

CONFORMED COPY

GRANT NUMBER H013-CE

Development Grant Agreement

(National HIV/AIDS Prevention Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 13, 2003

GRANT NUMBER H013-CE

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated February 13, 2003, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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 financing the Project; and

(B) the Association was authorized, under Resolution No. 549 adopted on September 29, 2002, by the Board of Governors of the International Bank for Reconstruction and Development (the "Bank"), to use the funds transferred to the Association out of the Bank's fiscal year 2002 net income to provide financing in the form of grants and the development grant set forth in Section 2.01 of this Agreement (the Grant) is consistent with such policies;

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. (a) The following provisions of the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in paragraphs (b) and (c) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Article II;
- (iii) Section 3.01;
- (iv) Sections 4.01, 4.02, 4.05, and 4.06;
- (v) Article V;

- (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
 - (vii) Article VIII;
 - (viii) Article IX;
 - (ix) Article X;
 - (x) Article XI; and
 - (xi) Sections 12.01, 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Borrower”, wherever used in the General Conditions, means “the Recipient”;
 - (ii) the term “Development Credit Agreement” wherever used in the General Conditions, means the Development Grant Agreement;
 - (iii) the term “Credit” and “credit” wherever used in the General Conditions means the Grant except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”;
 - (iv) the term “Credit Account”, wherever used in the General Conditions means the Grant Account; and
 - (v) the term “Development Credit Agreement” is modified to read “Development Grant Agreement.”
- (c) The General Conditions shall be modified as follows:
- (i) Section 1.01 is amended to read as follows:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development grant to its members. They apply to any development grant agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

(ii) Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Grant Agreement” means the particular Development Grant Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Grant Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Credit Agreement.”

(iii) The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Grant Agreement.”

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

(iv) The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02 (a) (ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, and to Section 6.02 (c) (i) after the words “any development credit agreement” and before the words “with the Association.”

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

(a) “AIDS” means the Acquired Immune Deficiency Syndrome;

(b) “Blood Transfusion Program” means the National Blood Transfusion Services Program, a state health program in Sri Lanka administered by the Health Ministry;

(c) “Central Reference Laboratory” means the Central Reference Laboratory for the Tuberculosis Central Program, an entity operating with the Health Ministry’s support, which conducts various medical and diagnostic tests as well as laboratory research;

(d) “Chest Hospital” means the Chest Hospital Welisara, a teaching hospital in Sri Lanka that specializes in treating respiratory diseases;

(e) “Community-Based Organization” or “CBO” means a community-based organization established and operating in the Recipient’s territory and under the Recipient’s laws, which has met the eligibility criteria set out in the Operational Manual and, as a result, has received or is entitled to receive a Sub-Grant for the carrying out of a Sub-Project;

(f) “Deputy Director General, Medical Services” means a Deputy Director General of Medical Services, an official of the Recipient’s Health Ministry responsible for, overseeing clinical waste management in Sri Lanka;

(g) “Director General, Health Services” means the Director General of Health Services, an official of the Recipient’s Health Ministry responsible for implementing national health programs in Sri Lanka;

(h) “DOTS” means Directly Observed Treatment Short-course, a strategy promoted by the World Health Organization to control tuberculosis;

(i) “Finance Ministry” means the Recipient’s Ministry of Finance;

(j) “Financial Manual” means the Recipient’s Financial Accounting System Manual, dated October 18, 2002, as amended from time to time with the Association’s consent, containing administrative, accounting and financial procedures, and procurement and disbursement arrangements necessary for implementing the Project;

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

(l) “Fiscal Year” means the Fiscal Year of the Recipient beginning on January 1 of a calendar year and ending on December 31 of the calendar year;

(m) “Global Fund” means the Global Fund to Fight AIDS, Tuberculosis and Malaria, an independent private foundation established under the laws of Switzerland, to attract, manage and disburse additional resources to reduce infections, illness and deaths from AIDS, tuberculosis and malaria;

(n) “Health Ministry” means the Recipient’s Ministry of Health, Nutrition and Welfare;

(o) “HIV” means the Human Immuno-Deficiency Virus;

(p) “Line Ministries and Agencies” means the Recipient’s ministries or agencies participating in this project, including, among others, the Recipient’s Ministries of Defense, Labour, Education and Interior, and various agencies or departments within any of the Recipient’s ministries, such as the National Child Protection Authority, the

National Dangerous Drug Control Board, Foreign Employment Bureau, Workers Education, and the Youth Development Council;

(q) “National AIDS Committee” means a committee chaired by the Secretary of the Health Ministry and comprising representatives from various ministries and agencies of the Recipient as well as NGOs and CBOs, private sector organizations, and the media;

(r) “National Health Council” means a council, chaired by the Prime Minister and comprising ministers responsible for key ministries and agencies, which is responsible for, among other things, coordinating HIV/AIDS advocacy and supervision activities and for monitoring various sectors’ efforts in HIV/AIDS prevention;

(s) “Non-Governmental Organization” or “NGO” means a non-governmental organization operating in the Recipient’s territory and under the Recipient’s laws, which has met the eligibility criteria set out in the Operational Manual;

(t) “Operational Manual” means the Recipient’s Project Operational Manual as amended from time to time with the Association’s agreement, containing, among other things, details regarding the categories of Sub-Projects, the Sub-Project cycle, criteria for selecting Community-Based Organizations and Non-Governmental Organizations for Project activities; terms and conditions for Sub-Grants, and criteria for monitoring and evaluation activities;

(u) “Provincial AIDS Committee” means a committee established in each provincial council of the Recipient, chaired by the chief secretary and comprising representatives from various provincial ministries, departments and agencies, as the case may be, as well as NGOs and CBOs, private sector organizations, and the media;

(v) “Provincial Health Authorities” means the health ministries, departments or agencies, as the case may be, of any of the Recipient’s provincial councils;

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

(x) “STD” means Sexually Transmitted Diseases;

(y) “STD and AIDS Control Program” means the National STD and AIDS Control Program, a public health program in Sri Lanka administered by the Health Ministry;

(z) “Sub-Grant” means a sub-grant made, or proposed to be made, by the Recipient to a Community-Based Organization or a Non-Governmental Organization to finance a Sub-Project;

(aa) “Sub-Grant Agreement” means a written agreement to be entered into between Director General, Health Services and a Community-Based Organization or a Non-Governmental Organization with terms and conditions satisfactory to the Association, including those set forth in Schedule 6 to this Agreement;

(bb) “Sub-Project” means a specific activity or set of activities financed, or proposed to be financed, through a Sub-Grant made under Part A.1 (interventions for HIV/AIDS prevention) of the Project;

(cc) “Tuberculosis Control Program” means the National Tuberculosis and Respiratory Disease Control Program, a public health program in Sri Lanka administered by the Health Ministry;

(dd) “Waste Management Policy and Guidelines” means the Recipient’s National Policy and Guidelines for Health Care Waste Management dated October 31, 2001, including any amendments to such document, satisfactory to the Association, that shall: (i) enable the Recipient to assess, among other things, the Project’s environmental and social impacts; and (ii) where applicable, govern the preparation of environmental management plans and other appropriate mechanisms, satisfactory to the Association, required to mitigate and monitor any adverse impacts from carrying out the Project;

(ee) “Work Program” means an annual work program of each of the Line Ministries and Agencies and Provincial Health Authorities relating to Project implementation activities under Parts A and B of the Project approved in accordance with the Operational Manual; and

(ff) “Work Program MOU” means the memoranda of understanding, in form and content acceptable to the Association, to be entered into by the Director General, Health Services with each of the Line Ministries and Agencies as well as with each of the Provincial Health Authorities regarding project implementation.

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, the Grant in an amount in various currencies equivalent to nine million six hundred thousand Special Drawing Rights (SDR 9,600,000).

Section 2.02. (a) 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 carrying out the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in a special deposit account in the Central Bank of Sri Lanka on terms and conditions satisfactory to the Association. 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 June 30, 2008, 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, but 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 Recipient; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

Section 2.06. The Secretary, Ministry of Finance and Planning, and any person whom he or she shall designate in writing, are designated as representative(s) of the Recipient 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 Recipient 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 the Health Ministry, various Line Ministries and Agencies and Provincial Health Authorities, with due diligence and efficiency and in conformity with appropriate education, environmental and social, health, sanitary, administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the Procedures, Terms and Conditions for Sub-Projects under Part A.1 set forth in Schedule 6 to this Agreement.

Section 3.02. Except as the Association 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 Grant shall be governed by the provisions of Schedule 3 to this Agreement.

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 months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain throughout the period of Project implementation, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient 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 Association, consistently applied by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year as so audited, and (B) an opinion on such statements, records and accounts and the report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association shall 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 statements of expenditure, the Recipient 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 Association has received the audit report for 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;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal

controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph B of Schedule 4 to 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; 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 Financial Monitoring Report shall be furnished to the Association not later than forty-five (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 Financial Monitoring Report shall be furnished to the Association not later than forty-five (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 event is specified, namely, that the applicable legal or regulatory provisions relating to clinical waste management shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under the Project, including the Waste Management Policy and Guidelines.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.02. This Agreement and all obligations of the Association and the Recipient thereunder shall terminate on the date twenty years after the date of this Agreement.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Secretary, Ministry of Finance and Planning 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:

Ministry of Finance and Planning
Government of the Democratic Socialist Republic of Sri Lanka
The Secretariat
Colombo 1, Sri Lanka

Cable address:

SECMINFIN

Telex:

FINMIN 21409
FORAID 21232

Facsimile:

94-1-449823
94-1-447633

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 Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF
SRI LANKA

By /s/ Charitha Ratwatte
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold
Country Director
Sri Lanka

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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) Civil works	920,000	85%
(2) Goods	2,580,000	100% of foreign expenditures; 100% of the ex- factory cost of local expenditures; 85% of local expenditures
(3) Consultants		
(a) Individuals	510,000	75%
(b) Firms	2,260,000	80%
(4) Training, workshops and study tours	1,710,000	100%
(5) Sub-Grants under Part A (interventions for HIV/AIDS prevention) of the Project	280,000	85%
(6) Incremental Operating Costs	350,000	50% of expenditures up to June 30, 2007
(7) Unallocated	990,000	
TOTAL	<u>9,600,000</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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

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

(c) the term “Incremental Operating Costs” means salaries of project staff, vehicle maintenance, fuel, and insurance, supervision field visits (travel and per diem), office supplies, utilities, and communications expenses, including Internet connections.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 600,000, may be made in respect of Categories (1), (2), (3), (4), (5) and (6) on account of payments made for expenditures before that date but after July 1, 2002.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures incurred with respect to: (i) goods under contracts costing less than \$250,000 equivalent each, (ii) works under contracts costing less than \$500,000 equivalent each; (iii) services under contracts costing less than \$100,000 equivalent each for consulting firms; (iv) for services under contracts costing less than \$50,000 equivalent each for individual consultants; (v) any kind of training, workshops or study tours; (vi) the first two contracts for Sub-Projects and Work Programs in each Fiscal Year; and (vii) all Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any payment made from the Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Association.

SCHEDULE 2

Description of the Project

This project's objectives are to assist the Recipient in curbing the spread of HIV/AIDS infection and reducing the risk of an emerging HIV-associated tuberculosis epidemic through the following measures:

- (i) expanding prevention programs for highly vulnerable groups and the general population especially the youth;
- (ii) developing programs to sustain political and societal commitment to HIV/AIDS prevention and to reduce stigma and discrimination against people living with HIV/AIDS and highly vulnerable sub-populations;
- (iii) improving programs to strengthen early tuberculosis detection and treatment and to reverse rising incidence of this disease; and
- (iv) strengthening multi-sectoral involvement and capacity.

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: Interventions to Prevent HIV/AIDS

1. Financing and assisting Sub-Projects and Work Programs that make targeted interventions among highly vulnerable sub-groups of the population. These groups include, among others, sex workers, transport workers, workers in the free trade zones, migrant workers, drug users, men who have sex with men, and armed service personnel.

2. Supporting the following broad-based programs that will contribute to reducing HIV/AIDS infections.

(a) Promoting advocacy and spreading awareness among policy makers and opinion leaders, the media, law enforcement and health-care providers.

(b) Using a variety of methods to provide reliable information to young people on reproductive and sexual health issues. These methods include peer networks, interpersonal communications, entertainment-based education, using role-models, specially-designed programs in educational institutions, and telephone hotlines.

(c) Supporting a social marketing program that explains the dangers of unprotected sex, encourages the use of condoms, and ensures the availability of condoms.

(d) Strengthening safety and screening procedures used to ensure reliable blood supply and blood products.

(e) Preventing mother-to-child transmission of HIV infection.

Part B: Reducing the Incidence of Tuberculosis Infections

1. Strengthening the Tuberculosis Control Program through the following measures.

(a) Advocacy and communication programs.

(b) Updating technical norms, manuals and guidelines.

(c) Training to upgrade skills of program managers and staff.

(d) Building the central program unit's capacity to improve outreach, supervision, monitoring and evaluation.

(e) Raising standards for monitoring and evaluation activities.

(f) Strengthening the Central Reference Laboratory and Chest Hospital.

(g) Improving conditions at tuberculosis wards in government-run hospitals and chest clinics.

(h) Enhancing supervision of the Tuberculosis Control Program at the provincial and district levels.

2. Improving the coverage and quality of DOTS programs in Sri Lanka.

Part C: Institutional Strengthening

1. Enhancing capacity of the following agencies involved in Sri Lanka's response to HIV/AIDS.

(a) Office of the Director General, Health Services.

(b) STD and AIDS Control Program.

(c) Provincial Health Authorities and Line Ministries, and Agencies.

(d) Multi-sectoral agencies, such as, the National AIDS Committee and Provincial AIDS Committee.

- (e) NGOs, CBOs and other voluntary and private organizations.
2. Improving the information base for policy decisions and program management by supporting the following activities.
- (a) A management information system for routine monitoring of HIV/AIDS, sexually transmitted diseases and tuberculosis prevention and control activities. The Director General for Health Services shall be responsible for maintaining this system.
 - (b) A second-generation surveillance system in accordance with the international guidelines to track the direction and spread of HIV/AIDS infections.
 - (c) Operational research to fill the knowledge gap and guide interventions.
3. Improving health-care and clinical waste management.
- (a) Preventing pollution and biological hazards from health care waste generated by project activities.
 - (b) Strengthening the legislative and regulatory framework for clinical waste management in accordance with Sri Lanka's constitutional and legal procedures.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement and Consultants' Services

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 World Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods and domestic contractors

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 Recipient and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods required for the Project estimated to cost more than \$30,000 equivalent, per contract, and less than \$100,000 equivalent, per contract, up to an aggregate amount not to exceed \$870,000 may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works required for the Project estimated to cost more than \$50,000 equivalent, per contract may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section 1 of the Guidelines:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) qualification criteria (in case prequalification was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (v) bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) contracts shall be awarded to the lowest evaluated bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) rebidding shall not be carried out without the Association's prior concurrence;
- (x) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xi) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

- (xiii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xiv) extension of bid validity shall not be allowed unless justified by exceptional circumstances; and
- (xv) there shall not be any restrictions on the means of delivery of the bids.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$210,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Three Quotations/Direct Contracting/Force Account

(a) The following contracts shall be procured in accordance with the provisions of sub-paragraph (b) of this paragraph 3.

- (i) Goods for the Project estimated to cost less than \$100 equivalent per contract, up to an aggregate amount not to exceed \$10,000 equivalent;
- (ii) equipment, software, books, periodicals and training material, estimated to cost up to an aggregate amount not to exceed \$12,000 equivalent; and
- (iii) minor civil works under Parts B and C of the Project.

(b) The contracts listed in sub-paragraph (a) of this paragraph 3 shall be procured as follows:

- (i) Lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

- (ii) With the Association's prior agreement, under direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines.
- (iii) As a last resort and, if the proposed contracts meet the requirements of paragraph 3.8 of the Guidelines, they may be carried out, with the Association's prior agreement, by force account in accordance with the provisions of said paragraph of the Guidelines.

4. Sub-Projects

Goods, equipment and services required for a Sub-Project under Part A of the Project (interventions for HIV/AIDS prevention) estimated to cost less than \$15,000 equivalent, per Sub-Project, may be procured on the basis of procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 in the Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with a procurement plan approved by the Association, and with the provisions of paragraph 1, mentioned above. The procurement plan shall be updated every three months during the execution of the Project, and each updated plan shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with selection plan, updated from time to time, as approved by the Association.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to:

- (a) the first two contracts awarded in each of the following categories during each Fiscal Year following the Effective Date of the Project commencing with the Fiscal Year 2003-04:

- (i) contracts for goods procured through international competitive bidding;
 - (ii) contracts for works procured through national competitive bidding; and
 - (iii) contracts for goods procured through national competitive bidding;
- (b) each contract for goods estimated to cost \$250,000 equivalent or more;
and
- (c) each contract for works estimated to cost \$500,000 equivalent or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedure 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 World Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this 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 under Part C (institutional strengthening) of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Contracts for consulting services estimated to cost less than \$50,000 equivalent per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

3. Least-cost Selection

Services 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 3.6 of the Consultant Guidelines.

Part D: Review by the Association 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 Association, for its review and approval, prior to the issuance to consultants of any requests for proposals. The plan shall be updated every three months during the execution of the Project, and each updated plan shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with selection plan, updated from time to time, as approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 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 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 and the terms of reference and terms of employment of the consultants shall be furnished to the Association 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 4

Implementation Program

A. Overall Project Implementation and Coordination

1. The Recipient shall vest responsibility for supervising and coordinating project implementation with the Director General, Health Services.
2. Until a completion report referred to in Section 9.06 (c) of the General Conditions has been furnished to the Association, the Recipient shall maintain, or shall cause its ministries, departments or administrative units to maintain, such staffing, organization and personnel, which the Association believes are necessary to satisfactorily carry out the Project.
3. The Recipient shall appoint, by no later than October 31, 2002, and maintain, until a completion report referred to in Section 9.06 (c) of the General Conditions has been furnished to the Association, (i) a management advisor, (ii) a financial management specialist, and (iii) a procurement specialist, each with terms of reference, qualifications and experience satisfactory to the Association.
4. The Recipient shall, or shall cause its Line Ministries and Agencies and the Provincial Health Authorities, to implement the Project in accordance with the Waste Management Policy and Guidelines and the provisions of applicable law.
5. In consultation with the Association and in accordance with its constitutional and legal procedures, the Recipient shall take necessary measures to strengthen the legal and regulatory framework for clinical waste management.

B. Progress Reports and Mid-Term Review

The Recipient shall:

- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
- (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (a) on a quarterly basis, commencing June 30, 2003, a report on the progress achieved in the implementation of the Project, including the Sub Projects and Work Programs, and the achievement of the objectives thereof; and (b) on or about April 30, 2005, a report, to constitute the basis upon which the mid-term review shall take place,

integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (i) of this paragraph and consolidating the results of the reports referred to under subparagraph (ii) (a) of this paragraph, 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

- (iii) review with the Association, by June 30, 2005, or such later date as the Association shall request, the report referred to in subparagraph (ii) (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to one million two hundred thousand dollars (\$1,200,000) to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account plus the amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 800,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association 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 Recipient shall furnish to the Association 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 Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 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 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. All such deposits shall be withdrawn by the Association from the Grant 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 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories for the Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Association 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 Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 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 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Procedures, Terms and Conditions for Sub-Projects and Work Programs

Sub-Projects

1. A Sub-Grant for each Sub-Project to be made under Part A (interventions for HIV/AIDS prevention) of the Project shall be made by the Recipient, through the Director General, Health Services, only:

(a) to a Community-Based Organization or a Non-Government Organization if that entity has established, to the satisfaction of the Director General, Health Services, and on the basis of guidelines acceptable to the Association, that it has the organization, management, staffing and other resources required for the efficient carrying out of the Sub-Project, and has prepared an acceptable plan for the carrying out of said Sub-Project; and

(b) for Sub-Projects that are (i) technically feasible and cost effective, and designed in accordance with appropriate environmental and health standards; and (ii) reviewed and approved by the Association.

2. All Sub-Grants shall be made only upon such terms and conditions under which Director General, Health Services, shall obtain, through a Sub-Grant Agreement, rights adequate and appropriate to protect the interests of the Association and the Recipient. These rights shall include among other things:

(a) require the Non-Governmental Organization or the Community-Based Organization, which receives a Sub-Grant, to carry out and operate the Sub-project with due diligence and efficiency, in accordance with sound educational, technical, financial and managerial standards, and pursuant to the environmental, social and other principles, measures, procedures and guidelines set out in the Operational Manual and, where applicable, the Environmental and Social Assessment Framework;

(b) require the Non-Governmental Organization or the Community-Based Organization to maintain policies, procedures and records adequate to enable the entity to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Sub-Project and the achievement of the objectives thereof;

(c) require that: (i) the goods, works and services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Sub-Project;

(d) require that the Non-Governmental Organization or the Community-Based Organization shall insure or make adequate provision for the insurance of the goods financed out of the proceeds of the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation;

(e) obtain all such information as the Association and/or the Recipient shall reasonably request relating to the foregoing and to the benefits to be derived from the Sub-Project;

(f) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, the goods and works financed under the Sub-Project, the operation thereof, and any relevant records and documents related thereto; and

(g) suspend or terminate the right of the Non-Governmental Organization or the Community-Based Organization to the use of the proceeds of the Grant upon failure by the Non-Governmental Organization or the Community-Based Organization to perform its obligations under its agreement with Director-General, Health Services providing for the Sub-Grant.

Work Programs

3. In connection with each Work Program to be implemented under this Project, the Director General, Health Services shall enter into a Work Program MOU with each of the relevant Line Ministries and Agencies or the Provincial Health Authorities.

4. The terms and conditions of a Work Program MOU shall be satisfactory to the Association, which shall include the following:

(a) a clear enumeration of the various obligations of the relevant ministry, agency, department, authority or entity to: (i) carry out the Work Program with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Work Program;

(b) a requirement that all goods, works and services financed out of a Work Program's proceeds shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the Work Program;

(c) a requirement that expenditures incurred in connection with a Work Program shall be used only for approved training programs, consultants' services and goods; and

(d) an express recital of the rights of the Director General, Health Services or any authorized representative of the Director General, Health Services, to:

- (i) inspect separately or jointly with the Association (if the Association shall so request), the goods, works, sites, plants and construction included in the Work Program, the operations thereof and any relevant records and documents;
- (ii) obtain all information as the Recipient or the Association shall reasonably request regarding the administration, operation and financial conditions of the relevant ministry, agency, department, authority or entity; and
- (iii) suspend or terminate the right of the relevant ministry, agency, department, authority or entity to use the proceeds of the Project upon the failure by ministry, agency, department, authority or entity to perform any of its obligations under the applicable Work Program MOU.

5. When presenting a Sub-Project or a Work Program to the Association for review and approval, the Recipient, through Director General, Health Services, shall furnish to the Association a draft Sub-Grant agreement or Work Program MOU, as the case may be, in form and substance satisfactory to the Association, together with a description of the Sub-Project or Work Program, including a description of the expenditures proposed to be financed out of the proceeds of the Grant, and such other information as the Association shall reasonably request.