

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER TF092893-CN

DFID Trust Fund Grant Agreement

(Rural Health Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as administrator of Grant Funds

**provided by the Government of the United Kingdom of Great Britain and Northern
Ireland through the Department for International Development**

Dated October 8, 2008

GRANT NUMBER TF092893-CN

DFID TRUST FUND GRANT AGREEMENT

AGREEMENT dated October 8, 2008, entered into between PEOPLE'S REPUBLIC OF CHINA ("Recipient") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as administrator of grant funds provided by the Government of the United Kingdom of Great Britain and Northern Ireland through the Department for International Development ("DFID").

The Recipient and the World Bank hereby agree as follows:

Article I

Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 ("Standard Conditions"), with the following modification, constitute an integral part of this Agreement, namely, that Section 2.09(a) of the Standard Conditions is hereby modified to read as follows:

“(c) enable the World Bank’s and DFID’s representatives: (i) to visit any facilities and sites included in the Project; and (ii) to examine the goods financed out of the proceeds of the Grant, and any documents relevant to the performance of its obligations under the Grant Agreement.”

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, in this Agreement or in the Appendix to this Agreement.

Article II

The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project through MOH and shall cause the Project Participants to carry out their respective Rural Health Programs and the Project Counties to carry out their respective Sub-projects in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**Article III
The Grant**

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to three million eight hundred thousand Pounds Sterling (£3,800,000) (“Grant”) to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

**Article IV
Additional Remedies**

- 4.01. The Additional Events of Suspension referred to in Section 4.02(i) of the Standard Conditions consist of the following:
- (a) Any Project Participant shall have failed to perform any of its obligations under the Implementation Agreement to which it is a party.
 - (b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project Participant will be able to perform its obligations under the Implementation Agreement to which it is a party.
 - (c) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by any Project Participant of its obligations under the Implementation Agreement to which it is a party.
 - (d)
 - (i) Subject to sub-paragraph (ii) of this paragraph:
 - (A) the right of the Recipient to withdraw the proceeds of any loan made to the Recipient for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
 - (ii) Sub-paragraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the World Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and
 - (B) adequate funds for

the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

Article V
Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:
- (a) The Recipient, through MOH, shall have adopted the Operation Manual that it prepared in accordance with Section I, paragraph 6 of Schedule 2 to this Agreement.
 - (b) Implementation Agreements shall have been executed between the Recipient and at least three (3) Project Participants in accordance with the provisions set forth in Section I, paragraph 8(c) of Schedule 2 to this Agreement and the Implementation Agreements, have been duly authorized or ratified by all necessary governmental action.
 - (c) The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01(b) of this Agreement, there shall be furnished to the World Bank, an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing, on behalf of the Project Participant, that the Implementation Agreement to which it is a party has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.
- 5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this Agreement (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

- 5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient's Representative; Addresses

- 6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is Recipient's Minister of Finance.

- 6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Facsimile:

(86-10) 6855-1125

- 6.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

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)	1-202-477-6391

AGREED at Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zheng Xiaosong
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
(acting as administrator of Grant Funds provided by the
Government of the United Kingdom of Great Britain and
Northern Ireland through the Department for International
Development)

By /s/ David Dollar
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in providing increased and more equitable access to quality health services and in improving financial protection against escalating health care costs, both for rural households, and in improving management of public health threats.

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

Part A: Health Reform Innovations

Development and implementation of a program for innovations in health reform through the provision of grants to carry out sub-projects to:

- (1) Strengthen the development of the rural health protection system by improving the financing and coverage of health services for rural households, especially under the national New Cooperative Medical Scheme (“NCMS”) and the Medical Assistance Scheme (“MAS”), including:
 - (a) Streamlining and coordinating management and delivery of services to increase benefits under the NCMS and MAS.
 - (b) Developing means to control the cost of health services by piloting alternative provider payment mechanisms, by strengthening fund management and control capability, by establishing interfaces with health service units for electronic data exchange, by introducing new functions that permit actuarial analysis, and by providing training and other capacity building activities and incentives for cost control and management.
 - (c) Developing guidelines or options for the design of basic health benefit packages.
 - (d) Strengthening monitoring and supervision of health services management, such as establishment of democratic and community-based monitoring and supervision mechanisms.
- (2) Improve the conditions and capacity of rural health providers, thereby contributing to increased quality, efficiency and cost control of delivering health services, including:

- (a) Developing models for defining, monitoring, and enforcing performance standards for the delivery of health services; for developing clinical guidelines and systems to monitor the adherence to standards for health service delivery; and for establishing and implementing systems to monitor the quality of health care.
 - (b) Developing and implementing a model for integrated primary health care, including: (i) definition of functions of integrated primary care providers; (ii) assessment of infrastructure and human resource implications of consolidation and integration; (iii) development and implementation of proposals for specific institutional and financing arrangements; and (iv) renovation and construction of village clinics and provision of basic medical equipment.
 - (c) Developing and implementing an appropriate regulatory framework to support reforms in delivery of health services, including minimum licensing requirements for providers; reporting requirements to ensure transparency; price regulation to ensure consistency with new provider payment methods; and regulation that effectively controls the use of operational surpluses of government and non-profit providers.
 - (d) Developing capacity and capabilities to implement reforms in delivery of health care services, including provision of training and development of protocols for health professionals and management methods for administrators managing the transition to retirement or alternative employment for those health professionals that do not meet defined standards, and development and implementation of sustainable plans and systems for certification and re-certification of health professionals, and for ensuring adequate staffing in rural locations and facilities.
- (3) Create a sustainable framework for public health function and services in rural areas, including:
- (a) Developing a multi-sectoral public health strategy that, among other things, sets out government priorities and actions for improving health, defines the roles of institutions around core public health functions and services, details coordination mechanisms for the provision of health care services and designates responsibilities for particular tasks, including areas such as immunization, maternal and child health and health education.
 - (b) Piloting models for the financing and organization of public health services; for community health promotion to address major health risks; and for improved management of communicable and non-communicable diseases through improved disease surveillance at the county and village levels.

- (c) Monitoring and evaluating the effectiveness, efficiency, and equity of public health services provision.

Part B: Project Coordination, Policy Development and Replication

Establishment and strengthening of institutional capacity and capability at the national, provincial and county levels to manage Project activities, to evaluate and disseminate Project implementation experiences (comprising a series of models that can be replicated at the provincial and national level) and to take into account such experiences when developing rural health policies at the national and provincial levels, all through the provision of technical assistance, training, study tours and goods.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements***Institutional Arrangements*

1. The Recipient shall:
 - (a) maintain at the national level, throughout the period of implementation of the Project, the Foreign Loan Office (“FLO”) established within MOH, responsible for serving as a secretariat to LG and overall for implementation of Project activities, monitoring and evaluation, replication of successful innovation pilots, liaising with Project Participants, and providing coordination among relevant agencies and departments within MOH.
 - (b) establish, and thereafter maintain at the national level throughout the period of implementation of the Project, the following with composition, terms of reference, staffing and other resources acceptable to the World Bank:
 - (i) by December 1, 2008, a Leading Group (“LG”) chaired by the Recipient’s Minister of Health to be responsible for providing overall policy direction for the implementation of the Project, for coordinating ministries at the central government level, and for evaluating Project achievements for purposes of dissemination and new policy development;
 - (ii) by December 1, 2008, a National Expert Panel (“NEP”) to be responsible for providing technical assistance to Project Participants and Project Counties in the preparation of sub-project proposals; and
 - (iii) a National Validation Panel, which includes independent experts, to be responsible for monitoring and evaluating the progress of Sub-projects with focus on whether milestones set out in Sub-project MOUs have been achieved and whether remedial actions or rewards are warranted, depending on implementation progress of the Sub-projects.

Resettlement, Environment Protection, Minority Development

2. The Recipient shall:
 - (a) take, and shall cause the Project Participants and Project Counties to take, all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently in carrying out the Project;
 - (b) for this purpose, whenever implementation of Project activities under Rural Health Programs or Sub-projects would give rise to Displaced Persons, prepare, and cause to be prepared, a resettlement action plan in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, provide said plan to the World Bank for review and implement such resettlement action plan as shall have been accepted by the World Bank as being satisfactory; and
 - (c) provide, and cause the Project Participants and Project Counties concerned to provide, to the World Bank for its prior concurrence any proposed modification or waiver of the Resettlement Policy Framework and any resettlement action plan prepared in accordance with said Framework and accepted by the World Bank as being satisfactory, prior to putting into effect such modification or waiver.
3. The Recipient shall implement, and shall cause the Project Participants and Project Counties to implement, Project activities under their respective Rural Health Programs and Sub-projects in accordance with sound environmental practices and standards.
4. The Recipient shall carry out, and shall cause the Project Participants and Project Counties to carry out, social assessments in accordance with the guidelines set forth in the Social Assessment Guidelines and in the event that ethnic minorities may be affected by Project activities under their respective Rural Health Programs or Sub-projects, to comply with the provisions of the Ethnic Minorities Planning Framework and where an ethnic minority development plan is required to be prepared pursuant to said Framework, to furnish said plan to the World Bank for review prior to the approval of the Rural Health Program or Sub-project concerned.
5. The Recipient shall, and shall cause the Project Participants and Project Counties to:
 - (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the World Bank,

the implementation of any resettlement action plan prepared in accordance with the Resettlement Policy Framework and any ethnic minority development plan prepared in accordance with the Ethnic Minorities Planning Framework and the achievement of the objectives of said plans, including the engagement of experienced and qualified independent monitoring agencies acceptable to the World Bank; and

- (b) include in the Project Report, which is to be prepared under Section II.A paragraph 1 of this Schedule, the results of the monitoring and evaluation activities with respect to the plans referred to in sub-paragraph (a) above.

Operation Manual

6. The Recipient shall:

- (a) prepare, in accordance with terms of reference satisfactory to the World Bank, an operation manual (“Operation Manual”) setting out the criteria, procedures, terms and conditions for the appraisal, selection and approval of Project Participants, Project Counties, Rural Health Programs, Sub-projects and Block Grants, including those set out or referred to in Section I, paragraphs 7 and 8 of this Schedule;
- (b) adopt and carry out, and cause each Project Participant to adopt and carry out, the Project in accordance with an Operation Manual that has been approved by the World Bank; and
- (c) furnish to the World Bank for its prior approval any proposed amendment to the provisions of the Operation Manual and, thereafter, put into effect such amendment as shall have been agreed with the World Bank.

Rural Health Program

7. The Recipient shall select and approve project participants and rural health programs, consisting of Sub-projects under Part A of the Project and activities under Part B of the Project (collectively, “Rural Health Program”) in accordance with the criteria and procedures set out in the Operation Manual, including that:

- (a) A program may be approved only if said program supports, at the minimum:
 - (i) measures to improve equity of access to quality health services (including, by gender);

- (ii) measures to strengthen the NCMS design and management (such as, monitoring and information systems, NCMS governance and accountability arrangements, resource mobilization, benefit package design and linkage with MAS);
 - (iii) reforms of health provider payment methods;
 - (iv) reforms to enhance health service quality including, linking quality standards and procedures with financial and other incentives; and
 - (v) institutional and financing reforms to improve public health functions and delivery of public health services.
- (b) A program may be considered for approval only if it is presented in a template approved by the World Bank and includes the following information:
- (i) the results of a social assessment carried out in accordance with the Social Assessment Guidelines;
 - (ii) prioritized proposals that respond to the key health system challenges outlined in said program and the social assessment;
 - (iii) a workplan and budget for the first year of implementation of said program;
 - (iv) milestones for the implementation of said program; and
 - (v) plans for operational research, technical assistance, supervision, evaluation, knowledge management and dissemination, and project management that effectively relates to its county programs.
8. A Rural Health Program to be carried out by a Project Participant shall be eligible for financing out of the proceeds of the Grant only if:
- (a) the Project Participant shall have demonstrated to the satisfaction of the Recipient, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the World Bank, that the following requirements have been met:
 - (i) the proposed program shall be economically and financially viable, and technically feasible, and shall have been designed in

accordance with appropriate public health standards and practices;

- (ii) the Project Participant shall have the organization, management and resources required for the proper carrying out of the proposed program, and to this end, has established a PMLG, PPMO and PEP in accordance with the provisions of paragraph 1 of Annex 1 to this Schedule; and
 - (iii) for programs proposed: (A) before March 31, 2011; or (B) before the proceeds of the Grant are fully disbursed, whichever date is earlier, the cost of goods and works does not exceed 30% of the total amount of Grant and Loan to be used for the proposed program.
- (b) The Recipient shall have allocated an amount of the proceeds of the Grant (“Allocated Amount”) to said Project Participant to enable it to carry out its Rural Health Program.
 - (c) The Recipient shall have entered into an implementation agreement with the Project Participant to carry out its Rural Health Program and to make available to the Project Participant the latter’s respective Allocated Amount on conditions acceptable to the World Bank and as set forth in an implementation agreement, which shall be entered into between the Recipient and said Project Province in accordance with the provisions set forth in Annex 1 to this Schedule.

Implementation Agreement between the Recipient and Project Participant

- 9. The Recipient shall: (a) cause each Project Participant to perform, in accordance with the provisions of the Implementation Agreement to which said Project Participant is a party, all of the obligations of said Project Participant therein set forth; (b) take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Participant to perform such obligations; and (c) not take or permit to be taken any action which would prevent or interfere with such performance.
- 10. The Recipient shall: (a) exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant; and (b) except as the World Bank shall otherwise agree, not assign, amend, abrogate or waive any Implementation Agreement or any provision thereof.

Annual Work Plan

11. The Recipient shall furnish to the World Bank by October 31 of each year, commencing on October 31, 2008, an annual work plan for implementation, at the central and provincial government levels, of activities under Part B of the Project prepared in accordance with terms of reference acceptable to the World Bank and thereafter, implement said plan, taking into account the World Bank's comments thereon.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Recipient shall monitor and evaluate, and cause to be monitored and evaluated, the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in Annex 2 to this Schedule. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than April 15 and October 15 in each year, starting on April 15, 2009.
2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions and furnish the Completion Report to the World Bank not later than six (6) months after the Closing Date. The World Bank will furnish a copy of the final Completion Report to DFID.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain, or cause to be maintained, a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the World Bank by not later than January 31, April 30, July 31 and October 31 in each year after the end of each calendar quarter, interim un-audited financial reports for the Project covering the calendar quarter, in form and substance satisfactory to the World Bank.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Recipient).
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
<p>(a) National Competitive Bidding, subject to the following additional procedures:</p> <p>The procedures to be followed for National Competitive Bidding shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:</p>

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in the Recipient's country, except contracts for works estimated to cost less than US\$2,000,000 equivalent each or goods contracts that are estimated to cost less than \$300,000 equivalent each, which may be advertised in a provincial daily newspaper. Such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.
- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders that meet the qualification criteria set out in the pre-qualification document shall be allowed to bid and there shall be no limit on the number of pre-qualified bidders.
- (iv) All bidders shall be required to provide security in an amount sufficient to protect the Project Participants in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (v) Bidders will be allowed to submit bids by mail or by hand. The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (vi) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vii) All bid evaluation criteria shall be disclosed in the bidding documents and quantified in monetary terms or expressed in the form of pass/fail requirements.
- (viii) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Project Participants.
- (ix) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined: (A) to be

	substantially responsive to the bidding documents; and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
(x)	Each contract financed with the proceeds of the Grant shall provide that the suppliers and contractors shall permit the World Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the World Bank.
(xi)	Government owned enterprises in the Recipient’s country may be permitted to bid or submit a proposal for goods if they can establish that they: (A) are legally and financially autonomous; (B) operate under commercial law; and (C) are not a dependent agency of the agency conducting the procurement.
(xii)	Re-bidding should not be allowed solely because the number of bids is less than three (3).
(b)	Shopping
(c)	Community Participation procedures described in the Operation Manual
(d)	Force Account

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Selection Based on Consultant's Qualifications
(b)	Single Source Selection
(c)	Selection of Individual Consultants
(d)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the World Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article II of the Standard Conditions, this Section, and such additional instructions as the World Bank shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocation of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category (inclusive of taxes subject to the provisions of Section 3.07 of the Standard Conditions).

Category	Amount of the Grant Allocated (expressed in Pounds Sterling (£))	Percentage of Expenditures to be financed
(1) For MOH, goods, consultants' services, training and Program Support under Part B of the Project	1,475,000	100%

Category	Amount of the Grant Allocated (expressed in Pounds Sterling (£))	Percentage of Expenditures to be financed
(6) For Jiangsu Province: (a) Block Grants (b) Goods, consultants' services, training and Program Support under Part B of the Project	0 0	
(7) For Qinghai Province: (a) Block Grants (b) Goods, consultants' services, training and Program Support under Part B of the Project	417,632 47,369	70% of Block Grants disbursed 70%
(8) For Shaanxi Province: (a) Block Grants (b) Goods, consultants' services, training and Program Support under Part B of the Project	297,582 52,418	70% of Block Grants disbursed 70%
(9) For Shanxi Province: (a) Block Grants (b) Goods, consultants' services, training and Program Support under Part B of the Project	215,174 19,825	70% of Block Grants disbursed 70%
TOTAL AMOUNT	3,800,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; and

- (b) under each of Categories (2) through (9), unless and until the World Bank shall have notified the Recipient and the Project Participant concerned of the World Bank's receipt of evidence satisfactory to the World Bank that an Implementation Agreement has been entered into between the Recipient and said Project Participant and that said Implementation Agreement has been duly authorized or ratified by the Recipient and said Project Participant and is legally binding upon the Recipient and said Project Participant in accordance with its terms.
- 2. The Closing Date referred to in Section 3.06 of the Standard Conditions is March 31, 2011.

**Annex 1
to Schedule 2**

For purposes of Section I, paragraph 8(c) of Schedule 2 to this Agreement, each Implementation Agreement with a Project Participant shall contain provisions pursuant to which the Project Participant shall be obligated to carry out the following actions:

Management

1. Each Project Participant shall undertake to have the organization, management and resources required for the proper carrying out of its Rural Health Program, and to this end shall establish and, thereafter, maintain throughout the period of Project implementation, with composition, terms of reference, staffing and other resources acceptable to the World Bank:
 - (a) A Participant Multi-sectoral Leadership Group (“PMLG”) to be responsible for reviewing sub-project proposals by Project Counties, evaluation of pilot schemes and disseminating lessons learnt from implementation of Sub-projects.
 - (b) A Participant Project Management Office (“PPMO”), established within the Health Bureau of the Project Participant concerned, to be responsible for day-to-day implementation of the Project, including assisting Project Counties with the preparation and implementation of Sub-project proposals, procurement, monitoring and evaluation of activities, management of funds and progress reporting.
 - (c) A Participant Expert Panel (“PEP”) to be responsible for providing technical assistance to Project Counties in the preparation of Sub-project proposals.

General Implementation

2.
 - (a) Each Project Participant shall undertake: (i) to carry out its Rural Health Program, and cause the Rural Health Program to be carried out, in accordance with the provisions of Article V of the General Conditions and in accordance with the provisions of the Operation Manual; and (ii) to provide promptly as needed, the funds, facilities, services and other resources required for its Rural Health Program.
 - (b) Without limitation to the above provision, and except as the World Bank shall otherwise agree, each Project Participant shall undertake to carry out its Rural Health Program, and to cause its Rural Health Program to be carried out, in accordance with the following provisions:

- (i) Procure all goods, works and services, which are required for the Project Participant's Rural Health Program and to be financed out of the proceeds of the Grant, in accordance with the provisions of Section III of Schedule 2 to this Agreement.
- (ii)
 - (A) Maintain records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures of said Project Participant's departments or agencies that are responsible for carrying out its Rural Health Program or any part thereof.
 - (B)
 - (I) Have the records and accounts referred to in sub-paragraph (b)(ii)(A) above, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the World Bank;
 - (II) furnish to the World Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the World Bank shall have reasonably requested; and
 - (III) furnish to the World Bank such other information concerning said records and accounts and the audit thereof, as the World Bank may, from time to time reasonably request.
- (iii) Monitor and evaluate the progress of its Rural Health Program and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in Annex 2 of Schedule 2 to this Agreement. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to MOH for consolidation and submission to the World Bank pursuant to paragraph 1 of Section II.A of Schedule 2 to this Agreement.
- (iv) Without limitation on the provisions in sub-paragraph (b)(iii) above, prepare and furnish interim un-audited financial reports for its Rural Health Program covering each calendar semester to MOH for consolidation and submission to the World Bank pursuant to paragraph 2 of Section II.B of Schedule 2 to this Agreement.

Sub-projects and Block Grants

3. Each Project Participant shall undertake to apply the criteria, procedures, terms and conditions set forth in the Operation Manual in the selection and approval of project counties, sub-projects and block grants, including that:
 - (a) A proposed project county may be approved only if the project county has the organization, management and resources required for the proper carrying out of its sub-project, and to this end shall have established and, thereafter, shall maintain throughout the period of implementation, with composition, terms of reference, staffing and other resources acceptable to the World Bank:
 - (i) A County Multi-sectoral Leadership Group (“CMLG”) to be responsible for reviewing and evaluating sub-project proposals.
 - (ii) A County Project Management Office (“CPMO”), established within the Health Bureau of the Project County concerned, to be responsible for the preparation of sub-project proposals and upon approval of such proposals, the implementation of activities thereunder.
 - (iii) A County Expert Panel (“CEP”) to be responsible for provision of technical assistance for the preparation and implementation of Sub-projects.
 - (b) A sub-project may be approved only if it supports, at the minimum:
 - (i) measures to improve equity of access to quality health services (including, by gender);
 - (ii) measures to strengthen the NCMS design and management (such as, monitoring and information system, NCMS governance and accountability arrangements, resource mobilization, benefit package design, linkage with MAS);
 - (iii) reforms of provider payment methods;
 - (iv) reforms to enhance quality including, linking quality standards and procedures with financial and other incentives; and
 - (v) institutional and financing reforms to improve public health functions and delivery of public health services.

- (c) A sub-project proposal may be considered for approval only if it is presented in a template approved by the World Bank, which template shall include the following information:
 - (i) the results of a social assessment carried out in accordance with the Social Assessment Guidelines;
 - (ii) prioritized proposals that respond to the key health system challenges outlined in the said Sub-project and in the social assessment;
 - (iii) a work plan and budget for the first year of implementation of the proposed rural health program; and
 - (iv) milestones for the implementation of the proposed rural health program.
- (d) Before March 31, 2011, or before the proceeds of the Grant are fully disbursed, whichever date is earlier, a sub-project may be approved only if the cost of goods and works does not exceed 30% of the total amount of Grant and Loan to be used for the proposed sub-project.

Sub-project MOU

- 4. Upon approval of a Project County, Sub-project and Block Grant in accordance with the provisions of the Operation Manual, each Project Participant shall undertake to:
 - (a) Allocate to the Project County a portion of the Project Participant's Allocated Amount ("Block Grant") for purposes of carrying out said Project County's Sub-project.
 - (b) Make said Block Grant available to the Project County, on a grant basis and in Renminbi and only after the Project Participant has entered into a memorandum of understanding ("Sub-project MOU") with the Project County concerned on conditions satisfactory to the World Bank and with rights adequate to protect the interests of the World Bank, the Borrower and the Project Participant, including the right of the Project Participant to suspend or terminate the right of the Project County to the use of the proceeds of the Block Grant upon failure by such Project County to perform its obligations under its Sub-project MOU.

5. Each Project Participant shall undertake to:
 - (a) cause the Project County to perform, in accordance with the provisions of the Sub-project MOU to which said Project County is a party, all of the obligations of said Project County therein set forth;
 - (b) take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project County to perform such obligations; and
 - (c) not take or permit to be taken any action which would prevent or interfere with such performance.
6. Each Project Participant shall undertake:
 - (a) to exercise its rights under each Sub-project MOU in such manner as to protect the interests of the Project Participant, Recipient and World Bank and to accomplish the purposes of the Block Grant; and
 - (b) except as the World Bank shall otherwise agree, not assign, amend, abrogate or waive any Sub-project MOU or any provision thereof.
7. Each Project Participant shall undertake to withdraw the proceeds of the Block Grant only to finance expenditures for goods, works, services, training and Program Support required for a Sub-project.
8. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of a Block Grant unless a Sub-project MOU has been signed with the Project County concerned in accordance with the provision of paragraph 4(b) of this Annex 1.

Annex 2 to Schedule 2

Performance Indicators Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
Increased and more equitable access to quality health services, improved financial protection, and better management of public health threats in pilot provinces and counties, with lessons to support reforms in non-project areas	<ol style="list-style-type: none"> 1. Ratio of hospitalization rate of MA (Medical Assistance scheme) vs. non-MA beneficiaries 2. Ratio of outpatient visit rate of the bottom 20% vs. the top 40% in the income distribution in the previous year 3. % households with annual health expenditures in excess of 20% of total income 4. Rate of overall satisfaction with rural health services among men 5. Rate of overall satisfaction with rural health services among women 6. Public health system scorecard rating. 7. Innovation accepted and rolled out at provincial or regional level 	<ol style="list-style-type: none"> 1. Tracking disparities in use of inpatient services between poor (as proxied by MA membership) and non-poor. 2. Tracking disparities in use of outpatient services between poor and non-poor. 3. Tracking the incidence of catastrophic health expenditures, and progress in improving incidence through improvements in the NCMS. 4. Tracking progress in improving the performance of the rural health system as perceived by users. 5. Same as (4). 6. Tracking progress in public health system reform and strengthening. 7. Tracking extent to which innovations are found useful for policy purposes by higher level authorities and thus scaled up.
Intermediate Outcomes	Project Outcome Indicators	Use of Project Outcome Information
Reform Area 1: Improved health financing system and management	<ol style="list-style-type: none"> 8. % of total annual (individual) inpatient expenses financed through out-of-pocket payments for NCMS members 9. % of total annual (individual) inpatient expenses financed through out-of-pocket payments for MA beneficiaries covered by the NCMS 10. Total annual NCMS expenditures as % of total annual NCMS funds 11. % NCMS enrollment rate 	<ol style="list-style-type: none"> 8. Tracking progress towards greater reliance on pre-payment (deeper coverage). 9. Same as (7), but specifically for the poorest households. 10. Tracking improvement in management of NCMS funds and actuarial basis for benefit package, which are expected to reduce annual surpluses and deficits. 11. Tracking progress in client satisfaction with and trust in NCMS, as reflected in enrollment decision.
Reform Area 2: Improved quality, efficiency, and cost control in service delivery	<ol style="list-style-type: none"> 12. Average number of outpatient visits per health professional per day over last year at THC 13. Rate of change in average cost per inpatient case in county hospitals 14. % of deliveries by caesarean section 15. % of outpatients at township health centers and village clinics that receive two or more antibiotics 16. % of women who have access to a female qualified health worker 	<ol style="list-style-type: none"> 12. Tracking improvement in technical efficiency due to overstaffing or under-use in THCs 13. Tracking progress in implementing effective cost control measures 14. Tracking effectiveness of cost control and quality improvement measures (based on comparisons with other project areas and possibly non-project areas). 15. Tracking effectiveness of broad cost control and quality improvement measures aimed at reducing

		unnecessary interventions and promoting appropriateness of care. 16. Tracking improvement in staffing patterns and systems to ensure access to female health workers.
Reform Area 3: Improved financing and provision of core public health service	17. % of villages that meet 'healthy village' standards 18. % of women between age 15 and 49 who undergo gynecological check-up in the last year 19. % of individuals over 35 with hypertension who have been followed-up in the three months 20. Annual per capita government expenditures on county level public health institutions and programs	17. Tracking progress in delivering core public health services in rural villages. 18. Tracking progress in expanding coverage and improving quality of effective preventive services 19. Same as (16). 20. Tracking progress in expanding government support to public health services and programs.
Component 2:	21. Project lessons and experiences are documented and disseminated (Qualitative) 22. Project experiences are extended or adopted outside project areas (Qualitative)	

APPENDIX**Definitions**

1. “Allocated Amount” means, in respect of each Project Participant, an amount of the Grant proceeds allocated by the Recipient to said Project Participant pursuant to the provisions of Section I, paragraph 8(b) of Schedule 2 to this Agreement and to be utilized by said Project Participant for purposes of carrying out its Rural Health Program.
2. “Block Grants” means, collectively, grants made by Project Participants to their Project Counties out of the proceeds of the Grant and proceeds of the Loan for the financing of: (a) goods; (b) works; (c) training; and (d) the reasonable cost of incremental expenditures incurred by CPMOs in the implementation of Sub-projects (which expenditures would not have been incurred absent the Sub-projects) including, cost of office supplies, communication, courier services, contract staff, staff travel and associated per diem, but excluding salaries, all for the purpose of carrying out of Sub-projects pursuant to the provisions of the Sub-project MOUs signed between the Project Participants and their respective Project Counties in accordance with the provisions of paragraphs 4 of Annex 1 of Schedule 2 to this Agreement; and the term “Block Grant” means, individually, any such Block Grant.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004.
5. The acronym “CPMOs” mean, collectively, the county project management offices established by Project Counties pursuant to the provisions of paragraph 3(a)(ii) of Annex 1 to Schedule 2 to this Agreement.
6. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.
7. The acronym “FLO” refers to the Foreign Loan Office established within MOH and referred to in Section I, paragraph 1 of Schedule 2 to this Agreement.

8. “Implementation Agreement” means in respect of each Project Participant, the agreement entered into between the Recipient and said Project Participant in accordance with the provisions of Section I, paragraph 8(c) of Schedule 2 to this Agreement, as the same may be amended from time to time.
9. “Ethnic Minorities Planning Framework” means the Ethnic Minorities Planning Framework dated April 22, 2008, which forms part of the Social Assessment Guidelines, and sets out, among other things, the policies and procedures for free, prior and informed consultation with ethnic minorities, who are affected by Project activities, to establish whether there is broad community support for the Project and for the preparation of ethnic minority development plans where applicable.
10. “Loan” means an amount of fifty million Dollars (\$50,000,000) to be provided by the World Bank in its own capacity to assist in the financing of the Project.
11. “Loan Agreement” means the agreement to be entered into between the People’s Republic of China and the World Bank providing for the Loan.
12. The acronym “MAS” means the Medical Assistance Scheme described in the Circular on Implementing the MFA in Rural areas, issued by the Ministry of Civil Affairs, Ministry of Health and Ministry of Finance.
13. “MOH” means the Recipient’s Ministry of Health, and any successor thereto.
14. The acronym “NCMS” means the New Cooperative Medical Scheme described in the Circular on the Establishment of New Cooperative Medical System in Rural Areas issued by the General Office of State Council.
15. “Operation Manual” means the Operation Manual prepared and adopted by the Recipient and the Project Participants pursuant to Section I, paragraph 6 of Schedule 2 to this Agreement.
16. The acronym “PEP” means the Participant Expert Panel established by a Project Participant pursuant to the provisions of paragraph 1(c) of Annex 1 to Schedule 2 to this Agreement.
17. The acronym “PMLG” means the Participant Multi-sectoral Leadership Group established by a Project Participant pursuant to the provisions of paragraph 1(a) of Annex 1 to Schedule 2 to this Agreement.
18. The acronym “PPMO” means the project management office established by a Project Participant pursuant to the provisions of paragraph 1(b) of Annex 1 to Schedule 2 to this Agreement.

19. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004.
20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 2008, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
21. “Program Support” means the reasonable cost of incremental expenditures incurred by FLO and PPMOs in the implementation of the Project (which expenditures would not have been incurred absent the Project) including, cost of office supplies, communication, courier services, contract staff, staff travel and associated per diem, but excluding salaries of civil servants.
22. “Project County” means a county selected in accordance with the provisions of the Operation Manual, and any successor thereto to carry out a Sub-project; and “Project Counties” means, collectively, all such Project Counties.
23. “Project Participants” means, collectively: (a) the Provinces of Gansu, Qinghai, Heilongjiang, Henan, Jiangsu, Shaanxi and Shanxi, and Chongqing Municipality; and (b) any other province, autonomous region or municipality of the Recipient selected in accordance with the criteria and procedures set out in the Operation Manual, and any successor thereto to carry out a Rural Health Program; and “Project Participant” means, individually, any of such Project Participants.
24. “Resettlement Policy Framework” means the Rural Health Resettlement Policy Framework dated April 22, 2008, and adopted by MOH, which framework sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans whenever required during the implementation of the Project, as said framework may be amended from time to time with the prior concurrence of the World Bank.
25. “Rural Health Programs” means, collectively, the sub-projects to be carried out under Part A of the Project and the activities under Part B of the Project, which satisfy the requirements set forth or referred to in Section I, paragraphs 7 and 8 of Schedule 2 to this Agreement, and which are to be carried out by Project Participants and their Project Counties utilizing the proceeds of their Allocated Amount; and “Rural Health Program” means, individually, any of such programs.
26. “Social Assessment Guidelines” means the Social Assessment Guidelines dated April 22, 2008, which sets out the guidelines for assessing the needs and interests of different stakeholders and ethnic minorities that may be affected by Sub-project activities; for consultations with and analyses of interests of stakeholders

and ethnic minorities; for developing proposals to address the interests identified with a view to ensuring access and equity of access to health services and includes the Ethnic Minorities Planning Framework.

27. “Sub-projects” means, collectively, the programs to be carried out under Part A of the Project by Project Counties and pursuant to Sub-project MOUs to be signed between Project Counties and their respective Project Participants in accordance with the provisions of paragraph 4 of Annex 1 to Schedule 2 to this Agreement; and “Sub-project” means, individually, any such Sub-project.
28. “Sub-project MOU” refers to the Memorandum of Understanding to be entered into between a Project Participant and its Project County pursuant to the provisions of paragraph 4 in Annex 1 to Schedule 2 to this Agreement.