

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4713-BR

Loan Agreement

(Third AIDS and STD Control Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 27, 2003

Public Disclosure Authorized

LOAN NUMBER 4713-BR

LOAN AGREEMENT

AGREEMENT, dated November 27, 2003 between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has provided support for the Borrower's first and second AIDS and STD Control Projects through Loans 3659-BR and 4392-BR respectively;

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

WHEREAS the Bank has 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 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;

(b) “Demand Driven Subproject” means an HIV/AIDS and STDs Prevention Subproject, HIV/AIDS and STDs Treatment and Care Subproject, Vulnerability Reduction Subproject, Scientific and Technological Research Capacity Building Subproject, Technological Research and Development Subproject, OSC Sustainability Promotion Subproject, Fostering Performance – based Management Subproject, and/or Monitoring, Evaluation and Epidemiological Surveillance Subproject, which subproject is to be carried by an Implementation Entity selected by MOH in accordance with the competitive selection procedures set forth in the Operational Manual;

(c) “Environmental Management Actions” means MOH’s environmental management guidelines and actions for the Project set forth in the document furnished by MOH to the Bank on June 3, 2003;

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

(e) “Fiscal Year” means the Borrower’s fiscal year which commences January 1;

(f) “Fostering Performance-based Management Subproject” means a Supply Driven Subproject or a Demand Driven Subproject to be carried out by an Implementation Entity to improve its management capacity, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(g) “FUNASA” means *Fundação Nacional de Saúde*, the Borrower’s national health foundation, established pursuant to the Borrower’s Decree (*Decreto*) No. 100 dated April 16, 1991 as modified by Decree 3450 dated May 9, 2000;

(h) “FUNASA Agreement” means the agreement referred to in Section 3.01 (e) of this Agreement;

(i) “HIV” means the human immune-deficiency virus;

(j) “HIV/AIDS and STD Control Program” or “Program” means the Borrower’s program for HIV/AIDS and STD prevention, treatment and care set forth in MOH’s Regulation (*Portaria*) Number 236 published in the Official Gazette on May 2, 1985;

(k) “HIV/AIDS and STDs Prevention Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity

and consisting of a set of activities designed to promote behavioral change and prevention of STDs and HIV/AIDS with particular focus on, *inter alia*, high risk groups, prevention of mother to child transmission, condom promotion, risk reduction among intravenous drug users and the expansion of voluntary counseling and testing, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(l) “HIV/AIDS and STDs Treatment and Care Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed to expand and improve the diagnosis, treatment and care of opportunistic infections, STDs and HIV/AIDS, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(m) “Implementation Entity” means a state, municipality or other governmental agency, university, research center, laboratory, OSC, foundation, association or other entity, with its own legal personality, which meets the criteria and other requirements set forth in the Operational Manual to carry out a Subproject;

(n) “*Incentivo* Eligible OSC” means an OSC which complies with the criteria set forth in MOH’s Regulation Number 2313 published in the Official Gazette on March 20, 2003 to participate in the *Incentivo* Program;

(o) “*Incentivo* Program” means the program carried out by MOH within SUS in accordance with the policy set forth in MOH’s Regulation (*Portaría*) Number 2313 published in the Official Gazette on March 20, 2003, for the financing of STD/HIV/AIDS prevention and control actions which are carried out by states and municipalities;

(p) “*Incentivo* Program Entity” means any state or municipality selected to participate in the *Incentivo* Program which complies with the criteria set forth in the MOH’s Regulation (*Portaria*) No. 2313 published in the Official Gazette on March 20, 2003 to participate in the *Incentivo* Program;

(q) “*Incentivo* Program Implementation Agreement” means any of the agreements referred to in Section 3.01 (d) (i) of this Agreement;

(r) “*Incentivo/OSC* Executed Activities” means activities similar to those of Subprojects (excluding Scientific and Technological Research Capacity Building Subprojects and Technological Research and Development Subprojects) to be carried out by an OSC under the *Incentivo* Program, on the terms of the *Incentivo/OSC* Implementation Agreement, which activities are eligible for financing out of the proceeds

of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(s) “*Incentivo/OSC Executed Activities Transfer*” means the amount transferred by the Borrower through the MOH’s Fund to an *Incentivo* Program Entity as an advance to cover the costs of goods, works and services required by an OSC or OSCs for the implementation of the *Incentivo/OSC Executed Activities*;

(t) “*Incentivo/OSC Implementation Agreement*” means any of the agreements with a *Incentivo* Eligible OSC referred to in Section 3.01 (d) (ii) of this Agreement;

(u) “*Indigenous Peoples Action Plan*” means the Borrower’s plan for benefiting indigenous peoples under the Project as set forth in the document furnished by MOH to the Bank on June 3, 2003;

(v) “*Model Incentivo Program Implementation Agreement*” means the model *Incentivo* Program Implementation Agreement set forth in the Operational Manual;

(w) “*Model Incentivo/OSC Implementation Contract*” means the model *Incentivo/OSC* Implementation Contract set forth in the Operational Manual;

(x) “*Model Subproject Implementation Agreement*” means the models of Subproject Implementation Agreements set forth in the Operational Manual;

(y) “*MOH*” means *Ministério da Saúde*, the Borrower’s Ministry of Health;

(z) “*MOH’s Fund*” means *Fundo Nacional de Saúde*, the fund operating in accordance with the Borrower’s Decree No. 3964 of October 10, 2001;

(aa) “*Monitoring, Evaluation and Epidemiological Surveillance Subproject*” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed to support the establishment of monitoring, evaluation and epidemiological surveillance systems at the state and municipal levels, and the carrying out of evaluation studies, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(bb) “*Official Gazette*” means the Borrower’s official gazette;

(cc) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(dd) “OSC” means a civil society organization operating in the Borrower’s territory with juridical personality granted in accordance with the Borrower’s laws;

(ee) “OSC Sustainability Promotion Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed to promote the institutional, technological and financial sustainability of OSC through the strengthening and expansion of their human and operational resources and the diversification of sources of financing for the implementation of STD and HIV/AIDS prevention and care activities by such OSCs, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(ff) “PIU” means the unit referred to in Section 3.01 (b) (i) of this Agreement;

(gg) “Procurement Law” means the Borrower’s procurement law, Law No. 8666 published in the Official Gazette on June 21, 1993 (as amended to the date of this Agreement), Law 10191 of February 14, 2001 and Law 10520 of July 17, 2002;

(hh) “Project Monitoring Indicators” means the indicators to be used in monitoring the progress of the implementation of the Project and in evaluating its results set forth in the document furnished by MOH to the Bank on June 3, 2003;

(ii) “Scientific and Technological Research Capacity Building Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed to strengthen the capacity of research centers, laboratories and universities to engage in scientific and technological research and development to improve effectiveness and increase access to treatment and prevention of STDs and HIV/AIDS through: (i) research to improve prevention, diagnosis, treatment and care; (ii) development of the necessary clinical practices to test preventive and therapeutic vaccine candidates and microbicides and other prevention supplies, (iii) improved epidemiology of STDs/HIV/AIDS, use of bio-informatics, and capacity for the development of clinical trials, (iv) preparation of civil society to participate in research and development in clinical trials, and (v) improved quality control mechanisms for available HIV/AIDS medications; which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

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

(kk) “STD” means a sexually transmitted disease;

(ll) “Subprojects” means collectively HIV/AIDS and STDs Prevention Subprojects, HIV/AIDS and STDs Treatment and Care Subprojects, Vulnerability Reduction Subprojects, Scientific and Technological Research Capacity Building Subprojects, Technological Research and Development Subprojects, Monitoring, Evaluation and Epidemiological Surveillance Subprojects, Fostering Performance –based Management Subprojects and OSC Sustainability Promotion Subprojects;

(mm) “Subproject Implementation Agreement” means any of the agreements referred to in Section 3.01 (c) of this Agreement;

(nn) “Supply Driven Subproject” means an HIV/AIDS and STDs Prevention Subproject, HIV/AIDS and STDs Treatment and Care Subproject, Vulnerability Reduction Subproject, Scientific and Technological Research Capacity Building Subproject, Technological Research and Development Subproject, Monitoring, Evaluation and Epidemiological Surveillance Subproject, Fostering Performance-based Management Subproject, and/or OSC Sustainability Promotion Subproject which subproject is implemented, due to its strategic nature, by a specific Implementation Entity in accordance with the requirements set forth in the Operational Manual;

(oo) “SUS” means *Sistema Único de Saúde*, the Borrower’s health system integrating federal, state and municipal delivery systems referred to in Article 198 paragraph 1 and Article 200 of the Borrower’s Constitution;

(pp) “Technological Research and Development Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed to develop medications and laboratory and medical supplies, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual; and

(qq) “Vulnerability Reduction Subproject” means a Demand Driven Subproject or a Supply Driven Subproject to be carried out by an Implementation Entity and consisting of a set of activities designed with respect of people affected by STDs and HIV/AIDS: (i) to minimize situations of social and individual vulnerability and risks, reduce the stigma and discrimination, strengthen the existing legal framework, and promote the protection of the rights to health, education and employment, which

subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual.

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 million dollars (\$100,000,000).

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, works, and services and *Incentivo/OSC* Executed Activities Transfers required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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 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 and the 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 May 15 and November 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.

Section 2.09. The Minister of Health and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MOH, with the assistance of Implementation Entities, *Incentivo* Program Entities and *Incentivo* Eligible OSCs, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, social, and health practices, and shall provide and cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall:
 - (i) operate and maintain, during the implementation of the Project, a Project implementation unit (PIU) with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank;
 - (ii)
 - (A) not later than six months from the Effective Date, review with the Bank the staffing requirements of the monitoring and evaluation, and procurement and financial management sections of such unit; and
 - (B) thereafter, strengthen the staffing of the unit as needed after such review; and
 - (iii) not later than twenty-four months after the Effective Date, furnish to the Bank an analysis of the staffing needs of the unit, including a plan for the sustainability of the posts assessed as necessary.

(c) The Borrower shall, through MOH, cause each Implementation Entity to carry out each Subproject and, for such purposes, shall enter into contractual arrangements, under terms and conditions satisfactory to the Bank, substantially in accordance with the terms of the respective Model Subproject Implementation Agreement, setting forth, *inter alia*, in respect of each Subproject:

- (i) the Implementation Entity's obligation:
 - (A) to carry out the Subproject in accordance with the provisions of this Agreement;
 - (B) to procure the goods, works and services for the Subproject in accordance with:
 - (I) the requirements of Schedule 4 to this Agreement; and
 - (II) the contracting procedures and schedule specified in the Bank-approved procurement plan for such goods, works and services;
 - (C) to keep records and accounts for the expenditures financed under the Subproject and to allow for the procurement audits required for the Subproject, as applicable; and
 - (D) to enable the Bank to review the Implementation Entity's accounts and other information as the Bank shall reasonably request in respect of the Subproject; and
- (ii) the technical, environmental, financial and auditing requirements of the Subproject.

(d) The Borrower shall, through MOH:

- (i) enter into an agreement with each *Incentivo* Program Entity under terms and conditions satisfactory to the Bank, substantially in accordance with the terms of the Model Program Implementation Agreement, setting forth, *inter alia*, in respect of each *Incentivo* Program and related *Incentivo*/OSC Executed Activities:

- (A) the *Incentivo* Program Entity's obligation:
 - (I) to carry out the *Incentivo* Program as applicable to such Entity and to meet the performance benchmarks related thereto;
 - (II) to keep records and accounts for the expenditures financed under the *Incentivo* Program;
 - (III) to utilize the proceeds of the *Incentivo/OSC* Executed Activities Transfers and provide information to MOH on the use thereof in accordance with the procedures set forth in the Operational Manual; and
 - (IV) to enable the Bank to review the *Incentivo* Program Entity's accounts and other information as the Bank shall reasonably request in respect of the *Incentivo* Program and the *Incentivo/OSC* Executed Activities;
- (B) the schedule of disbursements, by MOH to the *Incentivo* Program Entity, of the *Incentivo/OSC* Executed Activities Transfers;
- (C) the technical and environmental requirements for the implementation of the *Incentivo/OSC* Executed Activities;
- (D) the requirements for auditing expenditures under the *Incentivo* Program and the *Incentivo/OSC* Executed Activities;
- (E) the procurement audit requirements;
- (F) MOH's right to suspend disbursements, or cancel amounts to be disbursed, as the case may be, in the event of non-compliance by the *Incentivo* Program Entity with the obligations set forth in the *Incentivo* Program Implementation Agreement; and

- (G) a list of *Incentivo* actions to be carried out and a list of expenditures not eligible for financing by proceeds of the Loan; and
 - (ii) cause each *Incentivo* Program Entity, which signs a *Incentivo* Program Implementation Agreement, to enter into an contract with each *Incentivo* Eligible OSC under terms and conditions satisfactory to the Bank, substantially in accordance with the terms of the Model *Incentivo/OSC* Implementation contract, setting forth, *inter alia*, in respect of each of the *Incentivo/OSC* Executed Activities:
 - (A) the *Incentivo* Eligible OSC's obligation:
 - (I) to carry out the *Incentivo/OSC* Executed Activities in accordance with the provisions of this Agreement and meet the performance benchmarks related thereto;
 - (II) to procure the goods, works and services in accordance with the provisions of Schedule 4 to this Agreement; and
 - (III) to comply or enable the *Incentivo* Program Entity to comply with the requirements of Section 3.01 (d) (i) (A) through (G) of this Agreement;
 - (B) the technical, environmental and financial requirements of the *Incentivo/OSC* Executed Activities; and
 - (C) the *Incentivo* Program Entity's right to suspend disbursements if the *Incentivo* Eligible OSC fails to comply with its obligations under the *Incentivo/OSC* Implementation Agreement.
- (e) The Borrower shall, through MOH, enter into an agreement with FUNASA under terms and conditions satisfactory to the Bank, setting forth in respect of the Indigenous Peoples Action Plan, *inter alia*, FUNASA's obligation to participate in its implementation and provide the required counterpart funding.

(f) The Borrower shall, through the MOH's Fund, disburse to each *Incentivo* Program Entity's health fund, the *Incentivo/OSC* Executed Activities Transfers in accordance with the provisions of this Agreement.

- (g) (i) The Borrower shall exercise its rights and carry out its obligations under the FUNASA Agreement and each of the Subproject Implementation Agreements and *Incentivo* Program Implementation Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the FUNASA Agreement or any Subproject Implementation Agreement or *Incentivo* Program Implementation Agreement or any provision thereof.
- (ii) The Borrower shall cause each *Incentivo* Program Entity: (A) to exercise its rights and carry out its obligations under each *Incentivo/OSC* Implementation Contract in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (B) except as the Bank shall otherwise agree, not to assign, abrogate, suspend, waive, terminate or fail to enforce any *Incentivo/OSC* Implementation Contract or any provision thereof.

Section 3.02. (a) 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, as well as those to be financed by the MOH's Fund disbursements for *Incentivo/OSC* Executed Activities Transfers under *Incentivo* Program Implementation Agreements and *Incentivo/OSC* Implementation Contracts, shall be governed by the provisions of Schedule 4 to this Agreement.

(b) Without prejudice to the provisions of Section 6.03 (d) of the General Conditions (and as a supplement to the terms of paragraph 1.13 of the Guidelines referred to in Schedule 4 to this Agreement and paragraph 1.18 of the Consultant Guidelines also referred to in said Schedule), if, at any time, the Bank determines that the procurement of any contract:

- (i) to be financed by the MOH's Fund disbursements for *Incentivo/OSC* Executed Activities Transfers under *Incentivo* Program Implementation Agreements and *Incentivo/OSC* Implementation Contracts is inconsistent with the procedures set forth or referred to in this Agreement, the Bank may, by notice to the Borrower, terminate the right of the Borrower to make

withdrawals with respect to eighty percent (80%) of the amount of expenditures in respect of such contract. Upon the giving of such notice, such amount of the Loan shall be cancelled; and

- (ii) financed by the Loan for Subprojects procured in accordance with the requirements of Schedule 4, Section I, Part C.3 of this Agreement is inconsistent with the procedures set forth or referred to therein, the Borrower shall promptly reimburse to the Bank the amount of the contract so deemed misprocured and ineligible for financing by the Bank from the proceeds of the Loan.

Section 3.03. The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*:

- (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof, such as a procurement plan model and criteria for financial management and procurement assessment of Implementation Entities, *Incentivo* Program Entities, and *Incentivo* Eligible OSCs;

- (b) the criteria for the approval, implementation and monitoring of Subprojects, the *Incentivo* Program and *Incentivo*/OSC Executed Activities;

- (c) a model agreements for implementation of Subprojects, *Incentivo* Program and *Incentivo*/OSC Executed Activities;

- (d) the Environmental Management Actions and screening procedures for implementation of rehabilitation works; and

- (e) the Indigenous Peoples Action Plan.

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 3.04. The Borrower shall, through MOH, during the execution of the Project:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, and in accordance with the Project Monitoring Indicators,

the carrying out of the Project (including the Subprojects, the *Incentivo* Program and the *Incentivo*/OSC Executed Activities) and the achievement of its objectives;

(b) furnish to the Bank, not later than June 30 and December 31 of each year, commencing December 31, 2004, a progress report on the execution of the Project during the six-month period immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section; and

(c) carry out, jointly with the Bank, not later than July 31 and January 31 of each year, commencing January 31, 2004, reviews of the progress of the Project and the attainment of Project objectives on the basis of the reports referred to in paragraph (b) of this Section and shall, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of its objectives, based on the conclusions and recommendations of the said reports, and the Bank's views on the matter.

Section 3.05. The Borrower shall, through MOH, carry out and cause FUNASA to carry out the Indigenous Peoples Action Plan in accordance with its terms.

Section 3.06. The Borrower shall, through MOH, furnish to the Bank:

(a) by November 30, 2003, indicators, satisfactory to the Bank, to measure the performance of the *Incentivo* Program; and

(b) for its prior review and approval, all Supply Driven Subprojects estimated to cost \$350,000 equivalent or more.

Section 3.07. The Borrower shall, in the event that at least 35% of the amount allocated for *Incentivo*/OSC Executed Activities Transfers under Category (6) of the table in paragraph 1 of Schedule 1 to this Agreement has not been disbursed by a date 18 months after the Effectiveness Date for Project eligible expenditures, review with the Bank the progress made in the implementation of the *Incentivo* Program and *Incentivo*/OSC Executed Activities, and propose any modifications that might be needed to ensure an effective decentralization from MOH to *Incentivo* Program Entities of decisions and management of *Incentivo*/OSC Executed Activities.

Section 3.08. 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 for the future operation of the Project; 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 a financial management system, including records and accounts, and prepare 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:

- (i) have the records, accounts and financial 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 (including statements of transfer as cited in paragraph 4 (f) of Schedule 1 to this Agreement), the Borrower shall:

- (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: (A) the statements of expenditure and statements of transfer submitted during such Fiscal Year; and (B) the documents and other evidence referred to in paragraph 3 (d) of Schedule 1 to this Agreement, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall 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 event is specified, namely, that any Implementation Entity shall have failed to perform any of its obligations under a Subproject Implementation Agreement provided, however, that the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures incurred or to be incurred by the Implementation Entity under its respective Subproject Implementation Agreement.

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) that the Borrower has adopted the Operational Manual; and
- (b) that terms of reference, satisfactory to the Bank, for the auditors to be contracted for purposes of Section 4.01 (b) of this Agreement have been furnished to the Bank.

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 Loan provided for in this Agreement has been duly registered by the Borrower's Central Bank.

Section 6.03. The date February 27, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministério da Fazenda - PGFN
Esplanada dos Ministérios, Bloco "P", 8º andar
70048-900 Brasília, D.F.
Brazil

Cable address:

Telex:

MEFP Brasília
Brazil

61-1506 MFAZ-BR

With copies to:

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brasil

Ministério da Saúde
Secretaria de Vigilância em Saúde
Coordenação Nacional de DST/AIDS
SEPN 511 Bloco C, Anexo III do Ministério da Saúde
70750-543, Brasília, D.F.
Brasil

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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

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

FEDERATIVE REPUBLIC OF BRAZIL

By/s/ Suely Dib de Sousa e Silva

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Vinod Thomas

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 (other than for Subprojects)	49,000,000	100% of foreign expenditures and 80% of local expenditures
(2) Consultants' Services (other than for Subprojects)	3,500,000	80%
(3) Training	6,100,000	80%
(4) Incremental Operating Expenses	7,300,000	70% until the aggregate disbursed under this Category reaches \$3,500,000; 50% until the aggregate disbursed under this Category reaches \$6,000,000; and 30% thereafter
(5) Subprojects	21,100,000	70% of the cost of goods, works and services under the Subproject and not exceeding \$11,200,000 in the aggregate for Supply Driven Subprojects
(6) <i>Incentivo</i> /OSC Executed Activities Transfers disbursed by the MOH's Fund under each <i>Incentivo</i> Program Agreement	12,000,000	80%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(7) Front End Fee	1,000,000	Amount due under Section 2.04 of this Agreement
TOTAL	<u>100,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) the term “training” means expenditures incurred in connection with the provision of training, including *inter alia* trainers, training institution fees, logistics, materials, and the reasonable travel cost of travel and per diem of trainees; and

(d) the term “incremental operating expenses” means the reasonable costs incurred by: (i) the PIU for utilities, maintenance and consumable office supplies and other cost associated with Project implementation; and (ii) incremental salaries (excluding seconded staff acting as consultants) that would not have been incurred absent 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 (other than under Category (6) set forth in the table in paragraph 1 of this Schedule), in an aggregate amount not exceeding \$10,000,000 may be made on account of payments made for expenditures within twelve months before that date, but in no case incurred before April 4, 2003;

(b) payments covered by Category (5) set forth in the table in paragraph 1 of this Schedule, unless the respective Subproject Implementation Agreement has been entered into with the Subproject Implementation Entity;

(c) payments covered by Category (6) set forth in the table in paragraph 1 of this Schedule, unless the respective *Incentivo* Program Implementation Agreement have been entered into by the parties thereto; and

(d) payments covered by Category (6) set forth in the table in paragraph 1 of this Schedule, in the event the Borrower shall have failed to furnish to the Bank by a date six months after the end of each Fiscal Year, together with the audits referred to in Section 4.01 (c) (iv) of this Agreement, such documents and other evidence (including the related *Incentivo*/OSC Implementation Contracts) showing, to the satisfaction of the Bank, that at least eighty percent (80%) of the amounts disbursed by the MOH's Fund and covered by Category (6) set forth in the table in paragraph 1 of this Schedule were used for goods, minor rehabilitation works, and services, eligible for financing out of the proceeds of the Loan as confirmed by such audit report.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower:

(a) for goods under contracts not exceeding the equivalent of \$350,000 per contract;

(b) for services of consulting firms under contracts not exceeding \$250,000 equivalent per contract;

(c) for services of individual consultants under contracts not exceeding \$50,000 equivalent per contract;

(d) training (other than the training provided by consultants for which prior review is required pursuant to the provisions of Part D.2 of Section II of Schedule 4 to this Agreement) and incremental operating expenses;

(e) Subprojects (i) in respect of which prior review of the procurement of goods and services is not required in accordance with the provisions of Part D.2 of Sections I and II of Schedule 4 to this Agreement, and (ii) covering works under contracts not exceeding the equivalent of \$100,000 per contract; and

(f) for *Incentivo*/OSC Executed Activities Transfers (in which case the statements of expenditure shall be referred to as statements of transfer).

SCHEDULE 2

Description of the Project

The objectives of the Project are:

(a) to strengthen the effectiveness and efficiency of the HIV/AIDS and STDs Control Program and ensure its sustainability in the medium and long term; and

(b) to reduce the incidence of STDs and HIV/AIDS and improve the life of those living with HIV/AIDS,

by improving the coverage and quality of services, decentralizing the financing and management of the HIV/AIDS and STDs Control Program to states and municipalities, strengthening management through the introduction of performance-based management, introducing technology in treatment and prevention, and reducing the social and individual vulnerability of peoples affected by STDs and HIV/AIDS.

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: Quality and Coverage Improvement

1. (a) Promotion of behavior change to prevent STDs and HIV/AIDS through:
 - (i) the carrying out of information, education and communication activities including mass media campaigns, and educational materials for prevention of STDs and HIV/AIDS;
 - (ii) the distribution of male and female condoms, lubricant gels and rapid test kits, syringes and educational materials for harm reduction programs for intravenous drug users and other vulnerable populations;
 - (iii) the provision of laboratory equipment and supplies;
 - (iv) the prevention of mother-to-child transmission of HIV/AIDS and STDs; and

- (v) the expansion of voluntary counseling and testing for HIV/AIDS and STDs.
 - (b) Carrying out of HIV/AIDS and STDs Prevention Subprojects.
2. (a) Expansion of diagnosis and treatment of STDs, and treatment of infections and HIV/AIDS through:
- (i) the provision of educational materials on diagnosis and treatment of STDs and HIV/AIDS, computer software and hardware for MOH, and laboratory equipment and supplies;
 - (ii) training of SUS' and Implementation Entities' staff involved with the Project to provide adequate treatment and care, and foster adherence to the treatment;
 - (iii) the provision of systems for the distribution of medicines and medical and laboratory supplies; and
 - (iv) the provision of treatment and care services, including the necessary laboratory work to follow-up on patients' progress.
- (b) Carrying out of HIV/AIDS and STDs Treatment and Care Subprojects.
3. Carrying out of a program to minimize the situations of social and individual vulnerability of peoples affected by STDs and HIV/AIDS through:
- (a) training, including workshops and educational materials, and studies, and technical assistance to support the formulation of new legislation and strategies to strengthen the protection of the rights of peoples living with STDs and HIV/AIDS.
 - (b) Carrying out of Vulnerability Reduction Subprojects.
4. (a) Carrying out of the *Incentivo* Program.
- (b) Carrying out of *Incentivo*/OSC Executed Activities.

Part B: Scientific and Technological Development

1. Carrying out of Scientific and Technological Research Capacity Building Subprojects.
2. Carrying out of Technological Research and Development Subprojects.

Part C: Strengthening Program Management

1. Carrying out of activities to monitor the Project and evaluate its effectiveness through:

- (a)
 - (i) Establishment and operation of monitoring and evaluation systems at the state and municipal levels, including the provision of computer hardware and software, educational materials, manuals, epidemiological and survey research reports;
 - (ii) carrying out of evaluation studies of the Project and *Incentivo* Program; and
 - (iii) training of SUS' and Implementation Entities' staff involved with the Project on monitoring and evaluation.

- (b) Carrying out of Monitoring, Evaluation and Epidemiological Surveillance Subprojects.

2. Carrying out of activities to foster performance-based management through:

- (a) training of SUS' and Implementation Entities' staff involved with the Project on performance-based management under the HIV/AIDS and STDs Control Program, and the *Incentivo* Program, including the provision of educational materials, the carrying out of seminars and conferences for knowledge sharing and the introduction of management tools; and

- (b) carrying out of Fostering Performance-based Management Subprojects.

3. Strengthening of OSCs to enhance their sustainability through:

- (a) the provision of educational materials and computer equipment and software for MOH and selected OSCs;

(b) the strengthening of the capacity of states and municipalities to support OSC actions in STDs and HIV/AIDS prevention and care; and

(c) the carrying out of OSC Sustainability Promotion Subprojects.

4. Project Management

(a) Establishment and operation of the PIU including the provision of consultant services to undertake the supervision of the Project.

(b) Implementation of procurement reviews of the Subprojects and the *Incentivo*/OSC Executed Activities.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in USD)*</u>
On each May 15 and November 15	
beginning November 15, 2008 through May 15, 2018	5,000,000

* 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 Works

Part A: General

Goods and works 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 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 shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods 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 shall be grouped in bid packages estimated to cost respectively \$250,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

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

(c) Notification and Advertising

The invitation to prequalify or 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 Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

- (a) (i) Goods (other than for Subprojects) estimated to cost less than \$350,000 equivalent per contract up to an aggregate amount of \$5,000,000, and
- (ii) goods for Subprojects estimated to cost less than \$250,000 equivalent per contract,

may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) In the procurement of goods under this Part C.1, bidding documents in a standardized form for the Project shall be used. Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods to be undertaken pursuant to this Part C.1:

- (i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;
- (ii) whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil;
- (iii) the arrangements, under the invitation to bid, for joint-ventures (*consórcios*) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;
- (iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

- (v) there shall not be, without the Bank's prior approval, issuance of any change order under a contract which would increase or decrease by more than 15% the quantity of works or goods (and related services), as the case may be, without any change in the unit prices or other terms and conditions of such contract.

2. International or National Shopping

Goods (other than for Subprojects) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$8,200,000 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, including, as a form of such shopping, the bidding (*pregão*) procurement system set forth in the Borrower's Law No. 10.520 of July 17, 2002.

3. National Law

Goods and works for Subprojects estimated to cost less than \$100,000 equivalent per contract may be procured following public competitive bidding and other selection procedures applicable under the Procurement Law and set forth in the Subproject Implementation Agreements.

4. Commercial Practices

Goods and works for:

- (a) Subprojects which are procured by OSCs; and
- (b) *Incentivo*/OSC Executed Activities;

all estimated to cost less than \$100,000 equivalent per contract, may be procured in accordance with:

- (i) commercial practices acceptable to the Bank;
- (ii) the OSC's own procurement regulations; and

- (iii) the list of goods, works and services to be procured, and the requirements of economy and efficiency set forth in the respective Subproject Implementation Agreement or *Incentivo/OSC* Implementation Contract.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 Guidelines. Procurement of all goods and works 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

With respect to: (a) each contract for goods procured under Part B.1 of this Section; (b) the first two contracts for goods and works for Subprojects, and the first two contracts for goods other than for Subprojects procured under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the 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 Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

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 Section II of this Section.

Part B: Quality- and Cost-based Selection

1. 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services, estimated to cost less than \$250,000 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 C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for studies under Part C of the Project, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Commercial Practices

Services for:

- (a) Subprojects which are procured by OSCs, and
- (b) *Incentivo*/OSC Executed Activities,

all estimated to cost less than \$100,000 equivalent per contract, may be procured in accordance with:

- (i) commercial practices acceptable to the Bank;
- (ii) the OSC's own procurement regulations; and
- (iii) the list of goods, works and services to be procured and the requirements of economy and efficiency set forth in the respective Subproject Implementation Agreement or *Incentivo*/OSC Implementation Contract.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding in the aggregate \$11,000,000 equivalent shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

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, works and services and *Incentivo*/OSC Executed Activities Transfers 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 the amount of \$10,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
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 (including, for example, the documents and other evidence referred to in paragraph 3 (d) of Schedule 1 to this Agreement), 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.