H.E. Somdy Douangdy  
Minister of Finance  
Ministry of Finance  
Vientiane  
Lao People’s Democratic Republic

Excellency:

RE: Development Grant Agreement  
for the Health Services Improvement Project (H183-LA)  
Amendments to the Development Grant Agreement

We refer to the Development Grant Agreement dated November 8, 2005, between the International Development Association (the “Association”) and the Lao People’s Democratic Republic (the “Recipient”) for the above-referenced project, as amended (the "DGA"). We also refer to the Recipient’s letter dated February 24, 2011, requesting the Association to provide additional financing to the Health Services Improvement Project and to extend the closing date of the DGA.

The Association has agreed to provide additional financing through a Financing Agreement providing additional financing to the Health Services Improvement Project of the same date as this Amendment. Since further changes are needed to the DGA further to such additional financing, we propose to amend the DGA as follows:

1. Section 1.02 (u) of the DGA is replaced by the following:

“(u) “Project Provinces” means the Recipient’s provinces of Attapu, Champasak, Salavan, Xekong, and Savanakhet, and “Project Province” means any of the said Project Provinces.”

2. The following definitions are inserted in the Section 1.02 of the DGA in alphabetical order and the other paragraphs renumbered accordingly:

“District” means a district level local administration stipulated under Article 2 of the Law on Local Administration dated October 21, 2003.

“Faculty of Medical Sciences” means the department of the University of Health Sciences responsible for medical education, including administration in level of bachelor of medicine and development of curriculum and training material, or any successor thereto.

“Health Management Information System” and the acronym “HMIS” mean the system managed by the MOH for collecting and compiling routine data from communities, health facilities, and districts.

“Mahosot Hospital means the central MOH referral hospital in Vientiane.”
“Mittaphab (Friendship) Hospital” means one of the central MOH hospitals in Vientiane.

“University of Health Sciences” means the national medical school in Lao People’s Democratic Republic, responsible for training health professionals and undertaking health-related research, or any successor thereto.

“Training, Workshops and Study Tours” means the costs of training in the territory of the Recipient and abroad under the Project, based on annual work plans and budgets as approved by the Association, and attributable to seminars, workshops, and study tours, along with domestic and international travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.

3. Section 2.03 of the DGA is replaced by the following:

“Section 2.03. The Closing Date shall be June 30, 2012, or such later date as the Association shall promptly notify the recipient of such later date.

4. The Disbursement Table in Section 1 of Schedule 1 to the DGA is replaced by the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil Works</td>
<td>4,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>1,350,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training, Workshops and Study Tours</td>
<td>1,335,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Consultants’ Services</td>
<td>1,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) District Sub-Grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) disbursements prior to March 2007</td>
<td>198,938</td>
<td>100% of Sub-grant amount disbursed</td>
</tr>
<tr>
<td>(b) disbursements on March 2007 and thereafter</td>
<td>1,165,000</td>
<td>100% of Sub-grant amount disbursed</td>
</tr>
<tr>
<td>(6) Sub-Grants under Equity Fund</td>
<td>400,000</td>
<td>100% of Sub-grant amount disbursed</td>
</tr>
<tr>
<td>(7) Operating Costs</td>
<td>349,535</td>
<td>100%</td>
</tr>
<tr>
<td>(8) Refunding of Project Preparation Advance</td>
<td>101,527</td>
<td></td>
</tr>
<tr>
<td>(9) Unallocated</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10,400,000</td>
<td></td>
</tr>
</tbody>
</table>
5. Section 2 of Schedule 1 to the DGA is replaced by the following:

“Operating Costs” means reasonable expenditures directly related to the Project, incurred by the Recipient (which expenditures would not have been incurred absent the Project), based on an annual budget for such costs approved ex-ante in writing by the Association, including expenditures for Project staff travel, lodging and per diem, salaries of management units’ staff, consumable materials, office supplies, communications services (including postage handling, telephone, internet costs, radio and television spots, and activities related to information, education and communication campaigns), bank charges, publication services, translation and interpretation services, office space rental and utilities, maintenance of office equipment and operation, and operation and maintenance of vehicles, but excluding salaries, bonuses, fees and honoraria of members of the Recipient’s civil service.”

6. Schedule 2 of the Project is replaced by the following:

“The objective of the Project is to assist the Recipient to increase utilization and quality of health services, particularly for poor women and children in rural areas in Project Provinces.

The Project consists of the following parts:

Part A: Improving the Quality and Utilization of Health Services

1. Carrying out a program to deliver, at the village, health center, District hospital and inter-District hospital level, a core package of preventive and curative health services that addresses the Recipient’s priority health services programs, consisting of, *inter alia*: health education and promotion, safe motherhood services, fertility regulation, nutrition interventions, infectious disease prevention, detection and prevention of sexually transmitted and other infectious diseases, curative care, and support for free health services to children under five (5) years old, through the provision of District Sub-Grants to Project Districts.

2. (a) Upgrading of health centers to the level of Integrated Community Health Centers in selected Project Districts, including staff training, renovation of infrastructure, upgrading of utilities, and provision of equipment, drugs and medical consumables.

   (b) Provision of staff training to existing Integrated Community Health Centers.

3. Strengthening the Recipient’s health services infrastructure, including, *inter alia*: the upgrading and renovation of, and provision of equipment to:

   (a) provincial and district hospitals; and

   (b) health centers.

4. Carrying out a participatory monitoring and evaluation study among ethnic groups in selected Project Districts, including an assessment of the reasons for the poor utilization of health services by such ethnic groups.

5. Carrying out activities under results-based financing arrangements, to be financed based on unit costs and verification processes established in guidelines acceptable to the Association,
including, inter alia: (a) financing free deliveries and child health services; (b) financing of services through Equity Fund Sub-grants to pay the cost of services for households identified as poor; (c) financing outreach services; and (d) costs associated with related training, supervision, and verification.

Part B: Strengthening Institutional Capacity for Health Service Provision

1. Training

(a) Provision of short-term training to MOH staff working on the Project in Project Provinces and Project Districts to strengthen, inter alia: management capacity, improve the quality of health service delivery and expand health care coverage.

(b) Provision of longer-term specialized training at central and large provincial hospitals for medical staff, including inter alia: doctors, medical assistants and nurses.

(c) Provision of training for about one hundred eighty (180) primary health care workers from Ethnic Groups and from remote areas.

2. Capacity Building for Medical Education

(a) Strengthening the family medicine internship program at the University of Health and Sciences in Vientiane to prepare doctors to work at the District level, through the provision of a two-year, post-graduate specialty training program to selected graduating medical students, including training in provincial hospitals and in villages.

(b) Provision of master's degree training in basic sciences to lecturers, and provision of short courses in curriculum management and student assessment to faculty members of the Faculty of Medical Sciences in Vientiane.

(c) Provision of teaching materials and relevant teaching equipment, including audio visual equipment, to medical training institutions.

(d) Construction of lecture rooms and a library at, and renovation of the main building of, the Faculty of Medical Sciences in Vientiane.

(e) Construction of a technical and patient block at the Mahosot Hospital in Vientiane.

(f) Renovation of the main building of the Mittaphab (Friendship) Hospital in Vientiane.

3. Project Management

Strengthening Project management, including financial and procurement management at the central, provincial and district health offices, including provision of technical assistance.


Part C: Improving Equity, Efficiency and Sustainability of Health Care Financing

1. Implementation of the Health Management Information System

   Strengthening the Health Management Information System and support to other mechanisms, including, *inter alia*, surveys, for the collection and consolidation of health information from villages, health centers, district hospitals, district health offices, provincial hospitals and provincial health offices.

2. Equity Funds

   (a) Development of criteria and procedures for the review, approval, and provision of Equity Sub-Grants to selected non-governmental organizations, including procedures for the identification and selection of non-governmental organizations.

   (b) Provision of Equity Fund Sub-Grants to selected non-governmental organizations in Project Districts for the financing of, *inter alia*: (i) health care services and drugs for the poor; (ii) transportation and related costs for the poor to access health care centers and hospitals; and (iii) incremental administrative costs incurred by the selected non-governmental organizations.

3. Health Financing Policy Development

   Strengthening the Recipient’s health care financing policies, through: (a) the carrying out of about four policy studies on selected health financing issues; (b) the carrying out of workshops for the dissemination of the results of the policy studies; (c) the provision of workshops, training, two study tours, and attendance at conferences for MOH Project staff concerned with health financing policy, and (d) provision of technical assistance to the PMU for the preparation of the policy studies.”

Except as specifically amended by this amendment letter, all other provisions of the DGA otherwise remain in full force and effect.

This amendment is effective as of the date of its signature.

INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Keiko Miwa

Keiko Miwa
Country Manager to Lao PDR
East Asia and Pacific Region