

CONFORMED COPY

LOAN NUMBER 4687 RU

Loan Agreement

(Tuberculosis and AIDS Control Project)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 12, 2003

LOAN NUMBER 4687 RU

LOAN AGREEMENT

AGREEMENT, dated September 12, 2003, between RUSSIAN FEDERATION (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 (the Project), has requested the Bank to assist in the financing of the Project;

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 for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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

(a) “AIDS” means the acquired immune-deficiency syndrome, a severe life threatening disease which represents the late clinical stage of human infection with HIV (as hereinafter defined);

(b) “CSW” means commercial sex workers;

- (c) “HIV” means the human immunodeficiency virus;
- (d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;
- (e) “IDU” means intravenous drug users;
- (f) “MOF” means the Borrower’s Ministry of Finance, or any successor or successors thereto;
- (g) “MOH” means the Borrower’s Ministry of Health, or any successor or successors thereto;
- (h) “MOJ” means the Borrower’s Ministry of Justice, or any successor or successors thereto;
- (i) “Project Operational Manual” means a manual adopted by the Borrower pursuant to Section 6.01(c) of this Agreement and setting forth procedures, rules and criteria related to Project implementation, as the same may be amended from time to time;
- (j) “Participating Region” means any oblast or other region of the Russian Federation which may from time to time have been selected by the Borrower for participation in the Project on the basis of the selection criteria set forth in the Project Operational Manual, and “Participating Regions” means, collectively, all these regions;
- (k) “Project Implementation Agreement” means the agreement between the Borrower (represented by MOF, MOH and MOJ) and RHCF (as hereinafter defined) referred to in Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Project Implementation Agreement;
- (l) “Regional Participation Agreement” means the agreement to be entered into between RHCF and each Participating Region pursuant to Section 3.03 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Regional Participation Agreement;
- (m) “RHCF” means Russian Health Care Foundation, a non-commercial foundation established pursuant to Resolution of the Government of the Borrower No. 1295, dated October 31, 1996, and registered by the Borrower’s Ministry of Justice, under Certificate of Registration No.IOP-33 dated November 28, 1996 (re-registered

November 30, 2001), which is the entity authorized to implement the Project pursuant to the Project Implementation Agreement, or any successor thereto;

(n) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(o) “STI” means sexually-transmitted infections;

(p) “TB” means tuberculosis; and

(q) “Working Group” means the working group for preparation and implementation of the Project established by MOH and referred to in paragraph 2 of Schedule 5 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to RHCF.

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, an amount equal to one hundred fifty million dollars (\$150,000,000).

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 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 a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2008 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 fee in an amount equal to one percent (1%) of the amount of the Loan. Such fee shall be payable not later than 60 days after the Effective Date.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in U.S. Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Project Operational Manual and the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. The Borrower, represented by MOF, MOH and MOJ, shall enter into the Project Implementation Agreement with RHCF, under terms and conditions which shall have been approved by the Bank, and which shall include, inter alia, the scope of RHCF's responsibilities, description of its activities to be carried out during the execution of the Project, project reporting, accounting and auditing requirements.

Section 3.03. Without limitation or restriction upon any of its other obligations under the Loan Agreement and except as the Borrower and the Bank shall otherwise agree, the Borrower shall cause RHCF, for the purposes of carrying out regional programs under Parts A and B of the Project, to enter into Regional Participation Agreements with each of the Participating Regions, under terms and conditions which shall have been approved by the Bank.

Section 3.04. 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 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, 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 designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare or cause to be prepared, financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause RHCF to:

(i) have the records, accounts and financial statements (balance sheet, statements of sources and uses of funds and related statements) referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 cause RHCF to:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan 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.

Section 4.02. (a) The Borrower shall cause RHCF to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) The Project Implementation Agreement shall have been amended, suspended, abrogated, repealed or waived as to affect materially and adversely the ability of RHCF to carry out the Project; and

(b) RHCF shall have failed to perform any of its obligations under the Project Implementation Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified, namely, that any of the events specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) 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 Project Implementation Agreement has been executed on behalf of the Borrower, represented by MOF, MOH and MOJ, and RHCF;

(b) RHCF is fully operational with structures, functions and staffing necessary to start the Project implementation and satisfactory to the Bank;

(c) the Project Operational Manual, satisfactory to the Bank, has been adopted by the Working Group; and

(d) an independent auditor, acceptable to the Bank, has been selected in accordance with the provisions of Section II of Schedule 4 of this Agreement to undertake the responsibilities described in Section 4.01 of this Agreement.

Section 6.02. The following is specified as an additional matter, 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, namely, that the Project Implementation Agreement referred to in Section 6.01(a) of this Agreement has been duly authorized or ratified by the Borrower and RHCF, and is legally binding upon the MOF, MOH, MOJ and RHCF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower or authorized Deputy Minister of Finance of the Borrower is designated as representatives of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance of the Russian Federation
Ilyinka Street, 9
103097 Moscow
Russian Federation

Telex:

112008

Facsimile:

(095) 925-0889

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Moscow, Russian Federation, as of the day and year first above written.

RUSSIAN FEDERATION

By: /s/ Uriy Leonidovich Shevchenko
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Richard Clifford
Authorized Representative

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 Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, including technical services, but excluding goods and technical services under Parts A.3 and A.4 of the Project	30,440,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), 81% of local expenditures for other non-medical items procured locally, 98% of local expenditures for medical items procured locally (cost net of VAT)
(2) Goods, including technical services, under Part A.3 of the Project	68,270,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), 81% of local expenditures for other non-medical items procured locally, 98% of local expenditures for medical items procured locally (cost net of VAT)

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditure to be Financed</u>
(3) Goods, including technical services under Part A.4 of the Project	18,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), 81% of local expenditures for other non-medical items procured locally, 98% of local expenditures for medical items procured locally (cost net of VAT)
(4) Consultants' services, including audit	14,900,000	79% of expenditures for consulting firms, 87% of expenditures for individual consultants, and 100% of eligible social charges
(5) Training	15,470,000	100%
(6) Operating costs	2,920,000	87% of expenditures for RHCF staff salaries, 100% of social charges, 100% of training costs, and 84% of other costs
TOTAL	<u>150,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “technical services” means warehousing services, inland transportation and insurance, monitoring and reporting, processing of customs and other documents, and other Project related technical services;

(b) 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;

(c) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(d) the term “Training” means Project related study tours, training courses, seminars, workshops and other training activities not included under goods or service providers’ contracts, including travel and per diem costs of trainees and trainers, those from the ministries, administrations, and other relevant institutions and organizations on the federal and regional levels involved in the implementation of the Project; and

(e) the term “Operating costs” means expenditures on account of Project implementation, management and monitoring incurred by the RHCF, including its staff salaries, social charges, training, including study tours and seminars, office rent, maintenance and minor refurbishing of office and equipment, office equipment, furniture, materials and supplies, communication costs, support for information systems, translation costs, bank charges, and travel and per diem costs of RHCF staff and other reasonable expenditures directly associated with implementation of Project activities, all based on an annual budget acceptable to the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$450,000, may be made in respect of Category (6) set forth in the table in paragraph 1 above on account of payments made before that date but after May 31, 2003; (b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement; and (c) expenditures under Categories (2) and (3) set forth in the table in paragraph 1 above unless relevant parts of a federal strategy for TB control, acceptable to the Bank, have been developed in collaboration with WHO and are officially approved by the Borrower and ready for country-wide implementation.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) services of consulting firms under contracts costing less than \$100,000 equivalent each; (c) services of individual consultants under contracts costing less than \$50,000 each; (d) training under contracts costing less than \$100,000 equivalent each; and (e) operating costs, all 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 with the development and implementation of the national TB and HIV/AIDS control strategies in order to: (i) contain the growth of TB and HIV/AIDS epidemics in the short term; and (ii) halt and reverse the courses of these epidemics in the medium term.

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: Control of Tuberculosis

1. Provision of goods, consultants' services and training for the development of policies, strategies and protocols for TB control, including legislative and administrative measures and public information campaign.
2. Provision of goods, consultants' services and training for strengthening of TB surveillance, monitoring, quality control and quality assurance of diagnosis and treatment.
3. Provision of consultants' services, training, laboratory, including bacteriology and radiology equipment and supplies for the improvement of TB case detection and diagnosis.
4. Provision of consultants' services and training to improve TB treatment and provision of first- and second-line anti-TB drugs.

Part B: Control of HIV/AIDS

1. Provision of goods, consultants' services and training for the development of policies, strategies and protocols for HIV/AIDS control, including legislative and research activities, public information campaign, establishment of a federal HIV/AIDS coordination center, establishment of approximately ten (10) regional information centers, and assessment of available prevention measures.
2. Provision of goods, consultants' services and training for HIV/AIDS surveillance and monitoring at the federal and regional levels, including the establishment of a federal

coordination center for diagnosis, treatment and psychological support for HIV infected people.

3. Provision of laboratory and blood bank equipment and supplies, consultants' services and training for laboratory services and blood safety improvement.

4. Provision of goods, consultants' services and training to improve STI prevention and control, including development of STI diagnosis and treatment guidelines and protocols, establishment of a federal STI coordination center, establishment and/or strengthening of approximately twenty (20) STI diagnostic and treatment centers for IDU and CSW, establishment and/or strengthening of three (3) specialized centers for children and teenagers with STI.

5. Provision of goods, consultants' services and training for development and implementation of targeted HIV/AIDS and STI prevention programs in high risk groups, including approximately thirty (30) harm reduction programs for IDU, and for the establishment of a federal HIV/AIDS and STI coordination center for training in high risk group prevention activities.

6. Provision of drugs, medical equipment, consultants' services, supplies and training for prevention of mother-to-child transmission, including development of protocols and strengthening of two (2) federal reference centers for HIV-infected children.

Part C: Project Management

Provision of audit services and Operating costs under the Project.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each January 15 and July 15	
beginning July 15, 2008	6,250,000
through July 15, 2019	6,250,000
On January 15, 2020	6,250,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Related Technical Services

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Procurement Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and technical services shall be procured under contracts awarded in accordance with the provisions of Section II of the Procurement Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and technical services to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

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

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Procurement Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Medical equipment and supplies, telecommunication systems equipment, hot line equipment, surveillance and monitoring equipment, office equipment, vehicles, furniture, communication link, educational equipment and publishing of training and information materials estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$3,484,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Procurement Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded after comparison of not less than three responsive quotations on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$450,000 equivalent, may be procured under contracts awarded after comparison of not less than three responsive quotations on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines.

4. Direct Contracting

Goods of a proprietary nature, costing \$100,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Procurement Guidelines.

5. Procurement of Second-line anti-TB drugs

Drugs for treatment of multi-drug resistant TB and technical services related to these drugs may be procured pursuant to the procedures and on terms acceptable to both the Bank and the Borrower.

6. Services to Organize Training

When appropriate, a firm will be selected to provide services in respect of organization of training upon comparison of three responsive price quotations presented by suitably qualified local contractors under agreed procedures. Individual contract values will normally not exceed the equivalent of \$100,000. Larger contracts estimated to cost more than \$100,000 will be advertised nationally or internationally and bids for such contracts will be invited.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract procured in accordance with the procedures referred to in Parts B and C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Procurement Guidelines shall apply.

(b) With respect to the first two contracts procured in accordance with the procedures referred to in Parts C.2 of this Section, the first three contracts procured in accordance with the procedures referred to in Parts C.3 of this Section, each contract procured in accordance with the procedures referred to in Parts C.4 and C.5 of this Section, and each contract estimated to cost the equivalent of \$100,000 or more and procured in accordance with the procedures referred to in Part C.6 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Schedule.

2. In respect of consultants' services to be procured under contracts awarded in accordance with the provisions of Parts B, C.1 and C.2 of this Section, the short list of consultants for services for contracts estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Auditing services estimated to cost up to an aggregate amount not to exceed \$254,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$6,715,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services that meet requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$2,651,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Public Education, Training, and Research Institutions

Services of unique and exceptional nature may, with the Bank's prior agreement, be procured from Borrower's public health, training, and research institutions in accordance with the provisions of Section II, paragraphs 3.1 through 3.4, 3.7 and 3.8 of the Consultant Guidelines if it has been satisfactorily established that no suitably qualified private sector consultant is available for the assignment.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) Notwithstanding the above provisions of this paragraph, terms of reference for important assignments that might be from time to time selected by the Bank shall be furnished to the Bank for its prior review and approval.

3. Post Review

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

SCHEDULE 5

Implementation Program

1. MOH and MOJ shall be responsible for overall management and implementation of the Project.
2. MOH shall maintain the Working Group for Preparation and Implementation of the Project comprising representatives of MOH, MOJ, MOF, the Ministry of Economic Development and Trade, the Ministry of Science, Industry and Technology, the Federal Center for Project Financing, RHCF, and other relevant organizations, which shall be responsible for overall Project coordination, defining the Project implementation strategy, ensuring approval in accordance with its competence of the Project related documents, and approving and controlling the fulfillment of the Project's work programs and budgets.
3. RHCF shall be responsible for day-to-day Project management and implementation, including financial management, procurement, disbursement, engagement of outside auditors and preparation of appropriate auditing reports and their dissemination to relevant agencies of the Borrower and to the Bank, and preparation of progress reports and annual reports related to the Project, and shall assist the MOH and MOJ in the overall coordination of Project activities, in accordance with the provisions of the Project Operational Manual.
4. The Borrower shall ensure that, until the completion of the Project, RHCF at all times functions in a manner, and with staff, facilities and other resources, and under terms of reference necessary and appropriate for the carrying out of the Project, and satisfactory to the Bank.
5. The Borrower shall maintain the Project Operational Manual in form and content satisfactory to the Bank and shall not assign, amend, abrogate or waive the Project Operational Manual or any provision thereof without a prior approval of the Bank.
6. The Borrower shall be responsible for selecting, through RHCF, regions of the Borrower for inclusion in the Project, and such selection shall be in accordance with a methodology acceptable to the Bank and in accordance with the criteria set forth in the Project Operational Manual.
7. RHCF shall not initiate any procurement actions in respect of second-line anti-TB drugs for any health facility unless this health facility is in full compliance with the requirements approved by both MOH and WHO for use of such drugs.

8. RHCF shall, upon agreement with MOH, MOJ and each Participating Region, establish the list of medical equipment, drugs and other goods to be provided under Parts A and B of the Project to a respective region, specify the training to be provided in relation to such equipment, and promptly inform the Bank prior to the initiation of procurement actions in accordance with the provisions of Schedule 4 to this Agreement in respect of any such goods or initiation of any such training.

9. RHCF shall initiate any procurement actions in respect of health facilities in any Participating Region, only upon its entering into a Regional Participation Agreement with such Participating Region, which shall be acceptable to the Bank and the Borrower and include the undertakings of the respective Participating Region to take all necessary measures to:

(a) ensure that the medical equipment, drugs and supplies provided under the Project shall be used at the intended facilities exclusively for the purposes of the Project;

(b) ensure participation of the beneficiary health facilities on ordering equipment;

(c) provide training for staff using the equipment provided under the Project;
and

(d) submit periodic reports as requested by RHCF on the status of Project implementation and utilization of equipment.

10. The Borrower shall cause RHCF to submit to the Bank, on a semi-annual basis, Project progress reports for its review and approval.

11. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about May 1, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of

the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 1, 2006, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (6) 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 two million dollars (\$2,000,000) to be withdrawn from the Loan Account and deposited into 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 one million dollars (\$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 three million dollars (\$3,000,000).
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 deposit into the Special Account of an amount or amounts 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 into 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the 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.