

No. 16238

**UNITED STATES OF AMERICA
and
REPUBLIC OF KOREA**

**Loan Agreement for a demonstration project concerning
health delivery systems (with annex). Signed at Seoul
on 13 September 1975**

Authentic text: English.

Registered by the United States of America on 27 January 1978.

**ÉTATS-UNIS D'AMÉRIQUE
et
RÉPUBLIQUE DE CORÉE**

**Accord de prêt pour un projet de démonstration concernant
des systèmes de distribution de services de santé (avec
annexe). Signé à Séoul le 13 septembre 1975**

Texte authentique : anglais.

Enregistré par les États-Unis d'Amérique le 27 janvier 1978.

LOAN AGREEMENT¹

LOAN AGREEMENT, dated September 13, 1975, between the GOVERNMENT OF THE REPUBLIC OF KOREA (hereinafter called the "Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT (hereinafter called "A.I.D.").

Article I. THE LOAN

Section 1.1. THE LOAN. A.I.D. hereby agrees to lend to the Borrower, pursuant to the Foreign Assistance Act of 1961, as amended, an amount of not to exceed Five Million United States Dollars (\$5,000,000), to assist in financing the reasonable foreign exchange costs ("Dollar Costs") and up to 75% of the reasonable local currency costs ("Local Currency Costs") of certain goods and services required for the Project as defined in Section 1.2 hereof. Goods and services financed hereunder are hereinafter referred to as "Eligible Items," and the aggregate amount disbursed hereunder is hereinafter referred to as "Principal."

Section 1.2. PROJECT. As used in this Agreement, the "Project" shall consist of (i) the establishment of a Korean Health Development Corporation ("KHDC") to plan, conduct and evaluate low-cost health delivery systems directed primarily toward low-income Korean families and (ii) the mounting and operation of a multi-gun, low-cost integrated health delivery demonstration and evaluation system. The demonstration system will produce models for subsequent replication which illustrate the principles, procedures and benefits of integrated health planning, service and manpower rationalization and a cost-effectiveness orientation. These purposes are in furtherance of the overall sector goal, which is to create and institutionalize a process which gives effective access to basic promotive, preventive and curative health services to low-income citizens at a cost affordable by the Republic of Korea. KHDC is designed to operate as a semi-autonomous agency with an inter-ministerial orientation and capacity to devise, assess and demonstrate innovative and cost-effective methods for service delivery. The Project is more fully described in Annex 1 attached hereto, which Annex may be modified by mutual agreement in writing.

This Loan shall be used to finance the costs of technical assistance, local services, training (local and foreign), travel, and equipment, materials and supplies needed to implement the Project. The goods and services to be financed under this Loan shall be listed in the Implementation Letters referred to in Section 9.2 ("Implementation Letters").

Article II. BORROWER REPAYMENT TERMS AND INTEREST

Section 2.1. INTEREST. The Borrower will pay semi-annually to A.I.D., in dollars, interest on the outstanding balance of the Principal and on any due and unpaid interest. Such interest shall accrue from the dates of the respective disbursements hereunder, the first such interest payment to be due and payable no later than six (6) months after the first such disbursement on a date to be specified by A.I.D. Interest will accrue at a rate of two percent (2%) per annum

¹ Came into force on 13 September 1975 by signature.

for ten (10) years after the first disbursement hereunder and at a rate of three percent (3%) per annum thereafter; all interest hereunder shall be computed on the basis of a three hundred sixty-five (365) day year. Disbursements hereunder will be deemed to occur (i) in the case of disbursements pursuant to Section 4.1, on the date on which payment by A.I.D. is made either directly to the Borrower or its designee or to a banking institution pursuant to a commitment document, or (ii) in the case of disbursements pursuant to Section 4.2, on the date on which A.I.D. establishes special letters of credit or amends upward their amounts in favor of the Borrower.

Section 2.2. PRINCIPAL. The Borrower shall repay the Principal to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments. The first installment of principal shall be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due in accordance with Section 2.1. Upon completion of disbursements, A.I.D. will furnish the Borrower with an amortization schedule in accordance with this Section.

Section 2.3. APPLICATION AND PLACE OF PAYMENT. All payments shall be applied first to the payment of any interest due and unpaid and then to the repayment of Principal. Except as A.I.D. may otherwise agree in writing, all such payments shall be made to the Controller, United States Agency for International Development, Washington, D.C., and shall be deemed to have been paid when there received.

Section 2.4. PREPAYMENT. The Borrower shall have the right to prepay, without penalty, on any date on which interest is due, all or any part of the Principal. Any prepayment shall be applied first to the payment of any accrued and unpaid interest and then to the remaining installments of Principal in the inverse order of their maturity.

Article III. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.1. CONDITIONS PRECEDENT TO DISBURSEMENT. Unless A.I.D. otherwise agrees in writing, prior to any disbursement under the Loan, the Borrower shall furnish A.I.D., in form and substance satisfactory to A.I.D.:

- (a) an opinion of the Minister of Justice of the Borrower that this Loan Agreement has been duly authorized or ratified by, and executed on behalf of, the Borrower and that it constitutes a valid and legally binding obligation of the Borrower in accordance with its terms;
- (b) statements of the names of the persons who will act as the representatives of the Borrower pursuant to Section 9.1 hereof, together with evidence of their authority and a specimen signature of each such person, certified as to its authenticity by either the person rendering the legal opinion pursuant to Section 3.1(a) or the person executing this Loan Agreement;
- (c) evidence of the legal establishment of the Korea Health Development Corporation (KHDC) as an autonomous entity along with the following:
 - (i) the Corporation's Articles or other governing rules, (ii) a functional mission statement for KHDC outlining its specific responsibilities and duties and (iii) an explanation of the role of KHDC in implementing the Project;
- (d) evidence of the establishment by the Economic Planning Board (EPB) of a National Health Council (NHC) along with the following: (i) the Council's

- governing rules, (ii) a functional mission statement for NHC outlining its responsibilities and duties and (iii) an explanation of the role of NHC in implementing the Project;
- (e) evidence of the establishment by EPB of a National Health Secretariat, staffed and administered by the Korea Development Institute, along with an explanation of the Secretariat's functions and duties and of its role in implementing the Project;
 - (f) a statement explaining the interrelationships to exist among the KHDC, the NHC, and the Secretariat and between these three entities and other entities of the Borrower concerned with the delivery of health services to the Korean population;
 - (g) a general implementation plan for the entire five years of the Project; and a more comprehensive, detailed plan for the first year of the Project which identifies desired outputs, specifies quantitative targets for such outputs wherever possible, and schedules inputs in a manner to produce such outputs;
 - (h) a pro forma financial plan for the Project including a schedule of expenditures by category and a schedule of funding by source which demonstrates that funds required for the Project will be made available on a timely basis;
 - (i) a full description of the procedures for budgeting and expending all Project funds;
 - (j) a list of criteria for selecting sites for health demonstration projects approved by the KHDC Board of Directors and the National Health Council; and
 - (k) such other terms and conditions as A.I.D. may deem advisable.

Section 3.2. CONDITIONS PRECEDENT TO DEMONSTRATION PROJECTS. Unless A.I.D. otherwise agrees in writing, prior to any disbursements on health demonstration projects other than the costs of planning and designing such projects, the Borrower shall furnish A.I.D., in form and substance satisfactory to A.I.D.:

- (a) evidence that the site for the demonstration project satisfies the previously approved selection criteria;
- (b) evidence of a program approved by the National Health Council for the training, deployment, and utilization of physician extenders to be used in various demonstration projects;
- (c) evidence of substantial community involvement in developing the proposed demonstration project and plans for meaningful inputs, including participation in decision-making, by the target population of a demonstration project;
- (d) where expenditures on physical facilities are proposed, e.g., hospital beds, an assessment of health needs in the area and study of health care facilities and their use that demonstrates the need for additional facilities;
- (e) evidence that all necessary legal and administrative measures have been taken to facilitate the utilization of physician extenders and other desired innovations in the delivery of health services in the demonstration project area;
- (f) a plan for the training and utilization of middle-level health manpower in demonstration projects;
- (g) a detailed implementation plan and budget for the demonstration project; and

(h) a detailed evaluation plan that includes the selection of a control area to permit valid determination of changes induced by the project effort.

Section 3.3. TERMINAL DATE FOR FULFILLMENT OF CONDITIONS PRECEDENT. Except as A.I.D. may otherwise agree in writing, if the conditions required by Section 3.1 have not been satisfied within one hundred and twenty (120) days after the date of execution of this Loan Agreement, or if the conditions required by Section 3.2 have not been satisfied within twelve (12) months after the date of the execution of this Loan Agreement, A.I.D. may at any time thereafter terminate this Agreement by giving notice to the Borrower. Upon such termination, and notwithstanding any other provisions of this Loan Agreement, the Borrower shall repay to A.I.D. the unpaid Principal, if any, and any accrued interest. Upon full payment in accordance with the foregoing, all other obligations of the Borrower and A.I.D. under this Agreement shall cease.

Section 3.4. NOTIFICATION OF MEETING OF CONDITIONS PRECEDENT. A.I.D. shall notify the Borrower upon its determination that the conditions precedent specified in Sections 3.1 and 3.2 have been met.

Article IV. DISBURSEMENTS

Section 4.1. REQUESTS FOR LETTERS OF COMMITMENT (DOLLAR COSTS). To obtain disbursements for Dollar Costs, the Borrower may from time to time request A.I.D. to issue, and subject to the provisions of this Loan Agreement, A.I.D. shall issue letters of commitment to one or more banks in the United States designated by the Borrower and satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made, through letters of credit or otherwise, to the Borrower or any designee of the Borrower, pursuant to such documentation or requirements as A.I.D. may specify.

Section 4.2. REIMBURSEMENT FOR LOCAL CURRENCY COSTS—SPECIAL LETTERS OF CREDIT. (a) Reimbursement for Local Currency Costs: A.I.D. will reimburse the Borrower for up to 75% of the eligible Local Currency Costs incurred in the completion of the Project as described in Section 1.2. Eligible Local Currency Costs are considered to be the costs of Eligible Items less any taxes imposed specifically and explicitly on such Eligible Items. In requesting reimbursement from A.I.D., the Borrower will deduct the amount of any such taxes from the total cost before computing the amount (i.e., up to 75% of the eligible costs) to be reimbursed.

(b) Upon satisfaction of the conditions precedent, the Borrower may obtain reimbursement for local cost expenditures by submitting requests to A.I.D. for the issuance of irrevocable Special Letters of Credit ("SLC") by one or more banks in the United States designated by the Borrower and satisfactory to A.I.D. to the Borrower or any designee of the Borrower pursuant to such documentation requirements as A.I.D. may prescribe in the SLC's and Implementation Letters. Such documentation shall include, among other things, evidence of Korean general commodity imports from the United States of equal value to the dollars requested for disbursement excluding freight charges on all but U.S.-flag vessels. Banking charges incurred pursuant to this Section in connection with commitment documents and disbursements shall be for the account of the Borrower and, if requested, may be financed hereunder. Disbursements hereunder shall be deemed to occur on the date the U.S. bank, as instructed by A.I.D., issues an SLC in favor of the Borrower or his designee.

(c) Exchange Rate: The rate of exchange used in determining the amount of dollars to be made available is the highest rate of exchange, won to dollars, that is not unlawful on the date reimbursement is approved. This rate of exchange is interpreted as the country's selling rate for dollars and includes only the exchange rate itself. Taxes, fees, commissions, and similar charges, if any, are not included in determining the appropriate exchange rate.

Section 4.3. OTHER FORMS OF DISBURSEMENT. Disbursements may also be made through such other means as the Borrower and A.I.D. may agree to in writing.

Section 4.4. TERMINAL DATE FOR REQUESTS FOR DISBURSEMENT/REIMBURSEMENT AND FOR DISBURSEMENTS. Except as A.I.D. may otherwise agree in writing, (i) no letter of commitment under Section 4.1, or other commitment documents which may be called for by another form of disbursement under Section 4.3, shall be issued in response to requests received by A.I.D. after fifty (50) months, and no disbursements shall be made against documentation received after sixty (60) months from the date of execution of this Loan Agreement and (ii) no disbursement as defined in Section 4.2 shall be made against documentation received after fifty-seven (57) months from the date of execution of this Loan Agreement. An SLC, however, will remain available for draw-down for up to three (3) years following the last upward adjustment in its face amount. After that time A.I.D. may at its option terminate it and apply any realized funds to a reduction in the outstanding Principal.

Article V. PARTICULAR COVENANTS AND WARRANTIES CONCERNING THE PROJECT

Section 5.1. BORROWER'S COVENANTS. Except as A.I.D. may otherwise agree in writing, the Borrower covenants and agrees that it shall:

- (a) carry out the Project, or cause the Project to be carried out, with due diligence and efficiency, and in conformity with sound financial, administrative and management practices. The Borrower shall further carry out the Project, or cause the Project to be carried out, in accordance with any contracts and procurement arrangements, and modifications thereto, approved by A.I.D. pursuant to this Agreement;
- (b) except as A.I.D. shall otherwise specify in Implementation Letters, submit to A.I.D. for its approval:
 - 1) all bid documents and documents concerning the solicitation of proposals relating to the goods and services financed under the Loan, and any modifications thereof, prior to their issuance; and
 - 2) all contracts financed under the Loan, and any modifications thereof, prior to their execution;
- (c) adequately maintain, repair and operate, in accordance with sound health and operational practices, all equipment financed by the Loan;
- (d) adhere to the plans and other evidence submitted in satisfaction of Sections 3.1 and 3.2 of this Agreement;
- (e) provide all other resources, in addition to this Loan and the Korean won requirements, necessary for the punctual and effective carrying out of the

Project. In no event shall the Borrower's contribution hereunder be less than twenty-five percent (25%) of the funds contributed to the Project;

- (f) give continuing priority to the development and replication of viable health delivery systems throughout the Republic of Korea;
- (g) participate and provide supporting facilities to carry out evaluation of the Project during the disbursement phase of the Loan;
- (h) follow through after the completion of disbursements of the Loan in evaluating the extent to which the completed Project is contributing to the sector goal.

Article VI. GENERAL COVENANTS, WARRANTIES AND AGREEMENTS

Section 6.1. UTILIZATION OF ELIGIBLE ITEMS. Except as A.I.D. may agree otherwise in writing, all Eligible Items shall be used exclusively in carrying out the Project. This restriction shall apply only until such time as such goods can no longer be usefully employed for the Project, provided that no goods financed hereunder shall be exported from the Republic of Korea without the prior written approval of A.I.D., and provided further that no Eligible Items shall at any time be used to promote or assist any project or activity associated with or financed by any country not included in Code 935 of the *A.I.D. Geographic Code Book* as in effect at the time of such projected use except with the prior written consent of A.I.D.

Section 6.2. INFORMATION AND MARKING. The Borrower shall give publicity to the Loan provided for herein and the Project as a program of United States aid as prescribed in Implementation Letters.

Section 6.3. NOTICE OF MATERIAL DEVELOPMENTS. The Borrower represents and warrants that it has disclosed to A.I.D. all circumstances which may materially affect the Project or the discharge of its obligations under this Loan Agreement, and shall inform A.I.D. of any conditions which may constitute a default hereunder or which interfere, or which it is reasonable to believe may interfere, with the Project or the discharge of any of its obligations hereunder.

Section 6.4. INSPECTIONS. The authorized representatives of A.I.D. shall have the right at all reasonable times, whether prior to completion of the Project or subsequent thereto, to inspect the Project, the utilization of all Eligible Items, the books and records referred to in Section 6.8 and any other documents, correspondence, memoranda, or records relating to the Loan provided for herein or to the Project. The Borrower shall cooperate with A.I.D. to facilitate such inspections and shall afford a reasonable opportunity for authorized representatives of A.I.D. to visit any part of the Republic of Korea for any purpose related to the Loan provided for herein.

Section 6.5. TAXES AND DUTIES. This Agreement, the Loan, and any evidences of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect within the country of the Borrower. To the extent that (a) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, and any property or transactions relating to such contracts, and (b) any commodity procurement transaction financed hereunder are not exempt from identifiable taxes, tariffs,

duties, and other levies imposed under laws in effect in the country of the Borrower, the Borrower shall, as and to the extent prescribed in and pursuant to Implementation Letters, pay or reimburse the same under Section 5.1(e) of this Agreement with funds other than those provided under the Loan.

Section 6.6. COMMISSIONS, FEES AND OTHER PAYMENTS. The Borrower warrants and covenants that in connection with obtaining the Loan provided for herein or taking any action under or with respect to this Loan Agreement, it has not paid, and will not pay or agree to pay, nor to the best of its knowledge has there been paid or will there be paid or agreed to be paid by any other person or entity, commissions, fees or other payments of any kind, except as regular compensation to the Borrower's full-time officers and employees or as compensation for bona fide professional, technical or other comparable services. The Borrower shall promptly report to A.I.D. any payment or agreement to pay for such bona fide professional, technical or comparable services to which it is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D., the party concerned shall cause a reduction satisfactory to A.I.D. to be made therein.

Section 6.7. RENEGOTIATION OF TERMS OF THE LOAN. The Borrower agrees to negotiate with A.I.D. at such time or times as A.I.D. may request an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of the country of the Borrower.

Section 6.8. MAINTENANCE AND AUDIT OF RECORDS. The Borrower shall maintain, or cause to be maintained, in accordance with sound accounting principles and practices consistently applied, books and records relating to the Project and to this Loan Agreement. Such books and records shall, without limitation, be adequate to show:

- (a) the receipt and use made of Eligible Items;
- (b) the progress of the Project; and
- (c) current data covering operations.

Such books and records shall be regularly audited, in accordance with sound auditing standards, for such period and at such intervals as A.I.D. may require, and shall be maintained for five (5) years after the date of the last disbursement by A.I.D. or until all sums due A.I.D. under this Loan Agreement have been paid, whichever date shall first occur.

Section 6.9. REPORTS. The Borrower will furnish A.I.D. with such information and reports relating to the Project, Eligible Items, and the Loan provided for herein as A.I.D. may reasonably request.

Section 6.10. CONTINUING CONSULTATION. The Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under this Agreement, the performance of the consultants, contractors and suppliers engaged on the Project, and other matters relating to the Project.

Article VII. COVENANTS CONCERNING PROCUREMENT

Section 7.1. PROCUREMENT SOURCE AND ORIGIN. (a) Except as A.I.D. may otherwise agree in writing, all Eligible Items, excluding transportation services, shall have both their source and origin in the Republic of Korea and/or in those countries noted as eligible under Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such Eligible Items. Transportation services shall have both their source and origin in those countries noted as eligible under Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time orders are placed or contracts are entered into for such services. Transportation services shall be deemed to have their source and origin in such countries if procured from a flag carrier registered in any of such countries.

(b) All other goods and services obtained for the Project but not financed by A.I.D., except transportation services, shall have their source and origin in countries included in Code 935 of the *A.I.D. Geographic Code Book* as in effect at the time such goods or services are procured. In addition to the ocean shipment requirement of Section 7.5 hereunder, all Eligible Items shall be transported to Korea on carriers of countries included in the said Code 935 as in effect at the time such transportation is procured. This covenant shall be construed in accordance with A.I.D. regulations as from time to time amended.

Section 7.2. DATE OF PROCUREMENT. Except as A.I.D. may otherwise agree in writing, no goods or services may be financed hereunder which arise out of orders or contracts firmly placed or entered into prior to the date of this Loan Agreement.

Section 7.3. PORT CHARGES. With respect to transportation services that constitute Eligible Items, A.I.D. will finance under the Loan ninety percent (90%) of all ocean freight costs of each shipment, and ninety-eight percent (98%) of such costs on any shipment under freeout terms. The remaining ten percent (10%), or two percent (2%) of freeout shipments, represent port charges in the Republic of Korea and the Borrower covenants that it shall make available foreign exchange to finance said port charges in accordance with such rules and procedures as A.I.D. may prescribe in Implementation Letters.

Section 7.4. SMALL BUSINESS NOTIFICATION. In order that American small business shall have the opportunity to participate in furnishing Eligible Items, unless A.I.D. shall otherwise agree in writing, the Borrower shall, prior to ordering or contracting for any Eligible Item estimated to have a unit cost more than the equivalent of Five Thousand United States dollars (\$5,000) as A.I.D. may specify, cause to be received by A.I.D. such information concerning Eligible Items as A.I.D. may require.

Section 7.5. OCEAN SHIPMENT. At least fifty percent (50%) of the gross tonnage of all Eligible Items (computed separately for dry bulk carriers, dry cargo liners, and tankers) which shall be transported on ocean vessels shall be transported on privately owned United States-flag commercial vessels, unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States-flag commercial vessels. In addition, at least fifty percent (50%) of the gross freight revenue generated by all shipments financed under the Loan and transported on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. No goods may be

financed hereunder which are transported on any ocean vessel or aircraft (a) designated by A.I.D. as ineligible to carry A.I.D.-financed commodities, or (b) which has been chartered for the carriage of A.I.D.-financed commodities unless such charter has been approved in advance by A.I.D.

Section 7.6. MARINE INSURANCE. (a) Marine insurance may be financed under the Loan provided (i) such insurance is placed at the lowest available competitive rate in the Republic of Korea or any country noted as eligible under Code 941 of the *A.I.D. Geographic Code Book* as in effect at the time of placement, and (ii) claims thereunder are payable in United States dollars or other freely convertible currency.

(b) If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, the Republic of Korea, by statute, decree, rule or regulation, favors any insurance company of any country over any marine insurance company authorized to do business in any state of the United States, goods financed hereunder shall during the continuance of such discrimination be so insured in the United States with a company or companies authorized to do a marine insurance business in any state of the United States of America.

Section 7.7. EMPLOYMENT OF CONTRACT PERSONNEL. The employment of personnel to perform services under contracts financed hereunder, in whole or in part, will be subject to all applicable United States legislation and such regulations as A.I.D. may from time to time promulgate or specify, including security clearances and limitations on the employment of nationals of countries other than the Republic of Korea and countries noted as eligible under Code 941 of the *A.I.D. Geographic Code Book*, as in effect at the time orders are placed or contracts are entered into for such personnel; and, except as A.I.D. may otherwise direct, all such contracts shall include provisions necessary to implement such legislation and regulations.

Section 7.8. REASONABLE PRICE. No more than reasonable prices shall be paid for any goods or service financed, in whole or in part, under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair and, except for professional services, on a competitive basis.

Article VIII. CANCELLATION AND SUSPENSION

Service 8.1. CANCELLATION BY THE BORROWER. The Borrower may, with the prior written consent of A.I.D., by written notice to A.I.D., cancel any part of the Loan which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse.

Section 8.2. EVENTS OF DEFAULT; ACCELERATION. If any one or more of the following events ("Events of Default") shall occur:

- (a) the Borrower shall fail to pay in full any interest payment or installment of Principal required under this Agreement when the same shall become payable by it;
- (b) the Borrower shall fail to comply with any other provision contained herein applicable to it;

- (c) any representation or warranty made by or on behalf of the Borrower with respect to obtaining the Loan provided for herein or made or required to be made hereunder is incorrect in any material respect;
- (d) a material default shall have occurred after the date hereof, and not been remedied after notice, under any other loan agreement between the Borrower and A.I.D.;

then A.I.D., at its option, may declare all or any part of the unrepaid Principal under the Loan provided for herein to be due and payable immediately, and upon any such declaration, unless the default may be cured and is cured within sixty (60) days thereafter, such Principal and all interest accrued thereon shall become immediately due and payable.

Section 8.3. TERMINATION OF DISBURSEMENTS. In the event that at any time:

- (a) an Event of Default has occurred and has not been remedied as provided above; or
- (b) an event occurs that A.I.D. determines to be an extraordinary situation which makes it improbable that the purposes of the Loan provided for herein will be attained or that the Borrower will be able to or will perform its obligations hereunder; or
- (c) any disbursement would be in violation of the legislation governing A.I.D.;

then A.I.D. at its option, after notice to the Borrower, may (i) decline to issue further commitment documents, (ii) suspend or cancel outstanding commitment documents to the extent that they have not been utilized, giving notice to the Borrower thereof, and (iii) decline to make other disbursements.

Section 8.4. CANCELLATION BY A.I.D. Following any suspension of disbursements pursuant to Section 8.3, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then disbursed.

Section 8.5. CONTINUED EFFECTIVENESS OF AGREEMENT. Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

Section 8.6. REFUNDS. (a) In the case of any disbursement not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursement not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to A.I.D. within thirty (30) days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured for the Project hereunder, to the extent justified; the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five (5) years following the date of such disbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Project hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

Section 8.7. NON-WAIVER OF REMEDIES. No delay in exercising or omission to exercise any right, power or remedy accruing to A.I.D. under this Loan Agreement shall be construed as a waiver of any such right, power or remedy.

Section 8.8. EXPENSES OF COLLECTION. All reasonable costs incurred by A.I.D. (other than salaries of its staff) after an Event of Default has occurred, in connection with the collection of amounts due under this Loan Agreement, may be charged to the Borrower and reimbursed as A.I.D. shall specify.

Article IX. MISCELLANEOUS

Section 9.1. DESIGNATION OF REPRESENTATIVES. (a) All actions required or permitted to be performed or taken under this Loan Agreement by the Borrower or A.I.D. may be performed by their respective duly authorized representatives.

(b) The Borrower hereby designates the Minister, Economic Planning Board, as its respective representative with authority to designate in writing other representatives in their dealings with A.I.D. The representatives designated in or pursuant to the preceding sentence, unless A.I.D. is given notice otherwise, shall have authority to agree, on behalf of the Borrower respectively, to any modification of this Loan Agreement. Until receipt by A.I.D. of written notice of revocation of the authority of any such representative, A.I.D. may accept the signature of such representative on any instrument as conclusive evidence that any action effected by such instrument is authorized by the party on whose behalf such representative purports to act.

Section 9.2. IMPLEMENTATION LETTERS. A.I.D. shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Loan Agreement.

Section 9.3. COMMUNICATIONS. Any communication or document given, made or sent by the Borrower or A.I.D. pursuant to this Loan Agreement shall be in writing and shall be deemed to have been duly given, made or sent to the party to which it is addressed when it shall be delivered by hand or by mail, telegram, cable or radiogram to such party at its following address:

To the Borrower:

Mail Address: Minister of Economic Planning Board
Government of the Republic of Korea
Seoul, Korea

To A.I.D.:

Mail Address: Director
United States Agency for International Development
Seoul, Korea

Other addresses may be substituted for the above upon giving of notice as provided herein.

All communications and documents submitted to A.I.D. hereunder shall be in English, and all technical and engineering specifications therein shall be in English except as A.I.D. may otherwise agree in writing.

EXECUTED at Seoul, Korea on the date first above written.

United States of America:
By: MICHAEL H. B. ADLER
Title: Director

The Republic of Korea:
By: NAM TOK-U
Title: Deputy Prime Minister

ANNEX 1

PROJECT DESCRIPTION

I. *Project Purpose*

The purposes of the Project are to (1) establish the capability within the ROKG to plan, conduct, and evaluate low-cost, integrated health delivery projects directed primarily toward low-income families, and (2) demonstrate successfully at least one multi-gun low-cost integrated health delivery system that is replicable in other parts of Korea.

These demonstration activities should illustrate the methods and benefits of the rational utilization of health services and manpower, an emphasis on cost-effectiveness, and an orientation toward community involvement and support. The Project also provides for research and evaluation of other local and foreign health delivery systems in order to provide data and recommendations to assist the Borrower in formulating national policies and programs for the health sector.

This Project is one of the actions initiated by the Borrower to give higher priority to health in its national economic programs. The Project also reflects A.I.D.'s efforts to develop new systems for providing better health care to low-income groups in assisted countries.

II. *Organization for Project Implementation*

The Borrower and A.I.D. agree that new organization systems are necessary to (a) successfully plan, conduct and evaluate the field demonstrations, and (b) link the results of such demonstrations to national development policy and planning processes. The new organizations include the Korean Health Development Corporation, National Health Council, and National Health Secretariat. Following are descriptions of these organizations and their functions:

A. *The Korean Health Development Corporation (KHDC)*

The Korean Health Development Corporation (KHDC) is a semi-autonomous organization whose primary responsibility will be to ensure that field demonstration projects financed under this Loan are effectively planned, implemented and evaluated. The KHDC's first tasks will be to organize, fund, and staff its units to (a) make a general assessment of current health needs, activities, and opportunities, and (b) prepare a strategy, 5-year general program plan, and a specific action plan and budget for the first year of operations. These documents will be submitted to the National Health Council (NHC) for approval. The KHDC shall simultaneously submit a copy of these documents to the Ministry of Health and Social Affairs (MHSA) for comments and forwarding to the National Health Council. A positive vote of a majority of the voting members of the NHC is required for approval of the KHDC's plans. Each year thereafter, a similar process shall be followed for approval of the KHDC's annual action plan.

One of the KHDC's first operational tasks will be to evaluate on-going or completed community health projects in Korea and relevant foreign countries to obtain data for planning the low-cost health demonstration activities to be funded under this Loan. Plans and procedures and performance standards for the field demonstrations will be developed as quickly as possible after the evaluation is completed.

The KHDC will plan, initiate and manage a program containing at least three *gun*-level demonstration projects to develop new low-cost, integrated health delivery systems for low-income groups. Such systems must provide quality health services at a cost low enough to permit replication on a national basis. The systems will provide for integrated primary health care and will give priority to maternal and child health (MCH), family planning, nutrition, and family health education. The KHDC will ensure that all demonstrations (1) encompass reporting and evaluation systems which facilitate comparative analysis, (2) include active community participation and support in planning and implementing activities and (3) include appropriate emphasis on preventive and promotive as well as curative services. The demonstration activities should be designed to serve a target population of at least 500,000 persons over the life of the Project. Each demonstration project should also be designed to test different organizational channels (private/public) for providing health care.

The KHDC shall serve as a focal point for innovation and improvement in the area of low-cost health care. In this capacity, it may conduct or sponsor research and prepare policy and program recommendations related to the short and long-term health needs of the country. Priority will be given to operationally-oriented research and evaluation related to the new health delivery systems being tested under the Project. The KHDC will also support the dissemination of information about methods of providing and financing preventive and curative health services through its education, training and information activities. However, the KHDC will not duplicate research and information activities being conducted by other organizations.

The KHDC is expected to have a staff of about 21 professionals and 11 sub-professionals to carry out the activities of its Office of the President and its Divisions for Planning and Evaluation, Manpower Development, Health Demonstration Projects, and Administration. The KHDC may use contracts and grants to carry out activities but will be fully responsible for the results of such contract or grant operations.

B. *The National Health Council (NHC)*

1. The NHC will promote the coordination, planning and integration of public and private resources to develop comprehensive health services for persons of low income.

2. The NHC will provide general support and assistance to help the Korean Health Development Corporation (KHDC) and its health demonstration projects achieve their purposes. The NHC will be especially concerned with obtaining inter-ministerial support

for (a) implementing innovative health improvement projects, and (b) disseminating the successful results of these projects on a national scale.

3. The NHC will work with appropriate groups and organizations to promote a national concern and set of priorities for improving health services for low-income groups. The NHC will strive to develop a model of a national health delivery system which meets the needs and conditions of Korea.

4. The NHC will be responsible for conducting general program reviews of the Project and making the results of such reviews available to the Economic Planning Board (EPB), MHSA, KHDC, A.I.D., and other appropriate organizations. The NHC may sponsor or conduct such research as is necessary to relate its review findings to national health problems and requirements. The NHC shall be supported by a National Health Secretariat to be created under the aegis of EPB and MHSA for these purposes.

5. The NHC shall consist of representatives of the key public agencies and private organizations involved in health development. (See attached illustrative table of organization.) One member shall be a full-time academician on the staff of a respected graduate school of public health, medicine, or nursing. The President of KHDC shall be a non-voting member of the NHC.

6. Upon the recommendation of a majority of members composing the Board of Directors for KHDC, the NHC will be responsible for the appointment to and removal from Office of the President of KHDC by a two-thirds (2/3) vote of the NHC's voting members.

C. *The National Health Secretariat (NHS)*

The National Health Secretariat (NHS) shall be created under the aegis of EPB and MHSA to conduct general planning, research and program review activities to support the NHC and EPB in their efforts to improve macro-planning for the health sector. The NHS shall be operated by the Korea Development Institute (KDI) with specifically earmarked funds provided under the Loan. The KDI will provide senior level staff support to facilitate implementation of the NHS's functions. These functions include the following:

1. conducting general reviews of the overall programmatic experiences of KHDC and other appropriate entities funded under the Loan;
2. conducting other policy-oriented health research, as requested by EPB or NHC, for the purpose of providing needed information for macro-planning and policy formulation;
3. analyzing local and foreign experiences of relevance to the formulation of national health program and strategy alternatives (to be implemented in coordination with the KHDC);
4. preparing policy and program recommendations for the NHC, KHDC, and EPB based on research and program review results. The NHS will be especially concerned with distilling and reporting research findings and field demonstration results which are relevant to national health policy formulation and program development;
5. conducting certain macro health research and planning activities (supported under the ROKG/AID Health Planning Project No. 489-11-590-708);
6. conducting policy-oriented seminars on health issues for policy makers and opinion leaders;
7. developing a broad framework for classifying national health problems and establishing a comprehensive cross-file and data bank on completed studies and work in progress related to these health problems;
8. facilitating contacts between domestic and foreign researchers, institutions, and organizations active in the low-cost health services delivery field.

Upon the joint recommendation of the EPB, MHSA and USAID to the NHC, certain activities being performed by the NHS may be transferred to the KHDC, MHSA or other appropriate organizations by a simple majority vote of the NHC. Such transfers will occur as the KHDC develops its proven capacity to undertake these tasks. However, the NHS will retain the functions listed under items 1, 2, and 4 above for the duration of the Project.

III. *Field Demonstrations*

The heart of the Project will be the design and field-testing of innovative ways to upgrade health services without imposing undue financial burdens on the Borrower or on the consumers of health care. Specific criteria for planning, implementing, and evaluating the field demonstrations will be worked out by the KHDC in consultation with the NHC, NHS, MHSA, and EPB. The approach used must be consistent with Sections 3.1 and 3.2 of the Loan Agreement and Implementation Letters. The field demonstration activity of this Project shall address the following needs:

- A. a need to focus on specific target populations (women of child-bearing age, pre-school age children, etc.) at the community level and to concentrate on the "high-risk" individuals within the target populations;
- B. a need to expand outreach efforts to provide services at the village and home level;
- C. a need to rationalize the utilization of health facilities and manpower by relating these to the type of health problems to be solved at each level of the system. Thus, lay workers or village health aides should be trained to provide information, screening, simple treatment and referral services at the bottom of the health care system. At higher levels, nurse-aides and nurse-practitioners should be trained and authorized to provide specific health services under standing orders and the general supervision of a physician. At the next higher level, community health physicians should be trained and assigned to treat the majority of referred cases. Finally, medical specialists should be available to treat the minority of cases which cannot be treated at the lower levels of the health service network;
- D. a need to provide more emphasis on health education and preventive health measures to reduce the need for curative services;
- E. a need to involve both the public and private sectors in the delivery of health care. This includes involvement of the local community in the planning and execution of particular demonstrations;
- F. a need to test new alternative systems for organizing and financing the delivery of health services. Services might be provided through governmental, private, or group cooperative channels. Financing of services could be handled through health insurance or prepayment schemes, fees for service, public revenues or a combination of these.

IV. *Outcomes Expected*

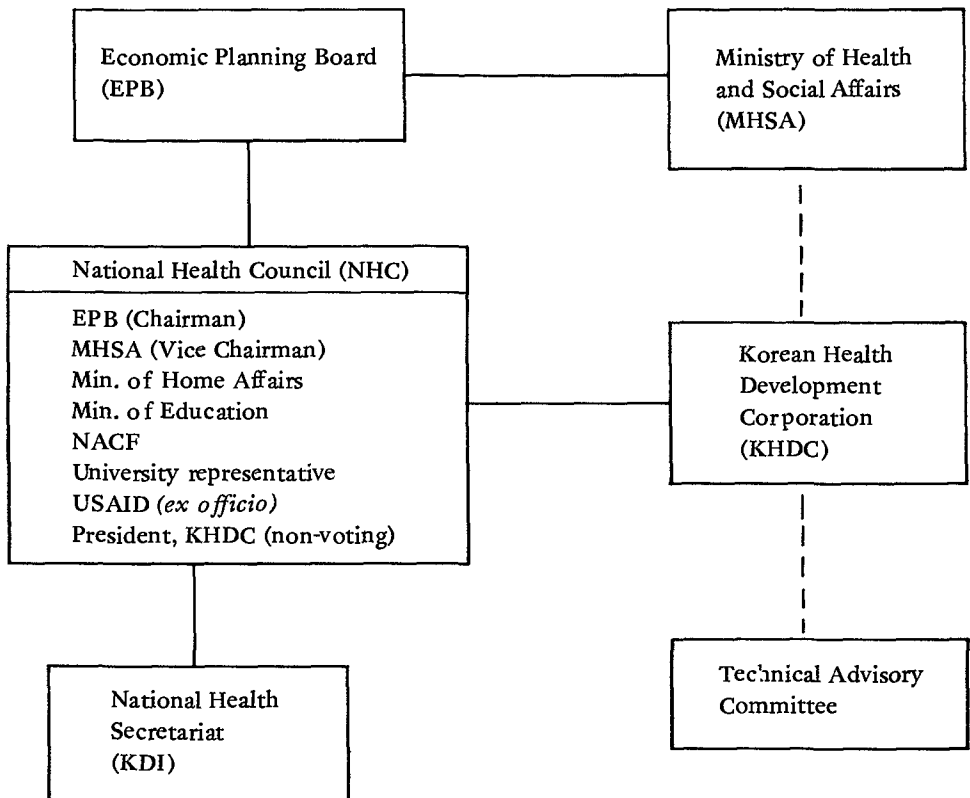
At the end of the 5-year life span of the Project, the following outcomes should have occurred:

- A. new systems and procedures have been developed to provide better health care to low-income groups without significantly increasing the financial burden of the government or the consumer;
- B. a national health policy and program to better serve low-income groups have been developed because of the results obtained from the health demonstrations funded under the Loan;
- C. models of new health delivery systems developed in Korea will be available to help other countries;

- D. a system will have been developed for better utilization of health professionals and there will be more career opportunities in the field of community health;
- E. About 500,000 people will have directly benefitted by improved health services provided under the demonstration activities.

Table

MODEL OF THE KOREAN HEALTH DEVELOPMENT PROJECT



————— solid line indicates direct lines of authority

- - - - - dotted line indicates advisory links

[TRADUCTION — TRANSLATION]

ACCORD¹ DE PRÊT

ACCORD DE PRÊT en date du 13 septembre 1975 entre le GOUVERNEMENT DE LA RÉPUBLIQUE DE CORÉE (ci-après dénommé l'« Emprunteur ») et les ETATS-UNIS D'AMÉRIQUE, agissant par l'intermédiaire de l'AGENCY FOR INTERNATIONAL DEVELOPMENT (ci-après dénommée l'« AID »).

Article premier. LE PRÊT

Paragraphe 1.1. LE PRÊT. L'AID consent à accorder à l'Emprunteur, en vertu du *Foreign Assistance Act* de 1961 (loi sur l'aide à l'étranger de 1961), tel qu'il a été modifié, une somme ne dépassant pas cinq millions (5 000 000) de dollars des Etats-Unis aux fins d'aider l'Emprunteur à financer les coûts raisonnables en devises (ci-après dénommés les « coûts en dollars ») et un pourcentage ne dépassant pas 75 p. 100 des coûts raisonnables en monnaie locale (ci-après dénommés les « coûts en monnaie locale ») des marchandises et des services nécessaires à l'exécution du Projet décrit au paragraphe 1.2 ci-dessous. Les biens et les services financés au titre du présent Accord seront ci-après dénommés les « Postes admis au financement » et le montant total versé au titre du présent Accord sera dénommé ci-après le « Principal ».

Paragraphe 1.2. LE PROJET. Le terme « Projet » utilisé dans le présent Accord s'applique à i) la création d'un Office pour le développement des services médicaux coréens qui aura pour tâche de concevoir, d'établir et de superviser des systèmes de distribution des services médicaux économiques destinés en premier lieu aux familles coréennes à revenus modestes, et ii) à l'établissement et à la gestion dans plusieurs *gun* (districts) d'un système intégré et économique de démonstration et d'évaluation des moyens de distribution des services médicaux. L'on espère que ce système de démonstration produira à l'avenir des modèles qui pourront être reproduits et qui illustreront les principes, les procédures et les avantages d'une planification intégrée des services médicaux, d'une rationalisation des utilisations de la main-d'œuvre et des services et d'une orientation basée sur un souci du rapport coût-efficacité. Lesdits objectifs ont été choisis dans le but de faciliter l'accomplissement de l'objectif d'ensemble du secteur, qui est d'établir et d'institutionnaliser, à des coûts que la République de Corée puisse assumer, un processus par lequel il soit possible de donner effectivement aux citoyens à revenus modestes accès aux services médicaux d'information, de prévention et de soins. Il est prévu que l'Office pour le développement des services médicaux coréens opérera de manière semi-autonome tout en gardant une orientation interministérielle et qu'il aura les capacités de concevoir, d'évaluer et de démontrer des méthodes nouvelles et économiques de distribution des services médicaux. Il est donné dans l'annexe 1 attachée au présent Accord une description plus détaillée du Projet. Ladite annexe pourra être modifiée par écrit et d'un commun accord.

Le prêt servira à financer les coûts de l'assistance technique, des services locaux, de la formation professionnelle sur place et à l'étranger, des voyages, des

¹ Entré en vigueur le 13 septembre 1975 par la signature.