

CONFORMED COPY

CREDIT NUMBER 3408 MD

Development Credit Agreement

(Health Investment Fund Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 6, 2000

CREDIT NUMBER 3408 MD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 6, 2000, between REPUBLIC OF MOLDOVA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated July 21, 2000, describing a program of actions, objectives and policies designed to improve performance in the Borrower's health sector (hereinafter called the Program), and declaring the Borrower's commitment to the implementation of the Program;

(B) 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;

(C) the Borrower intends to obtain, with the assistance of the Association, from the Government of the Netherlands (the Netherlands) a grant in an amount equivalent to \$10,000,000 (the Netherlands Grant) to assist in financing the Project; and

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 October 6, 1999, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Beneficiary" means a hospital or a local self-government entity, namely a Municipality or Judet as defined in the Borrower's local government legislation, eligible for assistance under Part B of the Project;

(b) "Eligible Categories" means categories (1), (2) (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement;

(d) "Environmental Management Plan" means the environmental mitigation plan for the Project, satisfactory to the Association, prepared and adopted by the Borrower;

(e) "Health Investment Agreement" means the agreement to be concluded between the Borrower and a Beneficiary pursuant to the provisions of Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the

Health Investment Agreement;

(f) "HIF" means the Health Investment Fund to be established as an autonomous agency of the Borrower in order to improve the quality and efficiency of health care services in the Republic of Moldova;

(g) "Health Investment" means the activities under Part B.2 of the Project to be carried out by a Beneficiary under a Health Investment Agreement;

(h) "HIV/AIDS" means the human immunodeficiency virus and acquired immune deficiency syndrome, respectively;

(i) "Lei" means the lawful currency of the Borrower;

(j) "PSC" means the Project Steering Committee established by the Borrower to provide policy guidance and oversight with respect to Project implementation;

(k) "MOH" means the Borrower's Ministry of Health;

(l) "Operational Manual" means the manual for the carrying out of the Health Investments under the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(m) "PCU" means the Project Coordination Unit established by the Borrower within the MOH for purposes of Project management;

(n) "PIP" means the manual for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(o) "Project Account" means the Account to be opened by the Borrower, for purposes of making available its counterpart contribution to the financing of the Project, in accordance with the provisions of Section 6.01 (c) of this Agreement;

(p) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 1, 1999 and May 5, 1999 between the Borrower and the Association;

(q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement; and

(r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

## 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 the Development Credit Agreement, an amount in various currencies equivalent to seven million six hundred thousand Special Drawing Rights (SDR 7,600,000).

Section 2.02. (a) 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 reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be November 30, 2005, 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 (60) 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 April 1 and October 1 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 April 1 and October 1 commencing October 1, 2010 and ending April 1, 2040. Each installment to and including the installment payable on April 1, 2020 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 (3) 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 (6) 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 (5) years on such repayment of principal.

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

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

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

### ARTICLE III

#### Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit allocated from time to time for Part B of the Project, available to Beneficiaries under a Health Investment Agreement to be entered into between the Borrower and each Beneficiary, under terms and conditions which shall have been approved by the Association, including those set forth in Part B of Schedule 4 to this Agreement.

(d) The Borrower shall exercise its rights under any Health Investment Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive, any Health

Investment Agreement or any provision thereof.

Section 3.02. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (a) maintain the Project Account referred to in Section 6.01 (c) of this Agreement, and shall replenish said account promptly before each month with sufficient funds to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; (b) use the amount in said Project Account for financing the Borrower's contribution to Project expenditures; and (c) ensure that sufficient annual allocations will be made in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

Section 3.03. 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.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts and the audit thereof, 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 Project Management Reports

or statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one (1) year after the Association has received the audit report for 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;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General

Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof, will be carried out;

(b) The arrangements providing the Borrower with the Netherlands Grant shall have failed to become effective by November 30, 2000 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(c) (i) Subject to paragraph (ii) of this paragraph: the right of the Borrower to withdraw the proceeds of the Netherlands Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the arrangements related thereto.

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

(d) the Operational Manual or the PIP shall have been amended, suspended, abrogated or waived without the Association's prior consent; and

(e) the Borrower or a Beneficiary shall have failed to perform any of their respective obligations under a Health Investment Agreement.

Section 5.02. (a) Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur, subject to the proviso of that paragraph;

(b) the event specified in paragraph (c) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section; and

(c) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has opened in Lei the Project Account in the National Bank of Moldova or in a commercial bank acceptable to the Association, and has

deposited into said account an initial amount equivalent to \$20,000.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The 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:

Ministry of Finance  
Cosmonaut Street, 7  
277005 Chisinau  
Republic of Moldova

Telex:

Facsimile:

24-0055

(3732) 22810

(3732)

For the Association:

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

Telex:

Facsimile:

477-6391

Cable address:

INDEVAS

248423 (MCI) or

(202)

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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MOLDOVA

By /s/ Dumitru Braghis

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shigeo Katsu

Acting Regional Vice President  
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	1,740,000	85%
(2) Goods	4,660,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3) Consultants' services, training and study tours	200,000	100%
(4) PCU's Operating Costs	60,000	100%
(5) Refunding of Project pursuant Preparation Advance of	760,000	Amount due to Section 2.02 (b) this Agreement
(6) Unallocated	180,000	
TOTAL	7,600,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "PCU's Operating Costs" means expenditures incurred

by the PCU on account of management of Project implementation for salaries, but excluding salaries of civil servants, communications, local travel, utilities, printing and publications, office supplies, office maintenance, and such other expenditures as may be agreed upon by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for works costing less than \$200,000 equivalent each; (b) contracts for goods costing less than \$100,000 equivalent each; (c) all contracts for training and study tours; (d) PCU's operating costs; and (e) services under contracts costing less than \$50,000 equivalent each for consulting firms and \$30,000 equivalent each for individual consultants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account, in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals 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 made on the basis of Project Management Reports.

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 sub-paragraph (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 Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$700,000 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 \$200,000 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 equal or exceed the equivalent of SDR 2,500,000.

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 Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all 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 Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,000,000.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to improve the health status of the Moldovan population and to increase the quality and efficiency of the

public health sector by: (a) guaranteeing universal access to a minimum package of health services; (b) modernizing emergency services and primary health care; (c) reducing excess capacity in the health sector; (d) strengthening health sector institutional capacity; and (e) supporting the development of tuberculosis and HIV/AIDS strategies.

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 objectives:

Part A: Policy Development and Institutional Strengthening

1. Health Policy Development

Development of a health reform strategy, key policies and pertinent legal framework for health sector reform, including arrangements for: (i) health care financing (sources and resource allocation); (ii) basic package of health care services; (iii) user charges; (iv) human resources; and (v) tuberculosis and HIV/AIDS strategies.

2. Communication of Health Sector Reform

Development of a public information campaign and other communication activities to inform shareholders about the sector reforms.

3. Management and Technical Training Program

Management and technical training programs, including:

(a) General Practice Program:

(i) Training of general practitioners and retraining of specialists on primary health care; and

(ii) training of nurses at the primary and secondary health care level.

(b) Management Program

Training of health services managers and administrators at central, judet and health care facility levels to provide them with the necessary business skills to manage health services.

Part B: Health Investment Fund

1. Establishment of the HIF to provide a competitive mechanism for allocation of resources for the carrying out of Health Investments in accordance with the provisions of the Operational Manual in the health sector.

2. Selection by the PCU (and thereafter by the HIF upon its establishment) and carrying out by Beneficiaries in accordance with the criteria and principles set forth in the Operational Manual of investments in primary health care, emergency services and key hospital refurbishments.

Part C: Project Management and Evaluation

1. Provision of technical assistance, equipment and operating costs to the PCU for purposes of management of Project implementation.

2. Provision of technical assistance for the carrying out of epidemiological, social, institutional and economic assessments of the Project.

\* \* \*

The Project is expected to be completed by May 31, 2005.

### SCHEDULE 3

#### Procurement

##### Section I. Procurement of Goods and Works

###### Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

###### Part B: International Competitive Bidding

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

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

###### (a) Grouping of contracts

To the extent practicable, contracts for medical equipment shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

###### (b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

###### Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,490,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Readily available off-the-shelf goods of standard specifications estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

As an alternative to International Shopping procedures, readily available off-the-shelf goods of standard specifications may be procured from the Inter-Agency Procurement Services Office of UNDP, and standard medical kits may be procured from UNICEF, all in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract for goods procured in accordance with the procedures referred to in Part B above; and (ii) the first two contracts for works procured in accordance with the procedures referred to in Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

(A) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(B) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(C) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

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

## Section II. Employment of Consultants

### Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

### Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per

contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

Part A: Project Management

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the PIP and the Operational Manual.

2. The Borrower shall maintain the PSC until completion of the Project with staff and terms of reference satisfactory to the Association.

3. The Borrower shall maintain the PCU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association and assign to it responsibility for overall Project management and coordination including:

(a) preparation and submission to the Association, by November 30 in each year, for its review and concurrence, of an annual work program for the Project;

(b) maintenance of Project financial records and accounts, including maintenance of the Special Account, and arranging for the audit thereof;

(c) preparation of applications for withdrawal of the proceeds of the Credit;

(d) preparation of bidding and contract documents and management of procurement procedures under the Project;

(e) supervision of implementation of work programs under the Project, including supervision of progress of each Health Investment;

(f) verification of satisfaction of criteria and principles set forth in the Operational Manual for the selection of Health Investments; and

(g) preparation and submission to the Borrower and the Association, starting in November 30, 2000, of quarterly reports on the progress of Project implementation.

4. The Borrower shall:

(a) by September 30, 2001, prepare, through the PCU, and furnish to the Association for its review, a proposal for the establishment and operation of the HIF including inter alia: (i) a description of the objective and areas of operations of the HIF; (ii) the proposed managerial and administrative structure of the HIF; (iii) the proposed funding sources of the HIF; and (iv) the proposed arrangement for incorporation of the operations and staff of the PCU into the HIF;

(b) review such proposal with the Association by December 31, 2001; and

(c) based on such review enact no later than July 31, 2002, or such later date as the Association may otherwise agree, the necessary instrument for the operation of the HIF.

Part B: Funding of Health Investments

1. The Borrower shall provide financing for approved Health Investments on the basis of a Health Investment Agreement to be entered into between the Borrower and a Beneficiary under terms and conditions which shall have been agreed upon with the Association and which shall include, inter alia, provision whereby the Borrower shall make the proceeds of the Credit allocated from time to time to Part B of the Project available to each Beneficiary in the form of a grant. The release of such proceeds shall be made in tranches to be released upon satisfaction of the requirements set forth in the Operational Manual. In addition, each Health Investment Agreement shall include, inter alia, provisions with respect to:

(a) the amount allocated to the Health Investment in the form of a grant;

(b) a description of the Health Investment, to be financed under the Health Investment Agreement, together with an estimate of the cost thereof;

(c) the implementation schedule for the Health Investment, under the overall supervision of the PCU;

(d) the degree to which cost sharing, in accordance with the principles set forth in the Operational Manual, shall be required to be made by the Beneficiary with respect to the financing of the Health Investment for the implementation of which assistance is provided to such Beneficiary under the Health Investment Agreement;

(e) the obligation of the Beneficiary, through the PCU, to procure goods and works to be financed under the Health Investment Agreement in accordance with the procedures set forth in the Operational Manual;

(f) the obligation of the Beneficiary to report to the Borrower on the progress of Health Investment implementation and to enable representatives of Borrower and of the Association, if the Association shall so request, to visit the facilities, construction sites or other activities to be financed under the Health Investment Agreement;

(g) the obligation of the Beneficiary to maintain records and accounts for expenditures incurred under the Health Investment and financed from the proceeds of the Credit made available to the Beneficiary under the Health Investment Agreement and to submit to the Borrower at regular intervals statements with respect to such records and accounts; and

(h) the obligations of the Beneficiary to operate and maintain the Health Investment in accordance with the standards set forth in the Operational Manual.

2. The Borrower shall obtain the Association's prior approval of the first three Health Investments proposed by Beneficiaries and the first three Health Investment Agreements for said Investments.

#### Part C: Monitoring and Evaluation

1. The Borrower shall: (a) ensure that all measures necessary for the carrying out of the Environmental Management Plan shall be taken in a timely manner; and (b) include adequate information on the carrying out of such measures in the progress reports referred to in paragraph 3(g) of Part A of this Schedule.

2. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 28, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by May 31, 2003, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.



