

CONFORMED COPY

GRANT NUMBER H030 MOZ

Development Grant Agreement

(HIV/AIDS Response Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 16, 2003

GRANT NUMBER H030 MOZ

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated May 16, 2003, between REPUBLIC OF MOZAMBIQUE (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 the financing of the Project;

(B) the Association has received from the Recipient its national strategic plan to combat HIV/AIDS (as hereinafter defined) and STIs (as hereinafter defined) (the National Strategic Plan) dated March 2000, describing the Recipient's program of objectives, policies and actions designed to prevent and control the spread of the HIV/AIDS epidemic (the Program) and declaring the Recipient's commitment to the execution of the Program;

(C) the Executive Directors of the Association approved on February 7, 2002, the Second Multi-Country HIV/AIDS Program for the Africa Region estimated in the amount of five hundred million United States Dollars;

(D) the Project is part of the Second Multi-Country HIV/AIDS Program for the Africa Region; and

(E) 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 paragraph (b) below (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (12), (13) and (14), Section 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01, 4.02, 4.05 and 4.06 (a);
 - (v) Article V;
 - (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01, 9.02, 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08;
 - (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 this Agreement;
 - (iii) the term “Credit” and “credit”, wherever used in the General Conditions means the Grant; and
 - (iv) the term “Credit Account”, wherever used in the General Conditions means the Grant Account.

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

- (a) "AIDS" means Acquired Immune Deficiency Syndrome;
- (b) "CBO" means a Community Based Organization established, recognized and operating pursuant to the criteria set forth in the Project Operations Manual (as hereinafter defined);
- (c) "Civil Society Organizations" means a CBO, FBO (as hereinafter defined) NGO (as hereinafter defined), or a private sector entity;
- (d) "CNCS" means the Recipient's National AIDS Council established and operating pursuant to the CNCS Decree (as hereinafter defined);
- (e) "CNCS Executive Secretariat" means the secretariat established and operating pursuant to the CNCS Decree (as hereinafter defined), and referred to in paragraph 2 of Schedule 4 to this Agreement;
- (f) "CNCS Decree" means the Recipient's Decree No. 10 dated May 23, 2000, establishing CNCS and the CNCS Executive Secretariat;
- (g) "Eligible Categories" means all such categories set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- (h) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement;
- (i) "EMP" means the Environmental Management Plan dated September 30, 2002, satisfactory to the Association, describing measures for mitigating the potential environmental impact of hazardous wastes produced under the Project, as the same may be updated from time to time with the agreement of the Association;
- (j) "Facilitating Agent" means a Civil Society Organization selected in accordance with the provisions of Section II of Schedule 3 to this Agreement and referred in paragraph 4 (a) of Schedule 4 to this Agreement;
- (k) "FBO" means a Faith Based Organization established, recognized and operating pursuant to the criteria set forth in the Project Operations Manual (as hereinafter defined);
- (l) "FMR" means each Financial Monitoring Report prepared in accordance with Section 4.02 of this Agreement;
- (m) "HIV" means the human immuno-deficiency virus;
- (n) "*Meticais*" means the Borrower's currency;

- (o) "MOH" means the Recipient's Ministry of Health;
- (p) "NGO" means a Non-Governmental Organization established and operating under the Recipient's Law No. 8/91;
- (q) "Participating Ministry" means a Recipient's Ministry or Agency eligible to receive funds from the Project pursuant to the criteria set forth in paragraph 5 of Schedule 4 to this Agreement, and Participating Ministries and Agencies shall mean all such ministries and agencies collectively;
- (r) "Project Accounts" means the accounts referred to in section 3.04 (a) of this Agreement;
- (s) "Project Operations Manual" means the manual setting out details of *inter alia*; the Project implementation plan, procurement, financial management and disbursement procedures, the institutional arrangements, procedures for the preparation, appraisal, implementation and supervision of Subprojects, standard formats for proposed legal agreements and such other administrative, technical and organizational arrangements that may be required for the Project, as the same may be amended from time to time, in a form and substance acceptable to the Association, and such term includes any schedules to the said manual;
- (t) "Project Preparation Advance" means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on October 3, 2002, and on behalf of the Recipient on October 16, 2002;
- (u) "Special Account A" means the special deposit account opened for withdrawals in respect of expenditures made under Parts B, C and E of the Project, and referred to in Schedule 5 to this Agreement;
- (v) "Special Account B" means the special deposit account opened for withdrawals in respect of expenditures made under Part D of the Project, and referred in of Schedule 5 to this Agreement;
- (w) "Special Account C" means the special deposit account opened for withdrawals in respect of expenditures under Part A of the Project, and referred in Schedule 5 to this Agreement;
- (x) "Special Accounts" means Special Account A, Special Account B and Special Account C;
- (y) "STIs" means Sexually Transmitted Infections;

(z) “Sub-Grant” means a sub-grant made or to be made, out of the proceeds of the Grant to finance a Sub-project (as hereinafter defined);

(aa) “Sub-Grant Agreement” means an agreement to be entered into between the CNCS and a Sub-Grant Beneficiary (as hereinafter defined) for the provision of a Sub-Grant in accordance with paragraph 4 (b) of Schedule 4 to this Agreement;

(bb) “Sub-Grant Beneficiary” means a civil society organization to which or for whose benefit a Sub-Grant is made or proposed to be made; and

(cc) “Sub-Project” means an activity financed or to be financed through a Sub-Grant extended under Part A of the Project.

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 the Development Grant Agreement, an amount in various currencies equivalent to forty one million and six hundred thousand Special Drawing Rights (SDR 41,600,000).

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Recipient on account of withdrawals made in accordance with a Sub-Grant Agreement for the benefit of a Sub-Grant Beneficiary to meet the reasonable costs of goods, works and services required for Subprojects to be financed under Part A of the Project from the Grant Account is requested.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 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 (a) Commitment charges shall be payable semiannually on January 15 and July 15 in each year.

(b) The currency of the United States of America is hereby specified for purposes of Section 4.02 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 Part D of the Project through MOH and Parts A, B, C and E of the Project through CNCS with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial, public health and community development 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.

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 (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan designed to ensure the future achievement of the objectives of the Project; and

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

Section 3.04. Without limitation upon the provisions of Section 3.01 of this Agreement and except as the Recipient and the Association shall otherwise agree, the Recipient shall:

(a) open Project Accounts in commercial banks acceptable to the Association and thereafter maintain the accounts under terms and conditions acceptable to the Association until the completion of the Project;

(b) promptly thereafter make: (i) an Initial Deposit in *Meticais* of an amount equivalent to \$100,000 (the *Meticais* Initial Deposit) into the Project Account A to finance the Borrower's contribution to Parts A, B, C and E of the Project; and (ii) an Initial Deposit in *Meticais* of an amount equivalent to \$75,000 (the *Meticais* Initial Deposit) into the Project Account B to finance the Borrower's contribution to Part D of the Project; and

(c) ensure that the funds deposited into the Project Accounts are used exclusively to finance the reasonable cost of goods, works and services incurred under the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in 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 respective 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 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 Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of 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 provisions of Section 4.01 of this Agreement, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth actual and projected 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 projected and actual sources and 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 previously forecast and actual implementation targets; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

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

(a) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out; and

(b) the CNCS Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CNCS or the CNCS Executive Secretariat to implement Parts A, B, C and E.

ARTICLE VI

Effective Date; Termination

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

(a) The Recipient has adopted the Project Operations Manual including the Project Implementation Plan, in form and substance satisfactory to the Association;

(b) the Recipient has appointed the independent auditor referred to in Section 4.01 (b) of this Agreement, all in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) the Recipient has appointed to the CNCS Executive Secretariat staff with a coordinator for planning and coordination, a financial manager, a procurement specialist, and a monitoring and evaluation specialist, with experience and qualifications satisfactory to the Association;

(d) the Recipient has established a financial management system for the Project, in form and substance acceptable to the Association;

(e) the Recipient has provided satisfactory evidence to the Association that FMRs can be produced;

(f) the Recipient has adopted a procurement plan for Project, in form and substance satisfactory to the Association; and

(g) the Project Accounts have been opened.

Section 6.02. 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 VII

Representative of the Recipient; Addresses

Section 7.01. The Governor of the *Banco de Moçambique* 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:

Banco de Moçambique
Departamento de Estrangeiro
Maputo
Republic of Mozambique

Cable address:	Telex:	Facsimile:
MOBANCO	6355/7 BMMO	258 1 322015

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 Maputo, Republic of Mozambique as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By /s/ Luisa Dias Diogo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Darius Mans
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	Amount of Grant Allocated (Expressed in SDR) Special Account A (Parts B,C,E of the <u>Project</u>)	Amount of Grant Allocated (Expressed in SDR) Special Account B (Part D of the <u>Project</u>)	Amount of Grant Allocated (Expressed in SDR) Special Account C (Part A of the <u>Project</u>)	% of Expenditures to be <u>Financed</u>
(1) Works	200,000	150,000		100% of foreign expenditures and 80% of local expenditures
(2) Goods, equipment and vehicles	1,100,000	6,800,000		100% of foreign expenditures and 80% of local expenditures
(3) Consultant Services and Audits	5,300,000	1,350,000		86 %
(4) Training	1,500,000	1,000,000		100%
(5) Sub-grants for Subprojects under Part A of the Project			16,700,000	100% of amounts disbursed

(6) Operating Costs	800,000	800,000	80%
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<u>Category</u>	Amount of Grant Allocated (Expressed in SDR) Special Account A (Parts B,C,E of the <u>Project</u>)	Amount of Grant Allocated (Expressed in SDR) Special Account B (Part D of the <u>Project</u>)	Amount of Grant Allocated (Expressed in SDR) Special Account C (Part A of the <u>Project</u>)	% of Expenditures to <u>be</u> <u>Financed</u>
(7) Refunding of Project Preparation Advance	700,000			Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	1,400,000	1,500,000	2,300,000	
Sub-Total	<u>11,000,000</u>	<u>11,600,000</u>	<u>19,000,000</u>	
Grand Total	<u>41,600,000</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 “Operating Costs” means the incremental costs incurred under the Project on account of fuel and maintenance for vehicles and equipment, traveling costs including the Recipient’s Government standard per diems, office supplies, utilities, rent for office premises and reasonable transport costs, but excluding salaries of the officials of the Recipient.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of :

(a) payments for expenditures under Part D of the Project unless the Recipient has appointed a Project Manager and provided evidence of strengthened financial management and procurement capacity and practices in MOH to implement the Project in a form and substance satisfactory to the Association; and

(b) payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for contracts for: (a) goods not exceeding \$150,000 equivalent each; (b) consulting firms not exceeding \$200,000 equivalent each; (c) individual consultants not exceeding \$50,000 equivalent each; (d) training; (e) Sub-Grants for Subprojects not exceeding \$100,000 equivalent each; and (f) Operating Costs and small works, under such terms and conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in the implementation of its National Strategic Plan through: (i) improving the institutional capacity of CNCS, Participating Ministries, Civil Society Organizations, and the private sector to plan, deliver and monitor HIV/AIDS response interventions; (ii) supporting Sub-projects aimed at HIV/AIDS prevention, care and mitigation in local communities; (iii) supporting prevention and care programs for staff in the Participating Ministries and their client base at the regional and national levels; and (iv) strengthening and scaling up of health services for prevention of HIV infection and provision of care and treatment through integrated health networks.

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: Community and Civil Society Initiatives

Implementation of community based Subprojects aimed at HIV/AIDS prevention, care treatment and mitigation of associated socio-economic impacts, through provision of Sub-Grants to Sub-Grant Beneficiaries for activities related to prevention, care and mitigation of HIV/AIDS.

Part B: Capacity Building for the Civil Society HIV/AIDS Response

1. Carrying out training activities for Sub-Grant Beneficiaries by the Facilitating Agents on *inter alia* preparation and implementation of Subprojects, financial management and report production.
2. Carrying out a rapid capacity and needs assessment of Civil Society Organizations and establishment of a database providing information on *inter alia* areas of expertise, geographical coverage, client base, and staff capacity.
3. Carrying out training activities for Facilitating Agents in areas including procedures to be followed in the preparation, appraisal and supervision of Subprojects, community mobilization and capacity building, and financial management.
4. Carrying out training activities for leaders in the Recipient's Government and civil society focusing on national leadership and advocacy.

Part C: Ministerial Multi-Sector Response

1. Preparation by Participating Ministries of: (a) sectoral HIV/AIDS plans outlining measures for the prevention, care and mitigation of HIV/AIDS to both ministry personnel and their client base; and (b) annual work plans consistent with said sectoral HIV/AIDS plans.
2. Strengthening the institutional capacity of Participating Ministries to implement the sectoral HIV/AIDS plans, through the appointment of HIV/AIDS focal points, provision of technical advisory service, training and goods.

Part D: Strengthening and Scaling up of Health Sector HIV/AIDS Services

1. Strengthening and expansion of voluntary testing and counseling services, management of STIs and treatment of opportunistic infections, through training of health workers and the provision of medical drugs, test kits, consumables and condoms, and small civil works.
2. Strengthening the capacity of laboratory personnel and health workers to diagnose, manage and monitor HIV/AIDS infection through the provision of training, equipment, vehicles, supplies and small civil works.
3. Strengthening the capacity of blood banks to prevent HIV/AIDS transmission through blood transfusions, through the provision of laboratory equipment, vehicles, test kits, reagents, consumables and small civil works.
4. Strengthening bio-security measures through the provision of equipment, medical supplies, consumables and training.
5. Protection of health workers from occupational exposure to HIV/AIDS through the provision of training and anti-retroviral treatment for post-exposure prophylaxis.
6. Development of HIV/AIDS information, education and communication strategies and materials for health workers and their families.
7. Carrying out of research studies on the use of traditional remedies for HIV/AIDS treatment, through provision of technical advisory services and equipment.
8. Strengthening health care waste management activities in health facilities at the provincial level, through provision of equipment for disposal and sterilization, training for health workers, and small civil works.
9. Strengthening HIV/AIDS related monitoring and surveillance systems, through the provision of laboratory equipment and supplies, vehicles, training and technical advisory services, and small civil works.

10. Strengthening the capacity of MOH to carry out the implementation of Part D of the Project through the provision of technical advisory services, equipment and supplies, training and operating costs.

Part E: Program Management

1. Strengthening the capacity of CNCS Executive Secretariat to coordinate, monitor and evaluate the Project, through the provision of technical advisory services, operating costs, training, small civil works, vehicles and equipment.

2. Strengthening the capacity of CNCS Executive Secretariat to meet the Recipient's fiduciary responsibilities with the Association and other sources of funding for the National Strategic Plan.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost more than \$50,000 and less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which fulfill the requirement of paragraph 3.7 of the Guidelines up to the amount of \$100,000 equivalent in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Medical drugs, medical supplies, testing kits and condoms may be procured from the United Nations Family Planning Agency, United Nations International Children's Emergency Fund, the World Health Organization, the World Food Programme and the Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Part A of the Project shall be procured in accordance with procedures acceptable to the Association, as set forth in the Project Operations Manual.

6. Procurement of Small Works

Works estimated to cost less than \$15,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to:

(a) each contract for goods estimated to cost the equivalent of \$150,000 or more, and the first two National Competitive Bidding contracts, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply; and

(b) the first five Subprojects estimated to cost the equivalent of \$10,000 or more under Part A of the Project the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services, estimated to cost less than \$150,000 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 financial audits 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.

2. Selection Based on Consultants' Qualifications

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 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. NGOs

Services to be provided by NGOs shall be procured in accordance with the provisions of paragraphs 3.1 and 3.14 of the Consultants 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. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

(c) Notwithstanding the provisions of sub-paragraphs (a) and (b) above, the terms of reference for the employment of all consultants shall be furnished to the Association for its prior review and approval.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. Project Operations Manual and Environmental Management Plan

Except as the Association shall otherwise agree, the Recipient shall: (a) apply the criteria, policies and procedures and arrangements set out in the Project Operations Manual and the Environmental Management Plan; and (b) not amend or waive, or permit to be amended or waived the Project Operations Manual or the Environmental Management Plan or any provision thereto, in a manner which in the opinion of the Association, may materially and adversely affect the implementation of the Project.

2. CNCS Executive Secretariat:

(a) The Recipient shall maintain at all times during the implementation of the Project a CNCS Executive Secretariat in a form satisfactory to the Association, and shall carry out two interim institutional assessments to assess performance of the CNCS Executive Secretariat to be provided to the Association by June 30, 2004 and by June 30 2006, respectively.

(b) The CNCS Executive Secretariat shall supervise and coordinate the overall implementation of the Project in accordance with the provisions of this Agreement and the Project Operations Manual, and to this end, shall carry out functions which include *inter alia*: (i) preparation of consolidated annual work programs and budgets for the Project; (ii) preparation of both FMRs and a consolidated FMR in accordance with Section 4.01 and 4.02 of this Agreement; (iii) monitoring, evaluating and reporting on the status of Project implementation; and (iv) channeling funds and facilitating implementation of the Project activities with the Participating Ministries, Civil Society Organizations and Sub-Grant Beneficiaries.

3. National HIV/AIDS Communication Strategy

The Recipient shall prepare by December 31, 2003, a national HIV/AIDS communication strategy in form and substance satisfactory to the Association.

4. Procedures for Subprojects

(a) Facilitating Agents

The Recipient shall through CNCS: (i) select Facilitating Agents to assist Sub-Grant Beneficiaries under Part B.3 of the Project, that meet the criteria set forth in the Project Operations Manual including *inter alia* that they must: (a) have proven experience in comparable community development activities in the territory of the Recipient and in participatory Project design and implementation; and (b) adequate

financial and administrative capacity and have previously managed a grant of at least twenty thousand United States Dollars (\$20,000); and (ii) enter into a memorandum of understanding with each Facilitating Agent in a form and substance that is satisfactory to the Association.

(b) Subproject Approval Procedures

(i) The proposed Sub-Grant Beneficiary shall prepare, with the assistance of a Facilitating Agent where necessary a Subproject proposal for submission to the CNCS for its review;

(ii) CNCS shall appraise each Subproject proposal in accordance with the procedures and criteria set forth in the Project Operations Manual, including, but not limited to the following: (A) that the proposed activity is an eligible activity as defined in the Project Operations Manual; (B) the duration of the proposed Subproject must fall within the timeframe of the Project; (C) the maximum amount to be financed for each Subproject is one hundred thousand United States Dollars (\$100,000); (D) the proposed cost of the Subproject cannot exceed seventy-five percent (75%) of the Subproject Beneficiary's budget for its operations in the preceding calendar year; and (E) only up to twenty percent (20%) of the Subproject budget can be allocated to indirect costs such as operational expenditures for administrative costs and overheads, and equipment, that do not contribute directly to benefits for the local communities;

(iii) CNCS shall submit eligible Subproject proposals to a provincial review committee established according to procedures specified in the Operations Manual which shall approve all Sub-Project proposals under twenty thousand United States Dollars (\$20,000) and submit for the approval of a national review committee, established according to procedures specified in the Operations Manual, all Sub-Project proposals above twenty thousand United States Dollars (\$20,000); and

(iv) CNCS, shall after approval of the Sub-Project proposal by either a provincial or a national review committee, as the case may be, and after ascertaining that the proposed Sub-Grant Beneficiary has the legal capacity to contract under the laws of the Recipient, enter into Sub-Grant Agreements with each Sub-Grant Beneficiary under terms and conditions that shall include the following:

(a) the obligation of the Sub-Grant Beneficiary to carry out the Sub-Project in accordance with the Project Operations Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental, public health and managerial standards, and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subprojects;

- (b) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Sub-Grant shall be procured in accordance with procedures acceptable to the Association as set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in carrying out the Subproject;
- (c) the right of CNCS to inspect by itself, or jointly with the Association, or if the Association shall so request, the goods, works, sites or plants included in the Subproject, the operations thereof and any relevant records and documents;
- (d) the right of CNCS to obtain all information as CNCS or the Association shall reasonably request regarding the administration, operation and financial management of the Sub-project;
- (e) the right of CNCS to suspend or terminate the right of the Sub-Grant Beneficiary to use the proceeds of the Sub-Grant upon failure by the Sub-Grant Beneficiary to perform any of its obligations under the Sub-Grant Agreement;
- (f) the right to receive from the Sub-Grant Beneficiary quarterly progress reports and a final report upon completion of the Subproject; and
- (g) the rights and obligations of any agency which shall execute the Sub-Project on behalf of the Sub-Grant Beneficiary.

5. Ministerial Multi-sectoral Response

(a) prior to receiving support under the Project, each Participating Ministry shall establish and maintain throughout Project implementation a HIV/AIDS committee which shall meet at least every two months and shall be responsible for: (i) preparation of the sectoral HIV/AIDS plans described under Part C.1 of the Project detailing proposed activities that are consistent with the requirements set forth in the Project Operations Manual excluding the activities on the negative list reflected therein; (ii) appointment of a focal point to work at least 50% of the time on HIV/AIDS issues and responsible for the coordination of the preparation of the sectoral HIV/AIDS plan, implementation and supervision of activities in said plan under Part C.2 of the Project; and (iii) submission of the sectoral HIV/AIDS plan to a national review committee for its approval;

(b) the Participating Ministry will, after the approval of the sectoral HIV/AIDS plan by a national review committee, enter into a memorandum of understanding with CNCS that is satisfactory to the Association setting forth the implementation arrangements for the said plan including but not limited to the inter-

relationship between CNCS and each Participating Ministry, accounting obligations, funds flow and financial management requirements; and

(c) each Participating Ministry will thereafter submit for the approval of a national review committee an annual work plan for each Project Year, consistent with the sectoral HIV/AIDS plan and acceptable to the Association, after which funds will be disbursed to the said ministry in accordance with the procedures set forth in the Project Operations Manual.

6. Strengthening and Scaling up of Health Sector HIV/AIDS Services

a) the MOH Advisory Council led by the Minister of Health will be responsible for the implementation of Part D of the Project. The National Directorate of Planning and Cooperation will be responsible for the Advisory Council for overall coordination of the project component. The National Directorate of Health will be responsible for the technical implementation of the component in consultation with the National Directorate of Planning and Cooperation. A Project Manager will be appointed by the National Directorate of Health to manage the project component and to liaise between the CNCS and the MOH on policy and implementation matters related to the project component. The Project Manager will be responsible for preparing the annual work plan in consultation with National Directorate of Planning and Cooperation and the National Directorate of Health and all technical and administrative departments involved in the project as specified in the Project Operations Manual. The Project Manager will ensure that project activities included in the work plan are consistent with the Project Operations Manual. The Annual Work Plan will be submitted to the Advisory Council for approval and shared with the CNCS for coordination purposes. Disbursements to the project activities will be made out of the Special Account B; and

b) the MOH will be responsible for providing technical support to the CNCS in the review of health related activities. Health related activities of NGOs, will be governed by a Memorandum of Understanding between the NGO, the MOH and the CNCS that is acceptable to IDA.

7. Procurement

The Recipient shall submit to the Association an annual procurement plan for the following year, acceptable to the Association, by December 31 of each year.

8. Reporting and Mid-Term Review

The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to

this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2005, a mid-term review report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 30, 2005, or such later date as the Association 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 Association's views on the matter.

9. Project Staffing

The Recipient shall maintain, at all times during Project Implementation, CNCS and MOH staff, in numbers, and qualifications so as to not materially and adversely affect the Recipient's ability to improve the Project.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4), (6) and (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Special Account A; Categories (1), (2), (3), (4), (6) and (8) set forth in said table in respect of Special Account B; and Category (5) set forth in said table in respect of Special Account C;

(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: (i) in respect of Special Account A an amount equivalent to \$1,500,000 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, said Authorized Allocation shall be limited to an amount equivalent to \$750,000 until the aggregate amount of withdrawals from the Grant Account of amounts allocated to said Special Account’s Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall be equal to or exceed the equivalent of SDR 2,500,000; (ii) in respect of Special Account B, an amount equivalent to \$1,000,000 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, said Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account of amounts allocated to said Special Account’s Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Category, shall be equal to or exceed the equivalent of SDR 2,500,000; and (iii) in respect of Special Account C, an amount equivalent to \$2,500,000 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, said Authorized Allocation shall be limited to an amount equivalent to \$1,250,000 until the aggregate amount of withdrawals from the Grant Account of amounts allocated to said Special Account’s Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Category, shall be equal to or exceed the equivalent of SDR 4,000,000.

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 Association has received evidence satisfactory to it that the respective Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 respective 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 respective 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 respective 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 respective 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 respective 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 respective 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 respective Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be Granted 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

Performance Monitoring Indicators

Objectives	Outcome/Impact
Project Development Objective	
To slow the spread of HIV/AIDS in Mozambique and mitigate the effects of the epidemic through prevention and care activities.	<p>By 2008, reduce by 25% the rate of increase in HIV prevalence among women in the age group 15-24</p> <p>By 2008, the age of sexual debut has increased by one year over 2002 age.</p> <p>By 2008, the share of number of the population from the age group 15-49, who have had sexual partners outside the primary union in the last 12 months has declined by 10% from the 2002 level.</p> <p>By 2008 the rate of condom use in sexual encounters outside of primary relationship in the last 12 months by persons 15-19, has increased by 20% from 2002 levels.</p>
Project Outputs	
Civil society has expanded its delivery of prevention and care services.	<p>By 2008, there are at least 1000 HIV/AIDS civil society initiatives funded in each province each year.</p> <p>By 2008, at least 250 initiatives with the private sector have been funded.</p> <p>By 2008, there are 500,000 clients reached annually by all of the key HIV/AIDS related activities delivered by civil society.</p> <p>In 2008, at least US\$ 7 million per year are channeled to communities and implementing agencies.</p>
Capacity developed in civil society, amongst communities, private sector and leaders, to implement HIV/AIDS related programs	<p>By 2008, at least 2 facilitating agents per province trained up.</p> <p>By 2008, at least 500 national leaders and 5000 provincial leaders trained/involved in HIV/AIDS campaign.</p>
Government at all levels is providing prevention, care and mitigation information or services for own staff and clients.	By 2008, 75% of annual action plan (HIV/AIDS activities) in each participatory Ministry, is funded and implemented.

	<p>By 2008, 75% of all civil servants have been reached by HIV/AIDS IEC.</p>
<p>HIV/AIDS related prevention and care services in the health sector have been scaled up and strengthened</p>	<p>By 2008, 100 VCT centers in place with an equitable geographical distribution and coverage.</p> <p>By 2008, ensure that 100% of all blood for transfusion is screened.</p> <p>By 2008, 100 % of secondary and tertiary health facilities have the capacity to diagnose and test STIs</p> <p>By 2008, all public institutions and agencies, will distribute condoms on a regular basis, with 30 million condoms distributed annually.</p>