

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H154-0-CAM

Development Grant Agreement

(Regional HIV/AIDS Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CENTRAL AMERICA INTEGRATION SYSTEM

Dated April 15, 2005

Public Disclosure Authorized

GRANT NUMBER H154-0-CAM

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated April 15 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the CENTRAL AMERICA INTEGRATION SYSTEM (the Recipient or SICA).

WHEREAS (A) the Recipient is a duly established international organization and represents acting through its General Secretariat that it has the necessary legal capacity and powers to enter into this Agreement and perform its obligations herein set forth;

(B) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 4 to this Agreement (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 Acquired Immune Deficiency Syndrome;
- (b) “Annual Action Plan” means any of the plans referred to in Section 3.07 (a) and/or (c) of this Agreement;

(c) “COMISCA” means the Central American Council of Ministers of Health established within SICA pursuant to the Minutes signed by the ministries of health of the Republics of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panamá on August 18, 2000;

(d) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Entity” means an entity, association or federation, vested with legal personality and operating in any of the Member Countries and eligible for implementation of Prevention Subprojects in accordance with the provisions of the Operational Manual;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(g) “Financial Management Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “HIV” means Human Immune-deficiency Virus;

(i) “ICGES” means *Instituto Conmemorativo Gorgas de Estudios de la Salud*, the health research institute operating pursuant to Law No. 78 of the Republic of Panamá dated December 17, 2003;

(j) “ICGES Agreement” means the agreement referred to in Section 3.04 (a) of this Agreement;

(k) “ICGES Regional Laboratory Operational Guidelines” means the guidelines referred to in Section 3.05 (a) of this Agreement;

(l) “Indicators Letter” means the letter dated February 22, 2005 from the Recipient to the Association setting forth the Project monitoring indicators;

(m) “IPP” means the indigenous peoples plan set forth in the letter from the Recipient to the Association dated February 22, 2005;

(n) “Member Country” means any of the following Republics, all members of the Recipient and beneficiaries of the Project: El Salvador, Costa Rica, Guatemala, Honduras, Nicaragua and Panamá;

(o) “Model Subproject Implementation Agreement” means the agreement referred to in section 3.06 (a) (vi) of this Agreement;

(p) “Operational Manual” means the manual referred to in Section 3.06 of this Agreement;

(q) “PAHO” means the Pan American Health Organization;

(r) “PCU” means the unit referred to in Section 3.08 of this Agreement;

(s) “Prevention Subproject” means a subproject to be carried out under Part D.2 of the Project by an Eligible Entity selected, carried out, supervised and monitored in accordance with the provisions of the Operational Manual;

(t) “Procurement Plan” means the Recipient’s procurement plan, dated February 23, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(u) “Regional Laboratory” means the laboratory to be established under Part A of the Project;

(v) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) “SICA” means *Sistema de Integración Centroamericana*, an international organization created by the *Protocolo de Tegucigalpa* entered into by the Republics of Costa Rica, Honduras, El Salvador, Guatemala, Nicaragua and Panamá on December 13, 1991;

(x) “SICA/SISCA Agreement” means the agreement to be entered into between the Recipient and SISCA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the SICA/SISCA Agreement;

(y) “SISCA” means *Secretaría de la Integración Social*, the Secretariat of the Central American Social Integration Subsystem of SICA, established and with juridical personality granted by the Treaty of El Salvador entered into by the Republics of

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá on March 30, 1995;

(z) “Special Account” means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(aa) “STI” means a sexually transmitted infection;

(bb) “Subproject Implementation Agreement” means any of the agreements referred to in Section 3.04 (b) of this Agreement;

(cc) “UNAIDS” means the United Nations Joint HIV/AIDS Programme; and

(dd) “UNICEF” means the United Nations Children’s Fund.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to five million two hundred and sixty thousand Special Drawing Rights (SDR 5,260,000) (the Grant).

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

Section 2.03. The Closing Date shall be November 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Member Countries; and (iii) in Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on June 1 and December 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient acting through its General Secretariat declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, under the overall guidance of COMISCA and the technical assistance of SISCA, with due diligence and efficiency and in conformity with appropriate health, technical, administrative, financial, social, educational and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Recipient shall enter into an agreement with SISCA, under terms and conditions which shall have been approved by the Association which shall include, *inter alia*, SISCA's obligation to provide technical assistance in the implementation of the Project.

(c) The Recipient shall exercise its rights under the SICA/SISCA Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the SICA/SISCA Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the

proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

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

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

Section 3.04. (a) The Recipient shall, prior to the implementation of Part A of the Project, enter into an agreement with ICGES under terms and conditions which shall have been approved by the Association which shall include, *inter alia*:

- (i) ICGES obligations in the implementation of Part A of the Project;
- (ii) that the coordinator of the Regional Laboratory will be appointed by COMISCA, and
- (iii) that the operations of the Regional Laboratory will be under the technical oversight of an advisory council to be integrated by the heads of the Member Countries' laboratories.

(b) The Recipient shall, prior to carrying out a Prevention Subproject, enter into an agreement (the Subproject Implementation Agreement) with the Eligible Entity, on terms and conditions acceptable to the Association and substantially in accordance with the terms of the Model Subproject Implementation Agreement, including, *inter alia*:

- (i) the obligation of said Eligible Entity to: (A) carry out the Prevention Subproject; (B) comply with the procurement provisions of this Agreement; and (C) enable the Recipient to

supervise and monitor the implementation of the Prevention Subproject; and

- (ii) the Recipient's obligation to undertake all necessary actions to permit the Recipient's and the Association's representatives to visit said entity's facilities in the country in which said entity has established its legal residence for purposes related to the Grant.

(c) The Recipient shall exercise its rights and carry out its obligations under the ICGES Agreement and each Subproject Implementation Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce the ICGES Agreement and/or any Subproject Implementation Agreement or any provision thereof.

Section 3.05. (a) The Recipient shall, not later than a year after the Effective Date, adopt and cause ICGES to adopt, in respect of the Regional Laboratory, operational guidelines, acceptable to the Association, to set forth the functional responsibilities of ICGES and SICA/SISCA in the operation of the Regional Laboratory; and

(b) for purposes of ensuring the sustainability in the operation of the Regional Laboratory after the Closing Date, the Recipient shall take measures as shall be needed to seek the Member Countries' support in the establishment, within four years from the Effective Date, of an endowment fund, with contributions from the Member Countries and other donors as the case may be, for the maintenance and operation of such Regional Laboratory.

Section 3.06. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Recipient shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Association, said manual to include, *inter alia*:

- (i) the construction guidelines for small works under Part A.1 of the Project;
- (ii) the biomedical waste management and disposal system and procedures of the Regional Laboratory;
- (iii) the guidelines for the preparation of Annual Action Plans and the financial management and procurement procedures (including an acceptable procurement filing system) under the Grant;

- (iv) the criteria for the selection and monitoring of Eligible Entities;
- (v) the criteria and procedures for the selection, approval, carrying out, monitoring and supervision of Prevention Subprojects; and
- (vi) a model Subproject Implementation Agreement.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. The Recipient shall:

(a) not later than November 30 of each year of Project implementation, starting in year 2006, furnish to the Association, for its approval, an annual action plan (the Annual Action Plan), each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Recipient, during the calendar year following the presentation of each said plan; and (ii) the updated disbursement schedule for each said Project activities;

(b) thereafter implement and cause to be implemented said Annual Action Plan in accordance with its terms; and

(c) carry out and cause to be carried out the Annual Action Plan for the year 2005 (as approved by the Association prior to the date of this Agreement) in accordance with its terms.

Section 3.08. (a) The Recipient shall operate and maintain within SISCA, at all times during Project implementation, a Project coordination unit (the PCU) with a structure, functions and responsibilities acceptable to the Association, including, *inter alia*, the responsibility of the PCU to coordinate, monitor and supervise the carrying out of the Project.

(b) The Recipient shall ensure that the PCU is, at all times during Project implementation, headed by a Regional Project manager with expertise in administrative and financial matters and staffed with adequate professional, fiduciary and administrative personnel (including procurement and financial experts), all with qualifications and experience acceptable to the Association.

Section 3.09. The Recipient shall carry out the IPP in accordance with its terms.

Section 3.10. The Recipient shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than October 31 of each year during Project implementation, starting in the year 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by November 30 of each year during Project implementation, starting in the year 2005, or such later date as the Association shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take and/or cause to be taken, as the case may be, 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 reports and the Association's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such

other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set forth in Section 3.10 of this Agreement, the Recipient shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, 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 Grant, 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 (as described in the corresponding Annual Action Plan); 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 Association 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 Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

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

(a) Law No. 78 of the Republic of Panamá referred to in Section 1.02 (i) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ICGES to perform any of its obligations under the ICGES Agreement or for the Regional Laboratory to be operated.

(b) The endowment fund referred to in Section 3.05 (b) of this Agreement shall have failed to become effective by November 30, 2009, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the operation of the Regional Laboratory are or will be made available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) the Recipient has adopted the Operational Manual in a manner acceptable to the Association;

(b) the Recipient has established the PCU and hired at least the Regional Project manager and the procurement and financial experts referred to in Section 3.08 of this Agreement; and

(c) the SICA/SISCA Agreement has been entered into.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the SICA/SISCA Agreement has been duly authorized or ratified by SISCA, and is legally binding upon SISCA in accordance with its terms.

Section 6.03. The date July 14, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Secretary General of the Recipient is designated as representative of the Recipient 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 Recipient:

Boulevard Orden de Malta 470
Urbanización Santa Elena
Antiguo Cuscatlán
El Salvador

Facsimile: 503-248-8800

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(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 Tegucigalpa, Honduras, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rebeca Santos

Authorized Representative

CENTRAL AMERICAN INTEGRATION SYSTEM

By /s/ Aníbal Quiñones

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, Operating Costs and consultants' services for:		
(a) Part A.1 of the Project	850,000	100%
(b) Parts A.2 through A.6 of the Project	1,380,000	100% of expenditures incurred after one year after the Effective Date
(2) Goods, consultants' services, training and Operating Costs for Parts B, C, D.1, D.3 and E of the Project	1,970,000	100%
(3) Prevention Subprojects	590,000	100% of the cost of goods and services under the Subproject
(4) Unallocated	<u>470,000</u>	
TOTAL	<u>5,260,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” means expenditures (other than those for consultants’ services) incurred by the Recipient to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), rental of training facilities and equipment and fees charged to trainees by educational institutions under the Project; and

(b) the term “Operating Costs” means reasonable recurrent expenditures that would not have been incurred by the Recipient absent the Project, for transportation and per-diem costs of its staff, office rent and utilities, operation and maintenance of office equipment, and non-durable goods (excluding laboratory reagents), all needed for the implementation of the Project.

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 SDR26,000, may be made in respect of Category (2) on account of payments made for expenditures before that date but after January 1, 2005;

(b) payments made for Category (1) unless the ICGES Agreement has been entered into; and

(c) payments made for Sub-Category 1 (b) unless the ICGES Regional Laboratory Operational Guidelines have been issued and are acceptable to the Association.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for Prevention Subprojects and for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (c) Operating Costs, training and Prevention Subprojects, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a

statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

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

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based

Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$800,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts

remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide knowledge and tools to decision makers in the Member Countries to manage and control HIV/AIDS and other opportunistic infections.

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

Part A: Regional Laboratory

Establishment and initial operation of a highly specialized regional laboratory within ICGES for use by the Member Countries (the Regional Laboratory) including:

1. Reconstruction of ICGES' facilities to establish the Regional Laboratory, equipping as required and initial operation.
2. Carrying out of confirmatory HIV tests and specialized diagnostics in the areas of HIV, STIs and opportunistic infections.
3. Training of workers of laboratories of the Member Countries on HIV/AIDS related technologies.
4. Development of information systems for the Regional Laboratory and laboratories of the Member Countries undertaking HIV/AIDS testing.
5. Carrying out of research on specialized HIV/AIDS tests.
6. Carrying out of quality control of laboratories of Member Countries undertaking HIV/AIDS tests, assessing their capabilities and transferring laboratory technologies applicable to HIV/AIDS.

Part B: Epidemiological Surveillance

1. Setting up a regional epidemiological surveillance system which would combine several data streams (including AIDS, HIV, STIs and behavioral surveillance) into a comprehensive data stream and thus enable a better characterization of the nature of the

HIV/AIDS epidemics in Central America, including integration and dissemination of the relevant data from Member Countries.

2. Carrying out of a strategy for the surveillance of sentinel sites.
3. Establishment of a regional training program which would include training in implementation, analysis and use of coordinated surveillance systems, management, monitoring and assessment of national HIV/AIDS prevention and control programs, and application and use of surveillance information systems.
4. Carrying out of regionally coordinated sentinel surveys among the most vulnerable groups (such as seasonal mobile workers, commercial sex workers, and highly-vulnerable ethnic groups), and of internet dissemination of statistics on prevalence, incidence, risk factors, and other information for epidemiological surveillance.

Part C: Strengthening the Regional Response Capacity

Harmonization of legal and institutional frameworks needed to scale up strategic interventions to respond to the HIV/AIDS epidemics and strengthen leadership and political commitment of the Member Countries to the implementation of an action plan with common policies and strategies including:

1. Carrying out of a desk review, and sharing of best practices, at the regional level with health and non-health institutions and civil society representatives, to examine the HIV/AIDS legal framework including civil rights, integral treatment access, and drug and laboratory supplies regulations to look towards the adoption of common criteria and a common agency to make the scientific and medical determinations of quality, safety, effectiveness and marketing.
2. Carrying out of specialized workshops on the subjects included in Part C.1 above, including those specially designed for ethnic groups (Garífuna, Kuna and other groups) in vulnerable areas.

Part D: Prevention in Mobile Populations

Carrying out of prevention initiatives aimed to reduce the vulnerability of truck drivers, seasonal mobile workers, commercial sex workers and other populations at risk for contracting HIV/AIDS and other STIs including:

1. Strengthening coordination across sectors, both at the Member Country and regional levels, through the carrying out of meetings and workshops with key stakeholders and agencies.
2. Carrying out of preventive interventions in one or more of the Member Countries (the Prevention Subprojects).
3. Training of Member Countries' staff working with mobile populations.

Part E: Project Management

Establishment and operation of the PCU including provision of experts, computing and office equipment and furniture as required.

* * *

The Project is expected to be completed by May 30, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

B. Other Procurement Procedures

1. Limited International Bidding. Specialized medical supplies and laboratory equipment, which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding of the Republic of El Salvador and/or other Member Countries, using standard bidding documents satisfactory to the Association.

3. Shopping. (a) Goods estimated to cost less than \$50,000 equivalent per contract; (b) specialized medical supplies and laboratory equipment with the prior agreement of the Association; and (c) works estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Specialized medical supplies and laboratory equipment which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

5. Procurement from UN Agencies. Specialized medical supplies and laboratory equipment which the Association agrees meet the requirements of paragraph 3.1 of the Procurement Guidelines may be procured directly from UNICEF, UNAIDS, PAHO and other United Nations agencies as shall be agreed with the Association in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely consultants from El Salvador and/or other Member Countries.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection 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 \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term “Borrower” is modified to read “Recipient”.

(b) The term “Credit” is modified to read “Grant”.

(c) The term “Credit Account” is modified to read “Grant Account”.

(d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:

(a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02 (a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Member Countries.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Member Countries on the goods or services to be financed

under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association."

8. Article VI is modified as follows:

(a) The word "credit" in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words "credit, grant or financing".

(b) Section 6.03 (c) is modified by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

9. Section 8.01 (a) is modified to read as follows:

"(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Member Countries."

10. Section 12.05 and its heading are modified to read as follows:

"Section 12.05. *Termination of Development Grant Agreement*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement."