

CONFORMED COPY

LOAN NUMBER 7333-PA

Loan Agreement

(Mother and Child Basic Health Insurance Project)

between

REPUBLIC OF PARAGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 4, 2006

LOAN NUMBER 7333-PA

LOAN AGREEMENT

AGREEMENT, dated May 4, 2006, between REPUBLIC OF PARAGUAY (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 (the Project), has requested the Bank to assist in the financing of the Project;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) “Annual Management Agreement” means the agreement referred to in Section 3.08 (a) of this Agreement;

(b) “Authorized Health Service Providers” means the public and private health facilities and other entities that meet the criteria set forth in the Operational Guidelines to provide the EPS (as hereinafter defined);

(c) “Capitation Payment” means a financial transfer, analogous to a health insurance premium, from the Borrower to the Participating Department (as hereinafter defined), in an initial amount equivalent to 5.60 Dollars per person enrolled (or eligible to be so enrolled in those cases where the amount is advanced pursuant to Section 3.09 (a) (i) of this Agreement) in the MCBI (as hereinafter defined) as of each relevant year;

(d) “Department” means a political subdivision of the Borrower as per the Borrower’s Constitution, and the term “Departments” means all of said political subdivisions;

(e) “DR” means *Dirección Regional de Salud*, any of the Borrower’s MSPBS (as hereinafter defined) Regional Health Directorates with jurisdiction over health service delivery in a Participating Department;

(f) “Eligible Department” means any of the Departments of Itapúa, San Pedro, Amambay, Canendiyú, Alto Paraná, Presidente Hayes, Boquerón, Concepción, Caazapá y Caaguazú, and any other Department that the Borrower and the Bank may agree from time to time;

(g) “Eligible Population” means all women of child bearing age and all children under 5 years of age, within the territory of a Participating Department (as hereinafter defined);

(h) “Enrolled Population” means the Eligible Population that has voluntarily enrolled in the MCBI (as hereinafter defined) in each Participating Department;

(i) “EPS” means the Essential Package of Health Services that may be provided through MCBI to the Enrolled Population;

(j) “Financial Concurrent Auditor” means the independent financial auditor mentioned in Section 3.09 (b) of this Agreement;

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Fiscal Year” means the Borrower’s fiscal year from January 1 to December 31 of each year;

(m) “*Guaraníes*” or “Gs.” means the lawful currency of the Borrower;

(n) “Health Service Provider Agreement” means the agreement referred to in Section 3.08 (b) (i) of this Agreement;

(o) “ITU” means the insurance technical unit referred to in Section 3.04 of this Agreement;

(p) “MCBI” means the Borrower’s Maternal and Child Basic Health Insurance Program (*Programa de Aseguramiento Materno Infantil*);

(q) “MCBI Fund” means the fund administered by the Borrower to support the MCBI;

(r) “MCBI Fund Administrative Unit” means the unit referred to in Section 3.04 of this Agreement;

(s) “MSPBS” means *Ministerio de Salud Pública y Bienestar Social*, the Borrower’s Ministry of Health and Social Welfare;

(t) “Monitoring Indicators” means the indicators set forth in the letter of even date with this Agreement from the Borrower to the Bank;

(u) “Operational Guidelines” means the guidelines referred to in Section 3.07 (a) (i) of this Agreement;

(v) “Operational Manual” means the manual referred to in Section 3.07 (a) (ii) of this Agreement;

(w) “Participating Department” means any Eligible Department that has fulfilled the requirements of the Loan Agreement and the Operational Manual to participate in, and receive funds under the Project;

(x) “Procurement Plan” means the Borrower’s procurement plan, dated June 24, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(y) “Regional and Local Health Councils” means the councils created by Law 1032/96 and regulated under Decree 19.996/98, with participation of representatives of MSPBS, civil society and departmental or municipal authorities, as the case may be;

(z) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(aa) “*Superintendencia de Salud*” means Health Superintendency, the Borrower’s entity in charge of certifying public and private health service providers, established by the Borrower’s Law 1032/96 and regulated by the Borrower’s Decree 20.553/98;

(bb) “Technical Concurrent Auditor” means the independent technical auditor mentioned in Section 3.09 (b) of this Agreement; and

(cc) “UAPI” means *Unidad de Administración de Préstamos Internacionales*, the Borrower’s international loans administration unit within the MSPBS specialized in financial management and procurement procedures for all multilateral projects being implemented by the MSPBS and established further to Ministerial Resolution 1385 of November 18, 2004.

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, an amount equal to twenty two million Dollars (\$22,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 Capitation Payments, works, goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) Upon confirmation from the Bank, the Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be July 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10 The Minister of Public Health and Social Welfare or any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, and, to this end, shall carry out the Project, through MSPBS, with the assistance of the Participating Departments through their respective DRs, with due diligence and efficiency and in conformity with appropriate administrative, financial, social, health care and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

Section 3.04. For the purposes of assisting MSPBS in the overall management of the Project, the Borrower shall: (a) maintain throughout the execution of the Project,

within MSPBS, a project administration unit (the UAPI) with functions and responsibilities acceptable to the Bank; (b) create and maintain throughout the execution of the Project, within MSPBS, an insurance technical unit (the ITU) with functions and responsibilities acceptable to the Bank and staffed with a coordinator, technical experts and other personnel in number and with qualifications and experience acceptable to the Bank; and (c) create and maintain throughout the execution of the Project, an administrative unit for the MCBI Fund (the MCBI Fund Administrative Unit) with functions and responsibilities acceptable to the Bank and staffed with personnel in number and with qualifications and experience acceptable to the Bank.

Section 3.05. For the purposes of implementing Part A.1 of the Project, the Borrower shall prepare, and thereafter maintain during the execution of the Project, a list of eligible health services which constitute the EPS and prices for such services (the *Nomenclador*), to be provided by the Authorized Health Service Providers, acceptable to the Bank.

Section 3.06. The Borrower and the Bank shall jointly review once every year during Project implementation, beginning on January 1, 2007, the Capitation Payments amounts, the eligible health services and prices for such services included in the *Nomenclador* referred to in Section 3.05 of this Agreement and adjust as necessary in a manner satisfactory to the Bank.

Section 3.07. (a) Without limitation of the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with:

- (i) operational guidelines for Part A.1 of the Project (the Operational Guidelines), satisfactory to the Bank, which shall contain, *inter alia*:
 - (A) the terms of reference, functions and responsibilities for the personnel of the ITU responsible for Project coordination, monitoring and evaluation of the Project;
 - (B) the criteria, detailed rules and procedures for the Capitation Payments;
 - (C) the indicators to be used in the monitoring and evaluation of the Project;
 - (D) draft models for the Annual Management Agreement and the Health Service Provider Agreements;
 - (E) criteria for the conversion of Eligible Population into Enrolled Population, including procedures, activities and monitoring indicators for the enrollment of said

population, (such criteria shall also ensure adequate and culturally appropriate access by indigenous peoples to the MCBI);

- (F) criteria for the conversion of Eligible Departments into Participating Departments, including procedures, activities and monitoring indicators for the compliance of the requirements for such conversion;
 - (G) procedures for deletion from lists of the Enrolled Population of children as they become older than five years; and
 - (H) criteria for selection of Authorized Health Service Providers and their certification by the *Superintendencia de Salud*; and
- (ii) an operational manual for Parts A.2 through E of the Project (the Operational Manual), satisfactory to the Bank, which shall contain, *inter alia*: (A) the procedures for procurement of works, goods and services, as well as for financial management and audits of the Project; and (B) the flow and disbursement arrangements of Project funds except for funds under Part A.1 of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce the Operational Manual and the Operational Guidelines, or any provision thereof. In case of any conflict between the provisions of this Agreement and those of the Operational Manual and the Operational Guidelines, the provisions of this Agreement shall prevail.

Section 3.08. For the purposes of implementing Part A.1 of the Project the Borrower shall:

(a) each year during Project implementation, enter into an agreement (the Annual Management Agreement) with each Participating Department through its respective DR, setting forth the technical, financial, administrative and fiduciary aspects of the national and departmental participation in the implementation of the Project, all on terms and conditions acceptable to the Borrower and the Bank;

(b) cause each Participating Department (through the respective Annual Management Agreement) to: (i) enter into an agreement with an Authorized Health Service Provider (the Health Service Provider Agreement), setting forth, *inter alia*, the Participating Department's payment mechanisms with respect to each of the Authorized Health Service Providers; and (ii) ensure that payments to each Authorized Health

Service Provider are solely in payment for services provided, and at prices, that are included in the *Nomenclador* referred to in Section 3.05 of this Agreement; and

(c) (i) exercise its rights and carry out its obligations under each Annual Management Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; (ii) cause each Participating Department to exercise its rights and carry out its obligations under each Health Service Provider Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (iii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Annual Management Agreement.

Section 3.09. (a) The Borrower shall make Capitation Payments available to an Eligible Department, but only after said Eligible Department has fulfilled the requirements set forth in the Operational Guidelines in order to become a Participating Department and is party to an Annual Management Agreement that is in effect. Such Capitation Payments shall be made in the following manner:

- (i) within the first twelve months after the date on which an Eligible Department converts into a Participating Department, the Borrower shall make available to such Participating Department an amount from the Loan calculated on the basis of estimated Eligible Population in such Participating Department based on the 2002 census as reflected in the Annual Management Agreement for such Participating Department; and
- (ii) after said first twelve months, the Borrower shall disburse the Capitation Payment every quarter, or with such frequency as agreed from time to time by the Borrower and the Bank, immediately after the Participating Department has sent to the Borrower the registry with said Participating Department's Enrolled Population as of the previous year and the Borrower, through ITU, has certified and validated said registry.

(b) For the purposes of the certification and validation procedure referred to in (a)(ii) above, the Borrower shall appoint and thereafter maintain during the execution of the Project, unless the Bank otherwise agrees, an independent financial auditor (the Financial Concurrent Auditor) and an independent technical auditor (the Technical Concurrent Auditor) responsible for producing quarterly audit reports on the technical and administrative functioning of the MCBI in the Participating Departments, under terms of reference satisfactory to the Bank. Said auditors shall provide such audit reports to the Borrower and the Bank within 30 days after the end of each relevant quarter.

(c) In case that a Technical Concurrent Auditor or Financial Concurrent Auditor shall have determined at any time that:

- (i) any Capitation Payment to a Participating Department was made based on inaccurate information of Enrolled Population provided by such Participating Department; or
- (ii) a Participating Department has issued an instruction of payment for a service not provided or at a price not included in the *Nomenclador* referred to in Section 3.05 of this Agreement; or
- (iii) a Participating Department has carried out an action that the Borrower and the Bank consider as such Participating Department not complying with its obligations under the relevant Annual Management Agreement or Health Service Provider Agreement, such Participating Department shall, promptly upon notice from the Borrower provide instructions for deposit into the Special Account an amount equal to the amount of such Capitation Payment or the portion thereof not so eligible or inaccurately justified, without the prejudice to the right of the Borrower to suspend the right of said Participating Department to receive funds under Part A.1 of the Project.

Section 3.10. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 15 and July 15 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by January 31 or July 31 of each year, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.11. The Borrower shall conduct a mid-term review with the Bank of the progress of the Project, by not later than when 50% of the resources of the Loan have been disbursed or two and a half years of Project implementation, whichever comes first, based on an assessment with terms of reference acceptable to the Bank, as well as the reports referred to in Section 3.10 of this Agreement.

Section 3.12. The Borrower shall: (a) not later than August 1 of each year during Project implementation, starting August 1, 2005, furnish to the Bank for its approval, an annual implementation plan, each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Borrower during the calendar year following the presentation of each said plan; and (ii) the updated Procurement Plan for each said calendar year; and (b) thereafter implement each said annual implementation plan, approved by the Bank, in accordance with its terms.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) ensure (as the case may be) that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the end of the fiscal year in which the last withdrawal from the Loan Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure (as the case may be) that such statements of expenditure are included in any audit that the Bank may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.10 of this Agreement, the Borrower shall, through MSPBS, prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days 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 Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Operational Manual shall have been finalized in a manner acceptable to the Bank.

Section 5.02. The date August 2, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Hacienda
Chile 128 c/ Palma
Asunción, Paraguay
Facsimile: (595-21) 448 283

Copy to:

Ministerio de Salud Pública y Bienestar Social
Silvio Pettirossi y Brasil
Asunción, Paraguay
Facsimile: (595 21) 214741

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:

Facsimile:

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 PARAGUAY

By /s/ Ernst Bergen

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	68,000	100%
(2) Goods	3,732,000	100%
(3) Consultants' Services and Audits	1,789,000	100%
(4) Training	3,970,000	100%
(5) Capitation Payments	8,288,000	80% first two years up to a maximum of \$2,000,000; and 60% thereafter
(6) Operating Costs	2,100,000	100%
(7) Unallocated	1,998,000	
(8) Front-end fee	55,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u>22,000,000.</u>	

2. For the purposes of this Schedule:

(a) the term “operating costs” means reasonable ITU and UAPI recurrent expenditures, which would not have been incurred absent the Project, including office supplies and maintenance, communications, vehicle operation and rental, transport and per diems and travel expenses for ITU, UAPI staff and mobile teams under Part A.2 of the Project; and

(b) the term “training” means expenditures incurred by the Borrower to finance reasonable expenditures for rental of training facilities, materials and equipment, non-consultant training services and per diems of trainers and trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,200,000, may be made on account of payments made for expenditures before that date but after July 1, 2005; and (b) payments in respect of Category 5 set forth in the table in paragraph 1 to this Schedule; until: (i) the MCBI Fund Administrative Unit shall have been duly established; (ii) the Technical Concurrent Auditor and Financial Concurrent Auditor shall have been contracted; (iii) the Operational Guidelines shall have been finalized in a manner satisfactory to the Bank; (iv) with respect to each Participating Department, the relevant Annual Management Agreement shall have been duly executed; and (v) the financial management system for the MCBI Fund shall have been established in a manner satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$350,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; and (d) services of consulting firms and training under contracts costing less than \$100,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce infant and maternal mortality through: (a) the increase of the effective access to maternal and child health services by the Borrower's targeted population; and (b) the creation and implementation of the MCBI.

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 objective:

Part A: Implementation of the MCBI

1. Making Capitation Payments for MCBI services.
2. Reaching dispersed and isolated populations in Participating Departments through the delivery of EPS, enrollment of population in MCBI and provision of health education services.

Part B: Strengthening of Stewardship and Capacity

1. Strengthening the MSPBS' capacity to launch, regulate, manage and monitor the MCBI through the:
 2. (a) establishment of the ITU; and
 - (b) development of the MSPBS' service purchasing capacity, as well as setting up of managerial and administrative systems for overseeing the implementation of the MCBI and the delivery of the EPS by Authorized Health Service Providers.
3. Strengthening the capacity and the service quality needed to launch and implement the MCBI and to deliver the EPS, through the:
 - (a) establishment of start-up/monitoring teams to enhance the DRs' and Authorized Health Services Providers' technical, managerial, service quality and supervision capacity;
 - (b) implementation of the remedial actions suggested by the start-up/monitoring teams under 2(a) above; and
 - (c) provision of basic waste management, transport and communication equipment for the health facilities to deliver the EPS.

Part C: Communication and Community Outreach

1. Disseminating of information about the Project's activities in the Participating Departments, as well as promoting the Eligible Population's enrollment in the MCBI, with special attention to the dissemination of information regarding services available to Enrolled Population including indigenous peoples groups, through the provision of technical assistance to: (a) Regional and Local Health Councils to establish social monitoring and auditing mechanisms for the MCBI; (b) support Authorized Health Services Providers through the enrolment and training of community health workers; and (c) Regional and Local Health Councils that request support to establish social pharmacies.
2. Carrying out of selected studies to monitor and evaluate the results of the activities under this Part C of the Project.

Part D: MCBI Program Monitoring, Evaluation and Concurrent Auditing

1. Strengthening the capacity of MSPBS to:
 - (a) monitor, evaluate and audit the MCBI, through the provision of technical assistance and support for the carrying out of auditing services under the Project, purchasing of software and equipment, and the provision of specialized training; and
 - (b) develop and implement operational and strategic changes to increase the effectiveness of the MCBI.
2. Carrying out of technical and financial concurrent audits and standard financial audits.
3. Carrying out of end-of-Project evaluation activities, including a national demographic and sexual and reproductive health survey scheduled for 2010-2011.

Part E: Project Management

Strengthening of the ITU through the provision of technical assistance, equipment and the financing of operating costs.

* * *

The Project is expected to be completed by January 31, 2011.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15	
Beginning November 15, 2010 through November 15, 2027	2.78%
On May 15, 2028	2.70%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Works estimated to cost less than \$250,000 equivalent per contract and goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Procurement from UN Agencies. Vehicles regardless of cost, may be procured directly from *the Inter Agency Procurement Services (IAPSO)*, vaccines regardless of cost may be procured directly from the Pan American Health Organization (PAHO), and drugs regardless of cost may be procured directly from the United Nations Procurement and Assembling Center (UNIPAC), in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments estimated to cost less than \$100,000 equivalent per contract and which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection 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 \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

(a) The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph:

- (i) Contracts with a total duration of six months or more shall be advertised in accordance with the provisions of paragraph 2.5 of the Consultant Guidelines; and.
- (ii) except as the Bank shall otherwise agree, the Borrower shall not cancel, waive or fail to enforce any contract procured under this Part B.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract procured in accordance with the procedures referred to in A.1 above; (b) the first two contracts in each year procured in accordance with the procedures referred to in B.1 and B.2 above; and (c) with respect to each contract for the employment of consulting firms procured in accordance with the procedures referred to in A above and estimated to cost the equivalent of \$100,000 or more. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) 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, works, Capitation Payments 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 the amount of US\$2,200,000 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 the amount of US\$500,000 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 US\$2,200,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the

basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the 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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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