

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3731GH
GRANT NUMBER H0190GH

Development Financing Agreement

(Second Health Sector Program Support Project)

between

REPUBLIC OF GHANA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Public Disclosure Authorized

Dated April 16, 2003

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**CREDIT NUMBER 3731GH
GRANT NUMBER H0190GH**

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated April 16, 2003, between REPUBLIC OF GHANA (the Borrower) and the 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, has requested the Association to assist in the financing of the Project;

(B) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made;

(C) the Association has received the following documents: (i) a Medium-Term Health Strategy, dated September 1995; and (ii) the five-year Program of Work (POW), dated January 2002, from the Borrower, part of which describes a program of actions, objectives and policies designed to implement activities under the Borrower's Medium-Term Health Strategy for the Fiscal Years 2002 to 2006 (the two documents shall collectively be referred to as the Program) and declaring the Borrower's commitment to the execution of the Program;

(D) the Borrower intends to obtain from various Development Partners (as hereinafter defined) grants and loans to assist in financing the Program;

(E) the Borrower, the Association and the Co-operating Partners (as hereinafter defined) have entered into a Memorandum of Understanding providing for common procedures on procurement, disbursement, cooperation and exchange of information; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the financing to the Borrower upon the Credit and Grant 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 in Schedule 5 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

- (a) "ADB" means the African Development Bank;
- (b) “Affected Person” means a person who on account of the acquisition of land, for purposes of construction of health facilities under the Program had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and “Affected Persons” means, collectively, all persons who qualify as an Affected Person;
- (c) “ATF Rules” means the Accounting, Treasury and Financial Reporting Rules and Instructions of the MOH issued on October 1, 1997 that sets out the financial management arrangements, organization structure (including internal audit function), staffing, standard accounting forms, books, ledgers for the implementation of activities under the Program;
- (d) "BADEA" means Arab Bank for Economic Development in Africa;
- (e) "BMC" means a Budget and Management Center, certified as having the capacities of carrying out financial management and procurement responsibilities under the Program at district, regional and national levels;
- (f) "CIDA" means the Canadian International Development Agency;
- (g) “Common Management Arrangements” means the common system and processes adopted at the Health Partners Summit on December 6, 2001;

- (h) "Co-operating Partners" means, collectively, DANIDA, DFID, the Government of the Kingdom of the Netherlands, the European Union and the Association and other donors pooling at least a part of their funds into the Health Account (as hereinafter defined) and having signed the Memorandum of Understanding;
- (i) "DANIDA" means the Danish International Development Assistance;
- (j) "Development Partners" means collectively, the ADB, BADEA, the Co-operating Partners, CIDA, WHO, UNICEF, UNFPA, USAID, GTZ, JICA, OPEC Fund and Saudi Fund for Development (as herein defined) and any other national or international agency contributing funds or technical assistance for the Program, and "Donor" means each and every donor individually;
- (k) "DFID" means the Department for International Development of the United Kingdom of Great Britain and Northern Ireland;
- (l) "Environmental Management Plan" means the set of mitigation, enhancement, monitoring, and institutional measures dated _____ to be taken during implementation of the Project to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;
- (m) "EU" means European Union;
- (n) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;
- (o) "Financial Procedures Supplement" means the supplement to the ATF Rules concerning the content and frequency of the regular financial monitoring reports and reporting formats, as may be amended from time to time with the prior agreement of the Association, and such term includes any schedules to the Financial Procedures Supplement;
- (p) "Fiscal Year" or "FY" means the twelve-month period beginning January 1 and ending December 31 of each year;
- (q) "Ghanaian Cedi" and "C" mean the currency of the Borrower;
- (r) "GHS" means the Ghana Health Service, established pursuant to the Ghana Health Service and Teaching Hospitals Act, 1996, Act 525;

- (s) "GTZ" means Gesellschaft für Technische Zusammenarbeit;
- (t) "Health Account" the separate book of accounts maintained by the Borrower in the accounting records of MOH to record the financial resources contributed by Co-operating Partners to the Program;
- (u) "IGF" means Internally Generated Funds, funds which are generated by each BMC through cost-recovery measures, including donations and fees collected from patients;
- (v) "JICA" means the Japan International Cooperation Agency;
- (w) "MOH" means the Borrower's Ministry of Health;
- (x) "OPEC Fund" means the Organization of Petroleum Exporting Countries Fund for International Development;
- (y) "Process for the Definition and Review of Capital Projects" means the policy document adopted by the Borrower dated March 26, 1997, which describes the process for approving and carrying out capital investment projects in the health sector under the Program; as may be amended from time to time with the prior agreement of the Association;
- (z) "Procurement Manual" means the manual setting out the national and sectoral rules and procedures for national competitive bidding, standard bidding documents, and a negative list that identifies items that are not eligible for financing (including expenditures for personal emoluments under Government Classification Item 1), as shall have been agreed with the Association for purposes of the implementation of activities under the Program, as same may be amended from time to time with the prior agreement of the Association, and such term includes any schedules to the Procurement Manual;
- (aa) "Procurement Plan" means the annual procurement plan which includes all procurement to be carried out under the Program for the following year;
- (bb) "Report Based Disbursements" means withdrawal of funds from the Credit or Grant Accounts using the method referred to in paragraph 5(a) of Schedule 1 to this Agreement;
- (cc) "Resettlement Policy Framework" means the Resettlement Policy Framework, dated September 2002 , which sets out a framework of

principles and procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with said framework, as said framework may be revised from time to time with the agreement of the Association;

- (dd) "Subprogram" means the annual program of activities included in the Program to be carried out in each Fiscal Year, as agreed upon between the Borrower, the Association and the Co-operating Partners;
- (ee) "UNFPA" means the United Nations Population Fund;
- (ff) "UNICEF" means the United Nations Children's Fund;
- (gg) "USAID" means the United States Agency for International Development; and
- (hh) "WHO" means the World Health Organization.

ARTICLE II

The Financing

Section 2.01. The Association agrees to:

- (a) lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to forty-three million five hundred thousand Special Drawing Rights (SDR 43,500,000) (the Credit); and
- (b) make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-four million five hundred thousand Special Drawing Rights (SDR 24,500,000) (the Grant).

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

Section 2.03. The Closing Date shall be June 30, 2007, 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 commitment charges on the principal amounts of the Credit and Grant not withdrawn from time to time at rates to be set by the Association as of June 30 of each year, but such rates not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charges shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the respective Credit or Grant 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 rates 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 charges 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 May 15 and November 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 May 15 and November 15, commencing May 15, 2013 and ending November 15, 2042. Each installment to and including the installment payable on November 15, 2022 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 consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower

that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 Association, a plan for the future operation of the Project; and

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

Section 3.04. In carrying out the Project, the Borrower shall, until completion of the Project, maintain a system, satisfactory to the Association and the Co-operating Partners, which shall provide for the flow of funds to the BMCs for the purposes of carrying out parts of the Project in their areas.

Section 3.05. In carrying out capital investments under the Program, the Borrower shall take all measures necessary to ensure that contracts for such investments are awarded in accordance with the Process for the Definition and Review of Capital Projects.

Section 3.06. The Borrower shall cause MOH to:

(a) carry out the Environmental Management Plan, and prior to construction and rehabilitation of health facilities, establish environmental impact assessment procedures satisfactory to the Association for the design and procurement of such works; and

(b) prior to construction of any health facilities under the Program which would displace any Affected Persons or adversely affect their standards of living, or their rights, usufructs or customary rights to land or other resources under the Project, ensure that:

- (i) all rights to land, rights, usufructs or customary rights and other property are allocated or acquired, compensation therefor is paid, and resettlement is carried out in accordance with the principles and institutional procedures established in the Resettlement Policy Framework;
- (ii) ensure that Affected Persons shall be compensated, resettled and rehabilitated in accordance with the Resettlement Policy Framework;
- (iii) prepare and furnish to the Association, for each health facility where there are Affected Persons, a detailed resettlement action plan acceptable to the Association;
- (iv) document the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons; and

- (v) complete the implementation of such resettlement action plan in a manner satisfactory to the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause MOH and the BMC's to maintain a financial management system, including records and accounts, and to prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect the operations, resources and expenditures in respect of the Program of the BMC's, departments or agencies of the Borrower responsible for carrying out the Program or any part thereof.

- (b) The Borrower shall cause MOH and the BMC's:
 - (i) to have the records, accounts and financial statements (statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) to furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year: (A) certified copies of said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) to furnish to the Association such other information concerning said records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association shall from time to time reasonably request.

(c) For all expenditures under the Health Account with respect to which withdrawals from the Credit or Grant Accounts were made on the basis of Report Based Disbursements, the Borrower shall cause the MOH and the BMC's to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit or Grant Accounts 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 reports referred to in paragraph 5 (a) of Schedule 1 to this Agreement, 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 Borrower's progress reporting obligations set out in paragraph 11 of Schedule 4 to this Agreement, the Borrower shall cause MOH to prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which: (i) sets forth sources and uses of funds for the Program, both cumulatively and for the period covered by said report, showing funds provided under the Health Account, and explains variances between the actual and planned uses of such funds; (ii) describes physical progress in Program implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Program implementation; and (iii) sets forth the status of procurement under the Program and expenditures under contracts financed out of the Health Account, as at the end of the period covered by said report.

(b) The first FMR, in form and substance satisfactory to the Association, shall be furnished to the Association not later than six months after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Program through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than six months after each subsequent calendar quarter, and shall cover such calendar quarter.

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) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Program shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or

(B) any such 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 Association 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 Program 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 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that section.

ARTICLE VI

Effective date; Termination

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for Finance 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:

Minister of Finance
Ministry of Finance
PO Box M40
Accra, Ghana

Cable address:	Telex:	Facsimile:
ECONOMICON Accra	2205 MIFAEPGH	233 21 663854

For the Association:

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

Cable address:	Telex:	Fascimile
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF GHANA

/s/ Mr. Yaw Osafo-Mafo

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Mr. Mats Karlsson

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

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

<u>CATEGORY</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subprograms	Nil	18,000,000	Such percentage of Eligible Expenditures as the Association may determine for each Fiscal Year
(2) Unallocated	43,500,000	6,500,000	
Total	<u>43,500,000</u> =====	<u>24,500,000</u> =====	

2. The Borrower may, for the purposes of the Program, maintain in US Dollars an account in a commercial bank on terms and conditions satisfactory to the Association and the Co-operating Partners, including appropriate protection against set-off, seizure or attachment. Withdrawals from the Credit or Grant Accounts shall be deposited by the Association into such account for credit to the Health Account in accordance with the provisions of this Schedule 1.

3. For the purposes of this Schedule the term "Eligible Expenditures" means goods, works and services provided under a Subprogram for pharmaceutical drugs, medical supplies, medical equipment, civil works and operating costs for medical and support facilities, consulting and audit services, office supplies, vehicle and equipment operation, travel, per diem and supervision costs, and other expenditures under such Subprogram, but excluding salaries of officials of the Borrower's civil and public service.

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

(a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 6,000,000, may be made on account of payments made for expenditures before that date but after March 31, 2002;

(b) a Subprogram, unless: (i) such Subprogram has been approved by the Association in accordance with, and subject to, the provisions of paragraph 3 of Schedule 4 to this Agreement; and (ii) such other information as the Association shall specify by notice to the Borrower; or

(c) Payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency, other than the Association, shall have financed or agreed to finance under any other credit or grant.

5. (a) The Borrower may request withdrawals from the Credit or Grant Accounts to be made on the basis of the reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and other information as the Association shall specify by notice to the MOH.

(b) The Borrower may also request payments to be made directly to a supplier or consultant for goods, works, or services included in a Subprogram, or to such supplier's or consultant's commercial bank, to guarantee the letter of credit issued by such commercial bank, using the Association's Special Commitment procedures for the full amount of such requested payments. The disbursement percentage for subsequent disbursements to finance a Subprogram during the remainder of the Fiscal Year will be reduced by a corresponding amount to offset direct disbursements and amounts disbursed under Special Commitment procedures.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's Program to improve the health of the Borrower's population while reducing geographic, socio-economic and gender inequalities in health and health outcomes.

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

The carrying out of Subprograms for:

1. Strengthening priority health interventions. Implementing a package of priority health interventions, re-orientating secondary and tertiary services, empowering communities, improving the efficiency and effectiveness of health service provision, and institutionalizing quality in all health facilities.
2. Developing human resources for health services. Restructuring the distribution and skill mix of personnel in the health sector, developing and implementing continuous professional development programs, decentralizing health staff management, developing performance management systems, and promoting collaboration between public and private sector providers.
3. Enhancing infrastructure and support services. Reviewing and mapping physical assets, assessing the recurrent cost implications of planned and ongoing development projects, developing and implementing a hospital strategy, strengthening the capacity and institutional arrangements for capital investment management, developing and implementing a new transport policy to decentralize transport management and maintenance.
4. Fostering partnerships for health and promoting private sector participation in health service delivery. Empowering individuals, households, communities and community based organizations, building effective partnerships with the Borrower's other ministries, departments and agencies, strengthening the capacity to plan and manage inter-sectoral programs, and reorganizing resource flows in the health sector to support collaboration with other sectors, communities and civil society.
5. Improving regulation. Increasing consumer protection and representation, empowering statutory bodies to make them more accountable, and modernizing legal systems in the health sector.

6. Reforming organizational arrangements. Completing the reorganization of the health sector with clear roles for MOH and the Ghana Health Service, agreeing upon and implementing new institutional arrangements including legal systems, service agreements and inter-sectoral collaboration, and strengthening management of MOH, GHS, teaching hospitals, and other institutions in the health sector at regional and district levels.
7. Improving health sector financing. Increasing real per capita expenditure on health, enhancing and expanding pre-payment schemes, rationalizing the exemption policy, developing clear implementation guidelines, and revising the allocation formulae to include health needs, poverty and gender issues.
8. Improving financial management systems. Strengthening planning and budgeting systems for decentralized resource utilization and management, and establishing mechanisms at BMC level to determine efficient use of resources.
9. Further strengthening management information systems and performance monitoring. Developing performance indicators and providing an evidence base for policy and practice, building capacity to monitor contractual arrangements, strengthening the capacity for operational research, and improving the use of information technology.
10. Linkages with traditional and alternative medicine. Developing a national agenda for traditional and alternative medicine, designing and implementing quality assurance programs and initiating training programs for traditional and alternative medical practitioners.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Pre-qualification

Bidders for civil works estimated to cost the equivalent of \$10,000,000 or more shall be pre-qualified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$400,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each.

(c) Preference for Domestically Manufactured Goods and Domestic Contractors

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 and works to be carried out by domestic contractors.

(d) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods and works may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Goods estimated to cost less than \$400,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$2,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Vaccines, drugs and supplies may be procured from UNICEF or WHO, and contraceptives may be procured from UNFPA, in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract may be procured under 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$400,000 or more, works estimated to cost the equivalent of \$1,000,000 or more, limited international bidding, procurement from UN Agencies, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per

contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for financial auditors, procurement auditors, civil works consultants, and services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

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

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines. In exceptional cases, individual consultants may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 3 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall implement the Program in accordance with the procedures set out in the Memorandum of Understanding, the Procurement Manual, the Common Management Arrangements, the ATF Rules, and the Financial Procedures Supplement, and, except as the Association and the Co-operating Partners shall otherwise agree, the Borrower shall not amend, abrogate or waive any provision thereof if, in the opinion of the Association and the Co-operating Partners, such amendment, abrogation or waiver may materially and adversely affect the implementation of the Program.

2. MOH shall be responsible for the overall implementation of the Program, including, *inter alia*, overseeing the health sector policy reform, coordinating the Subprograms and coordinating the assistance from Co-operating Partners to the Program.

3. The Borrower shall:

(a) not later than October 31 of each Fiscal Year during the implementation of the Project or such later date as the Association may agree, commencing on October 31, 2003, furnish to the Association for its approval each proposed Subprogram to be carried out in the following Fiscal Year, modified in a manner satisfactory to the Association, taking into account its comments and views on the matter;

(b) carry out, or cause to be carried out, each such Subprogram in accordance with the Memorandum of Understanding, the Procurement Manual, the Common Management Arrangements, the ATF Rules, and the Financial Procedures Supplement; and

(c) not make any material change to the approved Subprogram without consultation with the Co-operating Partners and the Association.

4. Except as the Borrower and the Association shall otherwise agree, the Association shall not approve any proposal for a Subprogram furnished to it pursuant to subparagraph 3 (a) above unless and until:

(a) the Borrower shall have prepared and furnished to the Association an operational plan for the Subprogram, setting forth, *inter alia*, the activities to be carried out, any policy reforms and other measures to be implemented, the expenditures to be incurred, the sources of financing of such expenditures and the procurement plan to be followed; and

(b) the Association shall have been satisfied with the progress made to date in the carrying out of the current activities under the Subprogram to which the proposal relates on the basis of indicators referred to in paragraph 11 of this Schedule.

5. MOH shall be responsible for the preparation and implementation of health budgets for the consolidated activities under Subprograms and the monitoring of the performance of sector delivery of health services at the BMCs.

6. District health management teams established in each district shall be responsible for organizing the local provision of health services at the community level in a manner consistent with the terms of reference set forth in the Plan of Work. The teams shall prepare annual plans and budgets for their districts.

7. The regional health teams shall be responsible for providing supervision and logistical support to the districts and organizing referral care.

8. Health Account funds shall be used exclusively for the purposes of the Program. The Borrower shall disburse Health Account funds to BMCs that have been duly certified as specified in the ATF Rules and Financial Procedures Supplement pursuant to approved annual plans and budgets. Prior to disbursement of Health Account funds to a BMC, the financial controller of MOH, in consultation with staff of the Controller and Accountant General, will certify that the BMC concerned: (a) has taken the necessary measures to strengthen its internal financial management; and (b) is in compliance with the minimum criteria of eligibility for funding.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof; and

(b) furnish to the Association and the Co-operating Partners: (i) quarterly financial statements indicating all revenues and expenditures for each level of BMC, according to the source of funds, the budget items and a selection of performance indicators agreed upon between the Borrower and the Association; (ii) not later than January 1 of each year of implementation of the Program or such later date as the Association may agree, commencing on January 1, 2004, the annual MOH budget that is to be submitted to Parliament; (iii) not later than April 1 of each year of implementation of the Program or such later date as the Association may agree, commencing on April 1, 2004, an annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out the Program during the previous Fiscal Year and setting out the measures recommended to ensure the efficient carrying out of the Program and the achievement of the objectives thereof during the period following such date, and the report of actual expenditures against the budget for the previous Fiscal Year; and (iv) not later than October 31 of each year of implementation of the Program or such later date as the

Association may agree, commencing on October 31, 2003, the sector budget to be submitted by MOH to the Ministry of Finance for the following Fiscal Year.

10. The Borrower shall: (a) not later than the fifth year of the Program, carry out, under terms of reference satisfactory to the Association and the Co-operating Partners, an evaluation of the impact of the Program on the delivery of health services, including an analysis on the benefits derived by vulnerable groups of the population from public expenditures on health; and (b) soon thereafter, furnish the report of said evaluation to the Association and Co-operating Partners.

11. The Borrower shall, not later than July 31, 2003, put in place arrangements, satisfactory to the Association, including the appointment of a procurement auditor in accordance with the provisions of Section II of Schedule 3 to this Agreement, for reviewing the procurement of goods, works and services financed under the Program, including the reviewing of procurement procedures and processes.

SCHEDULE 5

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.”;

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”;

“17. “Financing” means the Credit and the Grant, except that when used in Article III, Sections 4.02, 4.03, 4.04, 4.06, 6.05, Article VII and Section 12.05 of the General Conditions, Financing means Credit only.”;
and

“18. “Credit or Grant Accounts” means the Credit Account and the Grant Account, except that when used in Article III and Sections 4.03, 4.04 and 12.05 of the General Conditions, Credit or Grant Account means Credit Account only.”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.
5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.
6. the term “Development Credit Agreement”, wherever used in the General Conditions, means this Development Financing Agreement;
7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Account*: The amount of the Credit shall be credited to the Credit Account and the amount of the Grant shall be credited to the Grant Account and such amounts may be withdrawn from the respective Credit or Grant Accounts by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”
8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:
9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”