CREDIT NUMBER  4050-NI

Development Credit Agreement

Second Health Services Extension and Modernization Project

between

THE REPUBLIC OF NICARAGUA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 7, 2005, between the REPUBLIC OF NICARAGUA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated May 5, 1998, describing a program designed to raise the efficiency, effectiveness, equity and sustainability of the Borrower’s health system (the Program) and declaring the Borrower’s commitment to the execution of such program; and

(B) the Borrower has requested that the Association support the Borrower’s execution of the Program through a series of credits over a period of approximately nine years to be utilized by the Borrower in the implementation of the Program;

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

(D) the Association has received the following documents from the Borrower: (i) a 2004-2015 National Health Plan, dated September 6, 2004; and (ii) a Five Year Implementation Plan (the FYIP), dated January 24, 2005, part of which describes a program of actions, objectives and policies designed to implement the Borrower’s National Health Plan for Fiscal Years 2005-2009 (the two documents shall be referred to as the Plans) and declares the Borrower’s commitment to the execution of the Plans;

(E) the Borrower intends to obtain from various Participating Donors (as hereinafter defined) grants and loans to assist in financing the FYIP; and

(F) the Borrower, the Association and the Participating Donors have signed a statement (the Code of Conduct) incorporating the basic guidelines for implementing the FYIP and intend to enter into a Memorandum of Understanding, to be prepared under the Project, providing for common procedures on cooperation, dialogue, exchange of information, procurement and disbursement;

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

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association dated January 1, 1985 as amended through 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 Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association 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 Credit is excessive or otherwise unreasonable, the Association, may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

(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”; and

(c) Paragraph (c) of Section 9.06 of the General Conditions is amended to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “BPHS” means Basic Package of Health Services, which comprises the list of health care services (including, *inter alia*: (i) maternal care; (ii) sexual reproductive health; (iii) infant health, child nutrition and development; and (iv) health education, detection and treatment of the most prevalent communicable and non-communicable diseases in adults) to be covered under a community health financing scheme offered by the SILAIS to PCs (as hereinafter defined);

(b) “Casas Maternas” means the centers that provide shelter and counseling (including, *inter alia*, family planning and other reproductive health services) to women and their children, as the case may be, in isolated and remote areas of the Borrower’s territory;

(c) “Capitation Transfers” means the amount transferred by the MOH to a SILAIS Administrative Unit as part of a community health financing scheme under Management Agreements, calculated based on the per capita cost to make the BPHS available to a designated number of beneficiaries within a PC (as hereinafter defined);

(d) “EA” means the Environmental Assessment conducted by the Borrower and presented to the Association on March 3, 2005 which contains, *inter alia*, a Health Care Waste Management Plan and implementation procedures and mitigation arrangements to be utilized in managing the environmental impact generated by the construction and renovation or expansion of existing facilities under the Project;

(e) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for consultants’ services, goods, works and Capitation Transfers referred to in Section 2.02 of this Agreement;

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

(h) “FONSALUD” means Health Sector Support Fund, referring to the various special accounts of the Borrower, the Association and the Participating Donors contributing to the pooling of resources for the implementation of the FYIP;

(i) “IPP” means the Indigenous People’s Plan presented by the Borrower to the Association and dated February 10, 2005;
(j) “Management Agreements” means “Convenios de Gestion”, the health care planning, monitoring and implementation agreements between the MOH and each SILAIS Administrative Unit by which, inter alia, Capitation Transfers will be made;

(k) “MOH” means the Borrower’s Ministry of Health;

(l) “Municipios” means the Borrower’s local area health networks;

(m) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(n) “Participating Community” and “PC” means a “manzana”, “barrio”, “localidad”, “comunidad” or “comarca”; one of the various administrative subdivisions inside the Borrower’s territory and as defined under the laws of the Borrower, which for purposes of the Project, shall contain the population to be enrolled as potential beneficiaries of the BPHS;

(o) “Participating Donors” means, collectively, the Inter-American Development Bank, the Kingdom of Sweden, the Republic of Finland, the Kingdom of the Netherlands, pooling at least part of their funds into the FONSALUD and having signed the Code of Conduct;

(p) “Procurement Plan” means the Borrower’s procurement plan, dated March 3, 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;

(q) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(r) “SILAIS” means Sistema Local de Atención Integral de Salud, the MOH’s Local Health Care System serving the departments and autonomous regions of Boaca, Chinandega, Chontales, Esteli, Jinotega, León, Madriz, Magalpa, Nueva Segovia, Región Autónoma del Atlántico Norte, (RAAN), Región Autónoma del Atlántico Sur (RAAS), and Rio San Juan; and, any other department or autonomous region subsequently agreed to by the Borrower and the Association;

(s) “SILAIS Administrative Unit” means the Unit in each SILAIS with: (i) the contracting power to enter Management Agreements with MOH; and (ii) the capacity to carry out financial management and procurement responsibilities under the Project;
(t) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(u) "Technical Audits" means: (i) a social audit conducted quarterly by the Borrower to verify delivery of the BPHS; (ii) BPHS beneficiary satisfaction surveys carried out annually by the Borrower; and (iii) an independent assessment carried out annually by a consultant selected by the MOH to verify compliance with the indicators set forth in the Operational Manual.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to seven million, two hundred thousand (7,200,000) Special Drawing Rights (SDR).

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

Section 2.03. The Closing Date shall be November 30, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.
(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2015, and ending February 15, 2045. Each installment to and including the installment payable on February 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.
(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and to this end, shall carry out the Project, through the MOH and with the assistance of the SILAIS Administrative Units, with due diligence and efficiency and in conformity with appropriate health, administrative, financial, social, public utility 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 Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, 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 Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 3.03. The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Association, said Manual to include, inter alia:
(a) Project implementation procedures, monitoring guidelines, the IPP, a summary of the EA and other related documents for the execution of the Project;

(b) the criteria, costing mechanism, detailed rules and procedures for: (i) Capitation Transfers to be made under Management Agreements; and (ii) the delivery of the BPHS to PCs under performance agreements with public sector health care providers and service contracts with private sector health care providers;

(c) procedures for: (i) the procurement of goods, works and services for the Project; and (ii) strengthening the procurement function of the MOH and the SILAIS Administrative Units;

(d) the normative framework for the FONSALUD and other necessary financial management and audit procedures for the Project;

(e) flow and disbursement arrangements of Project funds;

(f) the indicators to be used in monitoring and evaluating the Project;

(g) draft models of Management Agreements, performance agreements with public sector health care providers and service contracts with private sector health care providers; and

(h) detailed procedures on service delivery modalities of the BPHS.

The Operational Manual may be amended from time to time with the Association’s prior approval. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Borrower shall:

(a) for purposes of implementing Part A.1 of the Project, formally restructure the MOH central offices and establish, by January 31, 2006, a purchasing unit within the MOH with clearly defined responsibilities on formulation and evaluation of Management Agreements;

(b) establish within the MOH, and thereafter maintain throughout the execution of the Project, an entity to coordinate the FYIP with the Borrower, the Association and the Participating Donors, with functions and responsibilities acceptable to the Association and staffed with: (i) a head appointed by the Minister of Health whose terms of reference and conditions of employment are acceptable to the Association; and (ii) a small number of other officials who will be the liaison between the MOH and the
SILAIS, whose number, terms of reference and selection process are acceptable to the Association;

(c) establish within the MOH, and thereafter maintain throughout the execution of the Project, a unit under the leadership of the MOH’s General Financial Administration Directorate, staffed with employees in adequate numbers, including a coordinator and two analysts, to: (i) manage the funds in the separate special accounts within the FONSAULUD; and (ii) to supervise the financial management obligations of the SILAIS Administrative Units and the Municipios;

(d) reorganize the Procurement Unit within the MOH and strengthen it by appointing at least 5 procurement officers with qualifications and experience, satisfactory to the Association; and

(e) for purposes of assisting in the overall management and execution of the Project, cause each SILAIS Administrative Unit, through the Management Agreements, to create and maintain throughout the execution of the Project, management units with qualified staff in adequate numbers, functions and responsibilities, satisfactory to the Association.

Section 3.05. The Borrower shall:

(a) through the MOH, enter into a Management Agreement with each SILAIS Administrative Unit, which agreement shall include, inter alia:

(i) the SILAIS Administrative Unit’s obligation to:

   (A) carry out the Management Agreement and to meet the performance benchmarks specified or referred to therein;

   (B) enter into performance agreements with public sector health care providers and service contracts with private sector health care providers setting forth the SILAIS payment mechanisms with each service provider and to ensure that each service provider is solely paid for services related to the delivery of the BPHS;

   (C) keep records and accounts of expenditures incurred for the delivery of the BPHS; and

(ii) monitoring, execution and capacity-building plans for the implementation of the FYIP;
(b) (i) exercise its rights and carry out its obligations under each Management Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit;

(ii) cause each SILAIS Administrative Unit to exercise its rights and carry out its obligations under agreements signed with public and private health care providers in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit; and

(iii) except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Management Agreement or any provision thereof.

Section 3.06. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the implementation of the Project and the achievement of the objectives thereof, in accordance with the indicators set forth in the Operational Manual, all in a manner satisfactory to the Association;

(b) not later than November 1 of each year during Project implementation, submit to the Association for its approval Project annual implementation plans which shall include the project activities to be carried out by the Borrower in the coming year and thereafter, implement each said annual implementation plan, as agreed with the Association, in accordance with its terms;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, bi-annual reports (i) integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section and of the Technical Audits on the progress achieved in the carrying out of the Project during the period preceding the date of said reports, and (ii) 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

(d) bi-annually review with the Association on such dates as the Association shall request, the reports referred to in paragraph (c) 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 said reports and the Association’s views on the matter.

Section 3.07. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:
(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the MOH, shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect 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 Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association, hired by the Borrower within three months after the Effective Date;

(ii) furnish to the Association 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 Association): (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 Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this
Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Section 3.06 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, 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 Association 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 Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

**ARTICLE V**

**Remedies of the Association**
Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that any SILAIS Administrative Unit shall have failed to perform any of its obligations under its Management Agreement with the MOH, in which case the Association may suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account for expenditures incurred as payments to or for the benefit of the relevant SILAIS Administrative Unit. Before exercising this remedy, the Association shall notify the MOH and thereby give the MOH thirty days during which to obtain SILAIS Administrative Unit compliance with said obligations pursuant to Section 3.05 (b) (i) of this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) that the Operational Manual has been adopted by the Borrower; and

(b) that the unit referred to Section 3.04 (c) has been established, staffed with the requisite number of professionals and is fully operational.

Section 6.02. The date October 11, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Edificio del Ministerio de Hacienda y Crédito Publico
Avenida Bolívar, frente a la Asamblea Nacional
Managua, Nicaragua
Apartado Postal 28
Facsimile:

(505) 222-3033
For the Association:

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

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Washington D.C. and Managua, Nicaragua, as of the day and year first above written.

THE REPUBLIC OF NICARAGUA

By/s/ Mario Arana Sevilla
 Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Jane Armitage
 Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services, Goods, Works and Training Under Components A.2 and B of the Project</td>
<td>2,780,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services, Goods, Works and Training Under Component C of the Project</td>
<td>1,180,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Capitation Transfers</td>
<td>2,740,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operating Costs and Audits</td>
<td>420,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>7,200,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

(a) “Consultants’ Services, Training and Audit” wherein, Training, means the reasonable cost of registration fees, travel and per-diem of trainers and participants, training materials, rental of facilities and equipment and other costs related to training to be carried out under the Project; and
(b) “Operating Costs” means reasonable MOH expenses, which would not have been incurred absent the Project, including office supplies, vehicle operation, travel and supervision costs, but excluding salaries of officials of the Borrower;

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 650,000 may be made on account of payments made for expenditures before that date but after March 1, 2005, but not earlier than twelve months prior to the date of this Agreement; and (b) expenditures under Category 3 set forth in the table in paragraph 1 to this Schedule, unless the purchasing unit referred to in Section 3.04 (a) of this Agreement is operational.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than US$150,000 equivalent per contract; (b) works costing less than US$1,000,000 equivalent per contract; (c) services of individual consultants costing less than US$50,000 equivalent per contract; and (d) services of consulting firms under contracts costing less than US$100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.
3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,000,000.

2. 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 Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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.
Annex B

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to improve maternal and child health in the Borrower’s poorest municipalities by: (a) ensuring that PCs have access to a package of basic health and nutrition services; (b) strengthening the Borrower’s health services facilities network; and (c) providing institutional strengthening and capacity-building to the MOH.

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

Part A: Delivery of the BPHS

1. Payment of Capitation Transfers to SILAIS Administrative Units to deliver the BPHS to PCs.

2. Provision of technical assistance to develop institutional capacity in the SILAIS and Municipios that will implement the delivery of the BPHS.

Part B: Strengthening the Health Services Facilities Network

Strengthening of the Borrower’s health services facilities network by reinforcing physically and functionally the primary and secondary care facilities of the MOH to enable them to deliver the BPHS package. This will entail:

1. rehabilitating and providing medical and hospital support equipment for the operation of the hospitals and health care centers in the municipalities covered by SILAIS and strengthening their managerial capacity; and

2. expanding the Casas Maternas network by: (a) (i) building or rehabilitating approximately 30 Casas Maternas; and (ii) acquiring equipment and furnishings for all Casas Maternas in the network and funding their recurrent costs; and (b) strengthening the provision of family planning services.

Part C: Stewardship, Institutional Development and Decentralization

Development of the MOH’s leadership capacity and accountability by:
1. (a) developing its capacity to evaluate the performance of the Borrower’s national health system; (b) providing technical assistance to coordinate and monitor implementation of the Borrower’s population policy; (c) providing capacity building and awareness raising activities to encourage municipal governments to take on their responsibilities regarding public health; and (d) strengthening its ability to coordinate and harmonize foreign aid in the health sector by, *inter alia*, financing the operational costs of the entity that will be coordinating the FYIP with the Borrower, the Association and the Participating Donors;

2. strengthening institutional capacity to improve health service delivery and equity by: (a) developing the MOH’s purchasing function; and (b) providing technical assistance, training, and information technology systems development to improve its fiduciary capacity; and

3. furthering the MOH’s decentralization agenda by: (a) transferring human and financial resources to SILAIS Administrative Units and local health care service providers; and (b) providing technical assistance, training and information technology systems development to the two autonomous regions of the Atlantic Coast.

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The Project is expected to be completed by May 31, 2009.
SCHEDULE 3

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 Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

D. Capitation Transfers made to SILAIS Administrative Units to cover expenditures incurred under Component A.1 of Schedule 2 shall not be subject to the provisions of this Schedule.

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 and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than US$350,000 equivalent per contract and works estimated to cost less than US$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding using: (i) the procedures established by the Borrower in the Ley de Contrataciones del Estado and its implementing regulations; and (ii) the corresponding standard bidding documents issued by the Borrower’s Ministry of Finance which will be
subject to the Association’s prior approval on the basis of the its Procurement and Consultant Guidelines.

2. **Shopping.** Goods estimated to cost less than US$50,000 equivalent per contract and works estimated to cost less than US$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

C. **Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. With respect to each contract for goods estimated to cost the equivalent of US$350,000 or more, and works estimated to cost the equivalent of US$1,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Procurement Guidelines shall apply. All other contracts shall be subject to Post Review by the Association.

Section III. **Employment of Consultants**

A. **General**

**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 US$200,000 equivalent per contract may comprise entirely of national consultants.

B. **Other Procedures for the Selection of Consultants**

1. **Quality-based Selection.** Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. **Least-cost Selection.** Services for financial auditors, procurement auditors, and civil works consultants 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.

3. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than US$100,000 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.

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, subject to prior approval of the Association.

C. Review by the Association of the Selection of Consultants

The Procurement Plan shall provide for the selection of consultants, including, inter alia, contract cost estimates, contract packaging, and applicable selection criteria and procedures and shall be furnished to the Association for its review and approval before the issuance of any requests for proposals to consultants.

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to the Prior Review of the Association: (i) with respect to each contract for the employment of consulting firms estimated to cost the equivalent of US$200,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply; and (ii) with respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of US$50,000 or more, the report on qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to the prior approval of the Association. The contracts herein mentioned shall not be awarded until approval from the Association has been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to said contracts.

All other contracts shall be subject to Post Review as outlined in paragraph 5 of Appendix 1 to the Consultant Guidelines.