



LOAN NUMBER 3823-VE

Loan Agreement

(Health Services Reform Project)

between

REPUBLIC OF VENEZUELA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *October 12*, 1995

LOAN NUMBER 3823-VE

LOAN AGREEMENT

AGREEMENT, dated *October 12*, 1995, between REPUBLIC OF VENEZUELA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has received a letter signed on November 10, 1994 from the Borrower's Minister of Health setting forth its policies and objectives for the public health sector (hereinafter called the Health Program);

WHEREAS the Borrower hereby represents to the Bank that the execution of this Agreement has been duly authorized by the Borrower's Law "Ley que Autoriza al Ejecutivo Nacional para la Contratación y Ejecución de Operaciones de Crédito Público Durante el Ejercicio Fiscal" published in the Borrower's Official Gazette Issue No. 4831 dated December 29, 1994;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

- (a) "Central Bank" means the Borrower's central bank, Banco Central;
- (b) "Convenio de Descentralización" means the agreement that is entered into between the Borrower and a State pursuant to article 6 of the Borrower's Ley Orgánica de Descentralización Delimitación y Transferencia de Competencias del Poder Público (Decentralization Law), dated December 20, 1989 and published in the Borrower's Official Gazette Extraordinary issue dated December 28, 1989;
- (c) "Monitoring Indicators" means the indicators, satisfactory to the Borrower and the Bank, for purposes of measuring progress in the implementation of the Project as such indicators are included in the letter from the Bank to the Borrower of even date herewith;
- (d) "Operational Committee" means the committee to be established by the Borrower, pursuant to Section 6.01 (f) of this Agreement, for purposes of the overall monitoring of the implementation of the Project, such committee to be composed of the regional directors of health of each Project State and the coordinator of the PCU;
- (e) "Operational Manual" means the operational manual, satisfactory to the Bank, setting forth the rules and procedures for the implementation of the Project, including procedures for the use of the Special Account (as hereinafter defined), criteria and procedures for the implementation of Parts A.8 and B.3 of the Project, and the eligibility criteria for rehabilitation works and equipment acquisition under Part C of the Project; such manual to be approved by MH pursuant to Section 6.01 (e) of this Agreement, as the same may be amended from time to time by agreement between the Borrower and the Bank;
- (f) "MH" means the Borrower's Ministry of Health;
- (g) "PCU" means the unit, satisfactory to the Bank, to be established within MH pursuant to Section 6.01 (b) of this Agreement; such unit to be responsible for the overall management of the Project including those Project implementation and supervision functions described in the Operational Manual;
- (h) "Procurement Agency Contractual Arrangements" means any of the agreements to be entered into pursuant to Section 6.01 (a) and Part 3 (g) and (h) of Schedule 1 of this Agreement;

(i) "Project State" means any of the States of Aragua, Falcón, Trujillo and Zulia or any other substitute State which may be agreed between the Borrower and the Bank and "Project States" means all of the four States;

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(k) "State" means each of the estados, political autonomous divisions established in the Constitution of Venezuela, and the Federal District (Distrito Federal) of the Borrower;

(l) "Participation Agreement" means the agreement, satisfactory to the Bank and the Borrower, to be entered into between the Borrower, through MH, and a Project State pursuant to Section 3.01 (c) (i) of this Agreement; and

(m) "Transfer Program" means any of the programs submitted by the Borrower to the Bank pursuant to Part 3 (d) of Schedule 1 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty-four million dollars (\$54,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

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

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Minister of Health is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Parts A, B.1 (a) and B.2 of the Project, through MH and with the collaboration of the Project States, with due diligence and efficiency and in conformity with appropriate administrative, financial, health, environmental and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

- (ii) shall cause the Project States to carry out Parts B.1 (b), B.3 and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, health, environmental and technical practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project States to carry out such Parts of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of such Parts of the Project by the Project States.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower, through MH, shall carry out Parts A, B.1 (a) and B.2 of the Project, and shall cause Project States to carry out Parts B.1 (b), B.3 and C of the Project, all in accordance with the Operational Manual and the annual investment programs approved by the Bank pursuant to Section 3.04 (b) of this Agreement.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower, through MH, shall: (i) enter into an agreement (Participation Agreement) with each Project State to make available to the latter the Loan proceeds necessary to carry out Parts B.1 (b), B.3 and C of the Project in such Project State under terms and conditions which shall have been approved by the Bank including those set forth in Schedule 6 to this Agreement; and (ii) duly perform all of its obligations under each Participation Agreement, and, except as the Bank shall otherwise agree, not amend, assign, abrogate, terminate, waive or fail to enforce any of the Participation Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts B.1 (b), B.3 and C of the Project shall be carried out by the Project States.

Section 3.04. Without limitation to the provisions of Section 9.07 (a) (iii) and (c) of the General Conditions, the Borrower, through MH, shall furnish to the Bank:

(a) not later than February 28 of each year of Project execution, progress reports on the Project, of such scope and detail as the Bank may reasonably request, including, inter alia: (i) information on the progress achieved in the implementation and in the achievement of the objectives of the Project based, inter alia, on the Monitoring Indicators; (ii) an assessment of the problems and issues derived from the implementation of the Project; and (iii) information on the compliance by the Project States of their obligations under the respective Participation Agreement and, if the case may be, a plan of actions detailing the adjustments and remedial action to be taken for their compliance with such obligations;

(b) for its review and approval, not later than February 28 of each year of Project execution, a proposed annual investment program providing for the activities, implementation schedule and proposed budget in respect of each Part of the Project during the upcoming year.

Section 3.05. Without limitation to the provisions of Section 9.01 (a) (i) of the General Conditions, the Borrower, through MH, shall:

(a) not later than March 31 of each year during the execution of the Project, starting in 1996, hold annual reviews with the Bank and the Project States, such reviews to be based on the reports referred to in Section 3.04 (a) of this Agreement and to focus, inter alia, on: (i) the evaluation of the progress in the execution and in the achievement of the objectives of the Project based on, among other factors, the Monitoring Indicators; (ii) the proposed annual investment program for the Project in the upcoming year; (iii) any changes in the Project design and implementation that may be necessary; and (iv) the progress in the implementation of the action plan referred to in Section 3.06 (b) of this Agreement; and

(b) if, as a result of any of the above reviews, the Bank shall have reasonably determined that the progress in the execution of the Project or in the attainment of the objectives of the Project is not satisfactory, promptly take or cause to be taken, without limitation or restriction to any of the Bank's rights under this Agreement, all such action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or for the attainment of its objectives.

Section 3.06. The Borrower shall:

(a) not later than January 15, 1996, based on the results and recommendations of the studies under Part A of the Project design pilot programs, satisfactory to the Borrower and the Bank, in respect of the above studies as provided in Part A of the Project;

(b) not later than June 30, 1997, present to the Bank a plan, satisfactory to the Borrower and the Bank, with follow-up measures and actions to each of the above pilot programs, such plan to be based on the results of the pilot programs; and

(c) implement, or cause to implement, the plan of actions and measures referred to in paragraph (b) above in accordance with its terms.

Section 3.07. The Borrower shall, for the purposes of the execution and coordination of the Project:

(a) operate and maintain, through MH, the PCU and the Operational Committee with an organizational structure, functions and staffing satisfactory to the Bank;

(b) cause each Project State to maintain a coordinator, with functions, qualifications and experience satisfactory to the Bank, to manage the implementation by the respective Project State of the Project activities under its responsibility; and

(c) ensure that a steering committee, composed of the minister of health and each of the Project State governors, reviews and approves the proposed annual investment programs referred to in Section 3.04 (b) of this Agreement.

Section 3.08. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) maintain a consolidated set of records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project; and (ii) cause each Project State to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project activities carried out by the respective Project State.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank'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 such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified, provided, however, that in respect of any of the events referred to in paragraphs (a), (b), (c) and (e) below, the Bank may limit the suspension of disbursement of Loan proceeds only in respect to the Part or Parts of the Project, or portion or portions thereof, affected by the event in question:

(a) a Project State has failed to perform any of its obligations under the respective Participation Agreement;

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Project State will be able to perform its obligations under the respective Participation Agreement;

(c) the Procurement Agency Contractual Arrangements have been terminated without the Bank's consent;

(d) the Decentralization Law shall have been amended, abrogated, suspended, waived, repealed or altered in any manner so as to materially and adversely affect, in the opinion of the Bank, the achievement of the objectives of the Project; and

(e) the Transfer Program has not been implemented in accordance with its terms and provisions.

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

(a) any of the events specified in paragraphs (a) or (e) of Section 5.01 (a) of this Agreement has occurred in relation to two or more Project States and shall continue for a period of ninety days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower, through MH, has entered into an agreement, satisfactory to the Bank, with a procurement agent acceptable to the Bank for purposes of retaining the procurement agent to assist the Borrower in the procurement of goods and services under Parts A and B.2 of the Project;

(b) the Borrower, through MH, has formally established the PCU and has employed or appointed a supervisor for each of Part A, B and C of the Project to serve in the PCU, all three supervisors with functions, qualifications and experience satisfactory to the Bank;

(c) the State of Falcón and the State of Aragua have each: (i) entered into a Participation Agreement; and (ii) formally employed or appointed a coordinator, with functions, qualifications and experience satisfactory to the Bank, to manage the implementation by the respective Project State of the Project activities under its responsibility;

(d) the transfer of health services from MH to the State governments in the States of Falcón and Aragua has become legally and operationally effective in a manner satisfactory to the Borrower and the Bank;

(e) the Borrower, through MH, has formally approved the Operational Manual; and

(f) the Borrower has established, in form and substance satisfactory to the Bank, the Operational Committee.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) the Participation Agreements referred to in Section 6.01 (c) of this Agreement shall have been duly authorized or ratified by the respective parties thereto, and are legally binding upon said parties in accordance with their respective terms; and

(b) the transfer of health services referred to in Section 6.01 (d) of this Agreement has become effective in accordance with applicable contractual and legal provisions.

Section 6.03. The date *January 10, 1996* 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:

Ministerio de Hacienda
Dirección General
Sectorial de Finanzas Públicas
Edificio Norte, Piso 5
Centro Simón Bolívar
Caracas 1010, Venezuela

Telex:

24215 HDACP

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 VENEZUELA

1st Luis Raul Matos Azocar

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1st Shalud Jared Burki

By

Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	11,900,000	60%
(2) Computer Equipment	2,500,000	100%
(3) Equipment other than computer equipment	21,000,000	100% of foreign expenditures
(4) Training	4,400,000	50%
(5) Consultants' Services	10,100,000	100% of foreign expenditures
(6) Unallocated	4,100,000	
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TOTAL	54,000,000	
	<hr/> <hr/>	

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; and

(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.

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 to exceed \$1,000,000, may be made in respect of Categories (1) through (5) on account of payments made for expenditures before that date but after *October 12, 1994*

(b) subject to the provision of paragraph (f) below, payments made for expenditures under the Project in a Project State or for the benefit of a Project State unless the Bank has received: (i) a duly certified copy of the Participation Agreement entered into between the Borrower and the Project State in question; (ii) an opinion, satisfactory to the Bank, of counsel acceptable to the Bank stating that such Participation Agreement has been duly authorized or ratified by the respective parties thereto and is legally binding upon said parties in accordance with its respective terms;

(c) subject to the provision of paragraph (f) below, payments made for expenditures under Parts B.1 (b) and C in a Project State, unless the respective Project State has entered into a Convenio de Descentralización regarding the transfer of health services in such Project State under terms and conditions satisfactory to the Borrower and the Bank;

(d) subject to the provision in paragraph (f) below, payments made for expenditures in a Project State under Part C of the Project, unless the Bank has received a time bound program, satisfactory to the Bank, providing for the transfer of health services in the respective Project State, including the health personnel, budgetary resources and property (bienes);

(e) payments for expenditures under the Project unless the respective expenditures are included in an annual investment program submitted by the Borrower to the Bank pursuant to Section 3.04 (b) of this Agreement and approved by the Bank;

(f) payment made for expenditures incurred after June 30, 1997 under the Project in, or for the benefit of, the States of Zulia or Trujillo, unless the requirements set forth in paragraphs (b), (c) and (d) have been fulfilled by the above date;

(g) payments made for expenditures under Part B.1 (a) of the Project unless the Bank has received evidence, satisfactory to the Bank, showing that the Borrower has entered into an agreement, satisfactory to the Bank, with a procurement agent acceptable to the Bank for purposes of retaining the procurement agent to assist the Borrower in the procurement of services under Part B.1 (a) of the Project; and

(h) payments made for expenditures for equipment under Part C of the Project in a Project State, unless the respective Project State has entered into an agreement, satisfactory to the Bank, with a procurement agent acceptable to the Bank for purposes of retaining the procurement agent to assist the respective Project State in the procurement of goods under Part C of the Project.

5. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for works not exceeding \$500,000 equivalent; (b) contracts for goods not exceeding \$200,000 equivalent; and (c) contracts for consultants' services not exceeding \$100,000 in the case of consulting firms and \$20,000 in the case of individuals, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving health outcomes for the users of government health services in the Project States by: (a) redefining its health policies in connection with the organization and financing of government health services; (b) strengthening the capabilities in the Project States to plan and manage health services in a decentralized framework; and (c) rehabilitating the physical infrastructure of hospitals and ambulatory clinics and replacing their basic equipment.

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

Part A: Policy Analysis and Reform

1. (a) A study to identify options for granting legal and functional autonomy to hospitals and ambulatory clinics for improving their management, resource allocation and performance; and (b) a pilot program to implement autonomy in hospitals and/or ambulatory clinics in the Project States.
2. (a) A study to develop an alternative model for the organization and staffing of health facilities to achieve the most equitable and cost effective provision of health services; and (b) a pilot program to implement such model in the Project States.
3. (a) A study to identify the health services which should be entitled to the highest government financing including an identification of the health interventions, criteria and methodology to determine financing strategies and timetable for redirecting public spending towards those identified health interventions and administrative mechanisms; and (b) a pilot program to implement a reallocation of public expenditures to those health services identified as most appropriate for government financing in the Project States.
4. (a) A study to identify preferred mechanisms for transfer of resources from the national government to the State governments and from the latter to the health facilities and to determine the appropriate level of resources to be transferred to each entity; and (b) a pilot program to implement an improved mechanism for resource allocation in the health sector in the Project States.

5. (a) A study to develop a strategy and mechanisms for performance agreements between the MH and States and the latter and health facilities and to identify management and health targets to be incorporated in such agreements; and (b) a pilot program to introduce the utilization of performance agreements in the Project States.

6. (a) A study to analyze costs and develop financing alternatives for such costs in public health facilities; and (b) a pilot program to introduce cost systems and financing alternatives in public health facilities in the Project States.

7. A program for strategic image management consisting of: (a) training of MH and government health personnel of the Project States, and other States which may be agreed between the Borrower and the Bank, in negotiations, conflict resolution and effective communication; (b) design and operation of systems for tracking public opinion; (c) training of MH personnel in strategic image management and public relations; and (d) design of a communications strategy.

8. A program to support analysis of selected health policy matters in the health sector.

Part B: Institutional Development

1. (a) A program for training approximately 1300 government health personnel of the Project States, and other States which may be agreed between the Borrower and the Bank, in basic management including quality control and productivity and development of management skills; and (b) a program for complementary management training of approximately 4,000 government health personnel of the Project States to strengthen skills and knowledge in, inter alia, community participation, labor legislation, human resources, maintenance, training supervision and conflict resolution.

2. (a) The design and operation of systems for: (i) human resource management; (ii) strategic planning; (iii) drugs and materials management; (iv) infrastructure and equipment maintenance; (v) financial administration; (vi) waste management; (vii) epidemiological information; (viii) management information to support the above systems; and (b) training of MH personnel and government health personnel of the Project States to operate the above systems.

3. A program to support institutional development activities in the Project States to improve their organization and financing of government health services and to support the operation of the systems in Part B.2 of the Project.

Part C: Strengthening of Health Service Delivery

1. Rehabilitation of one hospital in each Project State including: (a) the acquisition and utilization of equipment, instruments, utensils, furniture and vehicles; (b) the establishment of methods and procedures for systematic equipment replacement and for disposal of obsolete and non-functional equipment; (c) the preparation of inventories of existing equipment; and (d) the design of equipment catalogues for hospitals of different levels of complexity.

2. Rehabilitation of approximately 427 ambulatory clinics in the Project States including the acquisition and utilization of equipment, instruments, utensils, furniture and vehicles related thereto.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each February 15 and August 15	
beginning August 15, 2000 through February 15, 2010	2,700,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

<u>Time of Prepayment</u>	<u>Premium</u>
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).
2. When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.
3. In the procurement of goods and works in accordance with this Part A, the Borrower shall use, or cause the Project States to use, the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use, or cause the Project States to use, bidding documents based on other internationally recognized standard forms agreed with the Bank.
4. To the extent practicable, contracts for works and contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$3,000,000 or more in the case of works and \$200,000 or more in the case of goods.
5. Computing equipment shall be procured, when appropriate, under a two-step procedure, satisfactory to the Bank, for technical and price bids.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Venezuela may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of \$3,000,000 or less per contract, up to an aggregate amount equivalent to \$7,900,000, and goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$10,600,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$4,300,000, and goods estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Civil works estimated to cost the equivalent of \$10,000 or less, up to an aggregate amount equivalent to \$800,000, may be procured under contracts awarded directly in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works and each contract for goods procured under the procedures referred to in Part A.1 of this Schedule, each contract for works estimated to cost \$1,000,000 equivalent or more and procured under the procedures referred to in Part C.1 of this Schedule, and the first two contracts for goods procured under the procedures in Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower and the Project States, in carrying out the Project, the Borrower shall employ, or cause the Project States to employ, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ, or cause the Project States to employ, such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use, or cause the Project States to use, other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent in the case of consulting firms and \$20,000 equivalent in the case of individuals. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank, to contracts for consultants services under Part A of

the Project or to amendments of contracts raising the contract value to \$100,000 equivalent or above, in the case of consulting firms, or \$20,000 equivalent or above in the case of individuals.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals (from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions) shall be equal to or exceed the equivalent of \$10,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

SCHEDULE 6

Terms and Conditions of the Participation Agreements

1. Obligations of each Project State

(a) carry out its part of the Project, under the direction and coordination of MH, with due diligence and efficiency and in conformity with appropriate health, financial, technical, administrative and environmental standards, the Operational Manual and the annual investment programs approved by the Bank pursuant to Section 3.04 (b) of this Agreement;

(b) provide, or cause to be provided, in a timely manner, the funds, facilities, services and other resources required to carry out its respective part of the Project;

(c) have the provisions of Schedule 4 to the Loan Agreement apply to any procurement of civil works, goods or services to be financed out of the proceeds of the Loan for purposes of the parts of the Project to be carried out by the Project State in question;

(d) maintain, or cause to be maintained, records and separate accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the operations, resources and expenditures in respect of the parts of the Project to be carried out by the Project State in question and provide the Borrower access to all such records and accounts necessary to enable the Borrower to comply with its obligations under Section 4.01 and Schedule 5 to this Agreement;

(e) carry out, the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions with regard to the parts of the Project to be carried out by the Project State in question;

(f) promptly inform the Bank and the Borrower, of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by the Project State in question of its obligations under the relevant Participation Agreement.

(g) shall furnish to the Borrower for purposes of its compliance with Section 3.04 of this Agreement:

- (i) not later than January 31 of each year of Project execution, progress reports, of such scope and detail as the Borrower may reasonably request, on the progress achieved in the implementation of the Project activities under its responsibility; and
- (ii) not later than January 31 of each year of Project execution, a proposed annual investment program providing for the activities, implementation schedule and proposed budget in respect of the Project activities under its responsibility;

(h) shall participate in the annual reviews referred to in Section 3.05 (a) of this Agreement and shall take any action pursuant to Section 3.05 (b) of this Agreement;

(i) shall maintain a coordinator, with functions, qualifications and experience satisfactory to the Bank, to manage the implementation of the Project activities under its responsibility;

(j) shall allocate adequate resources for the health services in the respective Project State including adequate resources for materials and maintenance expenditures in accordance with a program agreed with the Borrower and the Bank. Such program may be revised in the annual reviews referred to in Section 3.05 (a) of this Agreement; and

(k) shall: (i) cooperate with the Borrower in the carrying out of the studies under Part A of the Project including access to all information and documentation necessary for such purposes; (ii) cooperate with the Borrower in the preparation of the pilot programs referred to in Section 3.06 (a) of this Agreement; (iii) implement the parts of the above pilot programs under its responsibility; (iv) cooperate with the Borrower in the preparation of the plan referred to in Section 3.06 (b) of this Agreement; and (v) implement the actions and measures of the above action plan under its responsibility.

2. Other Provisions

Each Participation Agreement shall also include the following provisions:

- (a) the Project State's adherence to the Health Program;
- (b) the right of each Project State to the use of the funds provided under the respective Participation Agreement, including the proceeds of the Loan, shall be subject to suspension or termination upon failure by such Project State to perform its obligations under the respective Participation Agreement;
- (c) all the provisions of the Participation Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions or suspension or termination referred to in subparagraph (a) above; and
- (d) for the States of Zulia and Trujillo, or any substitute state thereof, the following provisions shall become effective once the respective Convenio de Descentralización has been executed pursuant to Part 3 (c) of Schedule 1 to the Loan Agreement: (i) the provisions in Part 1 (a), (b), (c), (d), (e), (f) and (g) of this Schedule, with respect to Parts B.1 (b) and C of the Project; and (ii) the provision in Part 1 (j) of this Schedule.

**INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

CERTIFICATE

I hereby certify that the foregoing is a true copy of
the original in the archives of the International Bank
for Reconstruction and Development.



FOR SECRETARY