

CONFORMED COPY

LOAN NUMBER 4682-UA

Loan Agreement

(Tuberculosis and HIV/AIDS Control Project in Ukraine)

between

UKRAINE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 15, 2003



LOAN NUMBER 4682-UA

LOAN AGREEMENT

AGREEMENT, dated April 15, 2003, between UKRAINE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Category" means a category of items to be financed out of the proceeds of the Loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and the term "Categories" means more than one (1) Category collectively;

(b) "Fiscal Year" means the twelve-month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(c) "HIV/AIDS" means the human immunodeficiency virus and acquired immune deficiency syndrome;

(d) “MDR” means multiple drug resistant tuberculosis;

(e) “MOH” means the Borrower’s Ministry of Health, established and functioning pursuant to the provisions of the Borrower’s President Decree No. 918/2000 dated July 24, 2000, and any successor Ministry assigned the functions presently vested in the MOH under the said Decree;

(f) “Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(g) “National Strategy for TB Control Adapted to the World Standard” means the strategy defined in the Borrower’s National Program for TB fighting for 2002-2005, approved by the Borrower’s President Decree No. 643/2001 dated August 20, 2001, and including as its main components: (i) training and education of specialists; (ii) introduction of smear microscopy as an important diagnosis tool; (iii) carrying out of tuberculin-diagnostic and screening fluorography among the high-risk groups; (iv) introduction of standardized treatment schemes and direct observation of tuberculosis intake; (v) implementation of a standardized tuberculosis register and monitoring system; (vi) carrying out of *Bacille Calmette Guerin* (BCG) vaccination of new-borns on the fifth (5th) day of life and at seven (7) and fourteen (14) years; (vii) carrying out of preventive measures in areas of high-risk of TB infection; (viii) conducting of chemoprophylaxis and antirecurrent treatment among the risk groups; and (ix) the implementation of a public awareness campaign;

(h) “Operational Manual” means the manual adopted by the Supervisory Council (as hereinafter defined in paragraph (m) of this Section) on December 18, 2002, setting forth the principles, procedures and guidelines to be applied by the MOH and SDP in the implementation of the Project, including the organizational structure for Project implementation, financial, administrative, procurement and supervision and monitoring procedures, Project implementation plan, procurement plan, Project indicators to be used, and criteria for the evaluation of proposals submitted by non-governmental organizations to participate in the Project;

(i) “Program on HIV/AIDS Prevention” means the Program on HIV/AIDS Prevention for 2001-2003 approved by the Borrower’s Cabinet of Ministers Regulation No. 790 dated July 11, 2001, the objectives of which are: (i) to stabilize the epidemiological situation in the country; (ii) to reduce the risky behavior among the young population; and (iii) to reduce the social tension in the society and the negative consequences of the epidemic;

(j) “Project Implementation Unit” or “PIU” means each the executing Unit referred to in paragraph 2 of Section I of Schedule 5 to this Agreement;

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "State Department of Prisons" or "SDP" means each the Borrower's State Department of Prisons under the jurisdiction of the Borrower's Cabinet of Ministers, established and functioning pursuant to the provisions of the Borrower's President Decree No. 827/98 dated July 31, 1998, and any successor Department or Ministry assigned the functions presently vested in the SDP under the said Decree;

(m) "Supervisory Council" means the top-level oversight committee referred to in paragraph 1 of Section I of Schedule 5 to this Agreement; and

(n) "TB" means tuberculosis.

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 sixty million dollars (\$60,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a separate special deposit account in a foreign commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007 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 (\$600,000). 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 the LIBOR Base Rate and the LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to

the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out: (i) Parts A and B of the Project through the MOH; and (ii) Part C of the Project through the SDP, all with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial, public health 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and selection and employment of the consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. 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 (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (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 (1) year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and

- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall prepare and furnish to the Bank a financial monitoring report (FMR), 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 of the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first 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 quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent quarter, and shall cover such quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower shall have made available to the MOH and the SDP the counterpart funds required during the first year of Project implementation.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance of Ukraine
12/2 Hrushevsky St.
Kyiv, 01008
Ukraine

Cable address:	Telex:	Facsimile:
	131450	(380-44) 293-6256 (380-44) 219-3477

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 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 the District of Columbia, United States of America, as of the day and year first above written.

UKRAINE

By /s/ Kostyantyn Gryshchenko
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Luca Barbone
Director
Ukraine, Belarus and Moldova
Europe and Central Asia

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, excluding drugs	29,170,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(2) Drugs	9,970,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3) Consultants' services:		
(a) Foreign consulting firms and foreign individual consultants	1,170,000	100%
(b) Local consulting firms	9,130,000	87%
(c) Local individual consultants	750,000	92%
(4) Technical Services	2,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(5) Training	4,105,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental operating costs	105,000	100% through June 30, 2003; thereafter, 90% through June 30, 2004; thereafter, 85% through June 30, 2005; thereafter, 80% through June 30, 2006; thereafter, 75%
(7) Front-end fee	600,000	Amount due under Section 2.04 of this Agreement
(8) Unallocated	<u>2,200,000</u>	
TOTAL	<u>60,000,000</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 or services 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 or services supplied from the territory of the Borrower;

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is a national of a territory of any country other than that of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “local individual consultant” means an individual consultant who is a national of the territory of the Borrower;

(g) the term “technical services” means expenditures incurred to finance:
(i) the services of a logistics firm under Parts A.2, A.3, A.5, B.1, B.2 and B.4 of the Project to provide warehousing, receipt of goods, specialized storage, and delivery to Project sites, including local transportation and insurance, inventory control, reporting and auditing of end use for drugs, laboratory and other medical and information

technology equipment and supplies; and (ii) the services for printed training and educational materials under Parts A.1, B.1, B.3, B.4, C.1 and C.2 of the Project; and

(h) the term “incremental operating costs” means expenditures incurred to finance the operating costs incurred by the PIU in the administration of the Project, and which specifically includes rent and upgrading of office premises, purchase and maintenance of office equipment, travel and per diem costs of consultants to the PIU and of related staff directly associated with the supervision and monitoring of Project activities, office materials and supplies, fuel for and maintenance of vehicles, and telephone, fax and internet access services.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) goods, under contracts costing less than \$100,000 equivalent each, excluding those referred to in paragraphs 2 (a) and (b) of Part D of Section I of Schedule 4 to this Agreement; (ii) services of consulting firms, under contracts costing less than \$100,000 equivalent each; (iii) services of individual consultants, under contracts costing less than \$50,000 equivalent each; (iv) training, excluding training under the contracts referred to in paragraph 2 (a) (ii) of Part D of Section II of Schedule 4 to this Agreement; and (v) incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce TB and HIV-infection/AIDS morbidity and mortality through the implementation of an effective National Strategy for TB Control Adapted to the World Standard and the Program on HIV/AIDS Prevention largely focused on prevention of transmission of the said diseases among high-risk groups.

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

Part A: Control of Tuberculosis

Carrying out of a program to assist the MOH control the expanding epidemics of TB and MDR TB and upgrade the country's capabilities in such areas, through the provision to the MOH of the means to implement its National TB Strategy Adapted to the World Standard and strengthen the Borrower's capacity both at the central level and at the country's twenty-seven (27) regions selected for the Project, specifically including:

1. Training and Education

Carrying out of a training and education program of TB specialists, laboratory technicians, general practitioners, epidemiologists, statisticians, and nurses on the detection and treatment of TB and proper monitoring and supervision of treatment and outcomes, including provision of the required training of trainers, equipment, materials, and per diem and travel costs.

2. Diagnosis

Development of technical guidelines, and the provision and distribution of the related microscopes, supplies and equipment, for undertaking smear microscopy and culture investigation at the regional level, and strengthening of the National Reference Laboratory so that it can implement laboratory quality control for the country and undertake investigations, including culture and drug susceptibility testing.

3. Treatment

Administration of the required amount of first-line drugs for the treatment of TB.

4. Public Awareness Campaigns

Carrying out of a mass media public awareness campaign aimed at raising the awareness of the general population on TB.

5. Monitoring and Evaluation

Implementation of a monitoring and evaluation program designed to achieve high cure rates and reduce the risk of MDR TB by means of ensuring compliance with treatment regimes, including for patients released from prison to the civilian system, comprising the carrying out of baseline studies, collection and analysis of data to monitor Project Indicators, and provision of the required vehicles, computer hardware and software, office equipment and supplies and the incremental operating costs generated for the execution of this Part A of the Project, and carrying out of the audits under the Loan.

Part B: Control of AIDS

Carrying out of a program to assist the MOH directly targeted interventions to prevent further transmission of the AIDS virus and thereby support its implementation of the Program on HIV/AIDS Prevention, specifically including:

1. Prevention Activities

Carrying out of a program suitable to provide support: (i) to reduce harm among injecting drug users, commercial sex workers, and men who have sex with men, including the provision of training, advocacy, information, education and communications materials, peer education programs, syringes, condoms, and dissemination of protocols for HIV prevention; (ii) to evaluate relevant experience with establishing self-help groups for commercial sex workers and review services offered to such group by sexually-transmitted infection clinics; (iii) to prepare and distribute guidelines on the rational use of blood, including provision of test kits and equipment to improve blood safety; and (iv) to undertake a public awareness campaign to increase information of the general population about HIV/AIDS prevention, encourage the use of protective measures, and reduce stigma about those infected.

2. Treatment Activities

(a) Implementation of a program specifically aimed at preventing the transmission of HIV from infected mothers to their children, comprising the development of treatment protocols, training of staff on attitudinal issues, psycho-social care, and support to HIV/AIDS patients.

(b) Execution of a pilot project to assist the Borrower develop capabilities to treat HIV-infected persons with anti-retroviral drugs so as to lengthen their lives while improving their quality and treatment of opportunistic infections, encompassing the

development of clinical protocols, training of physicians and clinical workers, and implementation of a program to pilot test the effectiveness of using anti-retroviral drugs in a limited number of adults and children, including the necessary administration of drugs and the monitoring of the treatment results.

3. Care and Support of the People Living with HIV/AIDS

Expansion of the access to services available to people living with HIV/AIDS as to improve the quality of their lives, by means of training of psychologists, social and welfare workers and general practitioners, the review and revision of curricula for physicians, nurses and other health workers, and the establishment of a self-help group of people living with HIV/AIDS and their families in order to provide care and support, counseling, peer education and training, and thereby pilot of non-hospital based care alternatives.

4. Strengthening National Capacity

Strengthening of the national and regional AIDS Centers as so to enable them to adequately carry out their mandate, in particular, through support targeted to: (i) integrate HIV/AIDS, narcology and sexually-transmitted infection services with the primary health care system, notably through the training of physicians and nurses and the provision of the relevant medical and technical equipment; (ii) establish mechanisms to enhance cooperation between the government entities and non-governmental organizations in the delivery of HIV and harm reduction services; and (iii) evaluate the best practices of pilot programs for possible replication.

Part C: Control of Tuberculosis and AIDS in Prisons

Carrying out of a program aimed to support TB and AIDS control activities in the Borrower's prisons system, and encompassing:

1. Prison Tuberculosis

Improvement of the organization of TB control, diagnosis, treatment and monitoring of outcomes, entailing the training of physicians and other health workers, the upgrading of laboratory equipment, the adoption of cost-effective treatment protocols, the administration of first- and second-line drugs for prisoners, and the monitoring of treatment results.

2. Prison AIDS

Improvement of HIV prevention among prison inmates, in particular by means of the expansion of current prevention programs throughout the system, including the making available of information, education and communications materials, condom and bleach disinfectant, the training of peer educators to educate prisoners, and measures to prevent mother-to-child transmission.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
August 15, 2008	1,670,000
February 15, 2009	1,690,000
August 15, 2009	1,710,000
February 15, 2010	1,730,000
August 15, 2010	1,755,000
February 15, 2011	1,775,000
August 15, 2011	1,795,000
February 15, 2012	1,820,000
August 15, 2012	1,840,000
February 15, 2013	1,860,000
August 15, 2013	1,885,000
February 15, 2014	1,905,000
August 15, 2014	1,930,000
February 15, 2015	1,955,000
August 15, 2015	1,975,000
February 15, 2016	2,000,000
August 15, 2016	2,025,000
February 15, 2017	2,050,000
August 15, 2017	2,075,000
February 15, 2018	2,100,000
August 15, 2018	2,125,000
February 15, 2019	2,150,000
August 15, 2019	2,175,000
February 15, 2020	2,205,000
August 15, 2020	2,230,000
February 15, 2021	2,255,000
August 15, 2021	2,285,000
February 15, 2022	2,310,000
August 15, 2022	2,340,000
February 15, 2023	2,380,000

* 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 and Consultants' Services

Section I. Procurement of Goods and Technical Services

Part A: General

Goods shall be procured in accordance with: (i) 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 (ii) 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: (i) goods, including first-line anti-TB drugs under Part A.3 of the Project, drugs for opportunistic infections treatment under Part B.2 of the Project, laboratory equipment under Parts A.2, B.2, C.1 and C.2 of the Project, prevention and control supplies for AIDS under Parts B.1, B.2 and C.2 of the Project, computers and office equipment under Parts A.1, A.2, A.5, B.4 and C.1 of the Project, and vehicles under Parts A.1, A.2, A.5, B.1, B.4 and C.1 of the Project; and (ii) technical services: (A) of a logistics firm under Parts A.2, A.3, A.5, B.1, B.2 and B.4 of the Project for drugs, equipment and supplies storage, handling and distribution; and (B) for printed training and educational materials for health workers and beneficiaries under Parts A.1, B.1, B.3, B.4, C.1 and C.2 of the Project, 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 technical services to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for condoms under Parts B.1 and C.2 of the Project and for technical services of a logistics firm for drugs, equipment and supplies storage, handling and distribution under Parts A.2, A.3, A.5, B.1, B.2 and B.4 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

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

(c) 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.

(d) 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. Limited International Bidding

HIV/AIDS drugs under Parts B.2 and C.2 of the Project which the Bank agrees can only be purchased from a limited number of suppliers, up to an aggregate amount not to exceed \$1,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Technical services for printed training and educational materials for health workers and beneficiaries under Parts A.1, B.1, B.3, B.4, C.1 and C.2 of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$820,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

(i) Goods (excluding printed training and educational materials for health workers and beneficiaries under Parts A.1, B.1, B.3, B.4, C.1 and C.2 of the Project) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$340,000 equivalent; and (ii) second-line anti-TB drugs, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement from UN Agencies

HIV/AIDS test kits, up to an aggregate amount not to exceed \$1,030,000 equivalent, may be procured from the World Health Organization in accordance with the provisions of paragraph 3.9 of the Guidelines.

6. Direct Contracting

Supplies of second-line anti-TB drugs which are of a proprietary nature and obtainable only from one source, costing \$500,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

7. Procurement Agent

The World Health Organization shall, on behalf of the Borrower, select as the Borrower's agent a firm specializing in handling the international procurement of second-line anti-TB drugs: (i) in accordance with methods broadly similar to the procedures set forth in the Consultant Guidelines (as hereinafter defined in Part A of Section II of this Schedule); and (ii) taking into consideration the quality of the proposal and the cost of the services. In accordance with the provisions of paragraph 3.10 of the Guidelines, the agent, on behalf of the Borrower, shall strictly follow all the procurement procedures outlined in paragraphs 3 (ii) and 6 of this Part C.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract for goods to be awarded in accordance with the provisions of Part B and paragraphs 1 and 5 of Part C of this Section I; and (ii) the first two (2) contracts for technical services for printed materials to be awarded in accordance with the provisions of paragraph 2 of Part C of this Section, regardless of the cost thereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two (2) contracts for goods to be awarded in accordance with the provisions of paragraph 3 of Part C of this Section I, regardless of the cost thereof; (ii) the first two (2) contracts for goods to be awarded in accordance with the provisions of paragraph 4 of Part C of this Section I, regardless of the cost thereof; and (iii) each contract to be awarded in accordance with the provisions of paragraph 6 of Part C of this Section I, the following provisions shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the 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 and training shall be procured in accordance with: (i) 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 (ii) 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 and training 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 and training to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for monitoring and evaluation under Parts A.5, B.1, B.4, C.1 and C.2 of the Project, software development under Part C.1 of the Project, and research under Part B.4 of the Project, and for training under Parts A.1, B.1, B.3 and C.1 of the Project, estimated to cost less than \$100,000 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. Least-cost Selection

Services for audits under Part A.5 of the Project, up to an aggregate amount not to exceed \$80,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services in the Borrower's territory for monitoring and evaluation under Parts A.3, A.4, A.5 and C.1 of the Project, software development under Parts A.2 and A.5 of the Project, and research under Parts A.4, B.1 and B.4 of the Project, and training in the Borrower's territory under Parts A.1, B.2, B.3, C.1 and C.2 of the Project, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Training to be provided by the Borrower's training institutes estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, and services for monitoring under the TB control program of the adherence to international standards for the directly-observed therapy, short course Plus (DOTS+) up to an aggregate amount not to exceed \$30,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Selection Under a Fixed Budget

Services for public awareness campaigns under Parts A.4 and B.1 of the Project, up to an aggregate amount not to exceed \$4,630,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$820,000 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 and training providers, 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 the consultants and the training providers of any requests for proposals. Such plan shall be updated every twelve (12) 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 and training 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: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) each contract for training selected in accordance with the provisions of paragraph 3 of Part C of this Section II, 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, 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; provided, however, that prior review and approval by the Bank of the terms of reference for all such contracts and of the eligibility of the Borrower's training institutes shall apply.

SCHEDULE 5

Implementation Program

Section I: Institutional Arrangements

1. The Supervisory Council shall be responsible for the overall strategic coordination of the different Project activities among the Borrower's ministries, departments and other executive central bodies involved in the Project. It shall be headed by Borrower's Vice-Prime Minister and shall include representatives from the Borrower's Parliament (*Verkovna Rada*), Office of the President of Ukraine (*Administratsiya Prezidenta Ukrainyu*), the Ministry of Finance, the Ministry of Economy, the MOH, and the SDP, relevant non-governmental organizations, and international organizations. Specifically, the said Council shall be assigned responsibility for: (i) developing and monitoring compliance by the MOH and the SDP with the Project financing schemes; (ii) ensuring conformity of the Project activities with the Borrower's evolving health sector policy; and (iii) monitoring Project implementation and observance of the schedule therefor. For such purposes, the Borrower shall ensure that the Supervisory Council is maintained throughout Project implementation under arrangements satisfactory to the Bank and that it meet at least twice a year, or more often, as and when convoked by any of the Project managers of the MOH or the SDP.

2. Day-to-day coordination of Project implementation shall be undertaken by the PIU, which for this purpose shall report directly to the MOH, under Parts A and B of the Project, and to the SDP, under Part C of the Project. The PIU shall furthermore support the MOH and the SDP in the daily Project management activities in collaboration with the two (2) groups referred to in the following paragraph 3, including all aspects of procurement and selection and employment of consultants, disbursement and financial management. To that end, the Borrower shall take all action required on its behalf to maintain the PIU throughout Project implementation under the MOH under terms of reference satisfactory to the Bank, headed by a Director assisted by competent staff, including, at least, procurement specialists, financial management specialists, technical specialists for TB and AIDS, prison system specialists, and a public information specialist, all in adequate numbers, and provided with adequate financial resources. More specifically, the PIU tasks shall consist of: (i) preparation of the Project implementation plans for submission to the Supervisory Council not later than forty-five (45) days before the beginning of the following Fiscal Year; (ii) preparation of bidding documents and following-up on the ensuing bidding process; (iii) disbursements of Loan funds; (iv) financial management; (v) Project monitoring; and (vi) reporting semiannually to the Borrower and the Bank in accordance with the provisions of paragraph (a) (iii) of Section 9.07 of the General Conditions.

3. The Borrower shall ensure that each of the MOH and the SDP maintain throughout Project implementation within its respective structure a group comprising three (3) or four (4) full-time staff and which shall be vested functions for: (i) providing

overall methodological guidance and coordination of Project Parts to be implemented, respectively, by each of the MOH and the SDP; (ii) providing methodological support for Project implementation; (iii) collaborating and coordinating with the PIU in the preparation and carrying out of bidding procedures; (iv) reviewing reports and proposals prepared under the Project; (v) reviewing Project plans and progress reports; (vi) preparing documentation and reports to serve as the basis of the decisions by the Supervisory Council; (vii) timely clearing with the MOH and SDP responsible authorities all of the Project documents prepared by the PIU; (viii) drawing, as appropriate, upon the staff of the Borrower's institutions such as the Phthysiatry and Pulmonology Institute of the Academy of Medical Sciences of Ukraine, the Ukrainian AIDS Prevention Center, and the Department on Medical Provision and Sanitary-Hygienic Control of the SDP on aspects concerning protocols, training, monitoring and evaluation, and their role of reference laboratories.

Section II: Project Implementation Responsibilities

1. Implementation of TB control activities under Parts A and C of the Project shall be undertaken, respectively, by the MOH for the civilian sector and by the SDP for the prison system, the Borrower ensuring that the Phthysiatry and Pulmonology Institute of the Academy of Medical Sciences of Ukraine, as the leading institution and with the support of the twelve (12) regional centers, take the lead in research and methodological support to the training of TB specialists, laboratory technicians, general practitioners, epidemiologists, statisticians, and nurses, overseeing the strengthening of laboratory services in the country and quality control, monitoring and evaluation of the implementation of the National Strategy for TB Control Adapted to the World Standard through its own monitoring and evaluation team which shall conduct regular monitoring visits to the regions, with said regions conducting, in turn, regular monitoring visits to the Borrower's regional subdivisions (*rayons*) through their own monitoring and evaluation teams, and supervising the establishment and performance by the SDP of its own monitoring and evaluation team as required as a result of the intrinsic characteristics of the prison system.

2. Activities on HIV-infection/AIDS-control under Parts B and C of the Project shall be implemented, respectively, by the MOH for the civil population and by the SDP for the prison system. Such implementation responsibilities under Part B of the Project shall be specifically devolved to the Ukraine Prevention AIDS Center and twenty-eight (28) selected strengthened Regional AIDS Centers, which shall work together mainly to contract non-governmental organizations to work with high-risk groups and implement outreach programs, while monitoring and evaluation shall rest the sole responsibility of the Ukraine AIDS Center.

Section III: Project Implementation and Reporting Arrangements

1. The Borrower shall take all action required to cause the MOH and the SDP to apply and follow at all times the Operational Manual provisions in the carrying out, monitoring and evaluation of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Operational Manual or any provision thereof.

2. For purposes of ensuring the timely and sustainable implementation of Parts A.3 and C.1 of the Project, appropriately before the end of Fiscal Years 2002, 2003, 2004, and 2005, the Borrower shall make budgetary allocations so that the MOH and the SDP have available first-line drugs for the treatment of TB in an aggregate amount equivalent to ten million three hundred thousand dollars (\$10,300,000) over the four (4) year period starting on January 1, 2003, and ending on December 31, 2006, all in accordance with yearly installments and dates to be determined by agreement each year between the Borrower and the Bank on the basis of an analysis of the usage of the anti-TB drugs provided by the Borrower the previous calendar year as well as the estimate of the needs for the following calendar year.

3. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project, including the progress in the use of the Loan proceeds to finance drugs, during the period preceding the date of said report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by March 31, 2005, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,500,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

M:\BACKUP\UKRAINE\w-1997Negotiated.doc
10/28/2002 10:27 AM

M:\BACKUP\UKRAINE\w-1997.doc