized medical equipment, drugs and chemicals, up to an aggregate amount not to exceed the equivalent of one million seven hundred fifty thousand dollars (\$1,750,000) may be awarded either: (i) through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three (3) qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof); or (ii) after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to (i) each contract to be awarded pursuant to the provisions of part A.1. hereof, (ii) the first contract to be awarded pursuant to the provisions of Part C.1 hereof, and (iii) each contract estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two (2) conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two (2) conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of fifteen percent (15%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Parts A (3), A (4), A (5), A (7), B (2), B (3) and D of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines").

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with

such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) each; or (b) contracts for the employment of consulting individuals estimated to cost less than the equivalent of fifty thousand dollars (\$50,000) each. However, this exception to prior Bank review shall not apply to: (i) the terms of reference for such contracts; (ii) single sourceselection of firms; (iii) assignments of a critical nature as reasonably determined by the Bank; (iv) amendments to contracts for consulting firms raising the contract value to the equivalent of one hundred thousand dollars (\$100,000) or more; or (v) amendments to contracts for the employment of consulting individuals raising the contract value to the equivalent of fifty thousand dollars (\$50,000) or more.

SCHEDULE 5

Implementation Program

1. The DOH shall, not later than July 1, 1995, designate the Undersecretary/Chief of Staff of the DOH as the Project Director, responsible for the overall supervision of the Project.
2. The DOH shall, not later than July 1, 1995, designate the Assistant Secretary for Special Concerns of the DOH as the Project Coordinator.
3. The DOH shall, not later than July 1, 1995, employ and assign to the PMO a Desk Officer, acceptable to the Bank, who shall be responsible for overseeing the implementation of activities financed out of the proceeds of the Loan.
4. The DOH shall, not later than July 1, 1995, establish a Project Steering Committee which shall provide policy guidance on the implementation of the Project and approve the annual implementation plans in conjunction with the annual budget.
5. The DOH shall, not later than July 1, 1995, assign to its Regional Field Offices responsibility for, in their respective regions: (a) coordination of Project implementation; (b) monitoring of progress in Project performance; (c) assisting in the collection of documentation to support statements of expenditures; and (d) preparation of financial statements and accounts.
6. The DOH shall execute PIAs with each concerned provincial and city LGU, as provided under Section 3.04 of this Agreement, which shall include arrangements for the implementation of the Project, in particular: (a) detailed description of the Project components to be undertaken in each concerned province or city; (b) financing arrangements for the respective Project components, including (i) the cost of the resources to be allocated under the Project and made available to the concerned LGU on a grant basis, and (ii) the cost of the resources to be contributed by the concerned LGU; (c) delineation of tasks and responsibilities of the DOH and the concerned LGU, respectively, in the implementation of the Project; (d) undertaking by the concerned provincial LGU to negotiate, within three months of the execution of its PIA, agreements with the municipalities located within the concerned province regarding their respective responsibilities and contributions

under the Project; (e) undertaking by the concerned LGU to release its health staff to participate in training activities under the Project; and (f) provision for suspension or cancellation of the assistance to the concerned LGU in the event of its failure to comply with its obligations under its PIA.

7. Not later than December 31 of each Fiscal Year, beginning in Fiscal Year 1995, the DOH shall, in consultation with the Bank, update its Project Implementation Plan, and shall thereafter promptly carry out such Plan.

8. Not later than June 30 and December 31 of each Fiscal Year, beginning in Fiscal Year 1995, the DOH shall furnish to the Bank semi-annual reports on progress in Project performance.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) The term "Authorized Allocation" means an amount equivalent to one million dollars (\$1,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to three hundred thousand dollars (\$300,000) until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall be equal to or exceed the equivalent of five million dollars (\$5,000,000).

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts determined by the Bank to be required to pay for Eligible Expenditures during the four (4) months following the date of each such request, which amount shall not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Bank shall have determined to be so required.

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

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) Once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined, at any time, that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion

thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

