

CONFORMED COPY

IDA GRANT NUMBER H110 GUB

Development Grant Agreement

(HIV/AIDS Global Mitigation Support Project)

between

REPUBLIC OF GUINEA-BISSAU

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 5 , 2004

IDA GRANT NUMBER H110 GUB

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated August 5 , 2004, between the Republic of Guinea-Bissau (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, 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 June 2002, 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. 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 below and in Schedule 5 to this Agreement (the General Conditions), constitute an integral part of this Agreement:

(a) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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

(a) “Action Plan” means any document describing a set of activities to fight against the HIV/AIDS epidemic carried out by a PSOs (as hereinafter defined);

(b) “AIDS” means Acquired Immune Deficiency Syndrome;

(c) “CSOs” means a Civil Society Organization established and operating under the laws of the Recipient, including rural or urban communities, grass-root organizations, religious and cultural organizations, professional and non-professional associations, private enterprises, non-governmental organizations (NGOs) and community-based associations involved in the fight against HIV/AIDS and which have met the eligibility criteria set out in the Project Implementation Manual (as hereinafter defined) and the requirements of Schedule 4 to this agreement and, as a result, have received or are entitled to receive a Subgrant (as hereinafter defined) through a Subgrant Agreement (as hereinafter defined) for the carrying out of a Subproject (as hereinafter defined), and the term “CSOs” means more than one CSO;

(d) “Eligible Categories” means Categories (1) through (4), set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(f) “FCFA” means *Francs de la Coopération Financière en Afrique*, the currency of the Recipient;

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

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

(i) “Medical Waste Management Plan” means the plan approved by the Association and adopted by the Recipient, to manage and mitigate the impact of medical waste in connection with the prevention and treatment of HIV/AIDS, as the same may be amended from time to time, with the approval of the Association;

(j) “NAC” means the National AIDS Council, the Recipient’s National Council for the Fight against HIV/AIDS, located within the Office of the Prime Minister, responsible for providing strategic direction and policy leadership, members include a broad representation from government, civil society and the private sector, and established pursuant to a Decision of the Recipient’s Prime Minister dated March 10, 2004 (hereinafter “NAC-NAS Decision”);

(k) “NAS” means National AIDS Secretariat, established pursuant to the NAC-NAS Decision, to be responsible for the implementation of the National Strategic Plan, coordinating the daily operations of the Project including: procurement progress, preparation of reports, financial and technical audits, and monitoring and evaluation which would expand and strengthen HIV/AIDS activities being carried out by CSOs and PSOs;

(l) “PLWHA” means people living with HIV/AIDS;

(m) “Project Implementation Manual” means the manual to be adopted pursuant to Section 6.01 (a) of this Agreement and referred to in paragraph 1 of Schedule 4 to this Agreement, including, *inter alia*: policies, financial, administrative, procurement and accounting procedures as well as guidelines to be followed in the implementation, monitoring and evaluation of each and all components of the Project and progress in the fight against HIV/AIDS, as the same may be amended from time to time, and such terms include any schedule to the Project Implementation Manual;

(n) “Project Performance Indicators” means the indicators of the progress of the Project included in the Project Implementation Manual;

(o) "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 May 14, 2004 and on behalf of the Recipient on May 18, 2004;

(p) "PSO" means a Public Sector Organization of the Recipient, including ministries, secretariats of state, parastatal companies and public agencies existing and operating under the laws of Recipient implementing a comprehensive HIV/AIDS work plan, particularly the following Ministries: Ministry of Health, Ministry of Education, Ministry of Defense, Ministry of Agriculture, Forestry, Hunting and Livestock, State Secretariat of Youth, Culture and Sports, and the term "PSOs" means more than one PSO;

(q) "Regional Committees" or "RCs" means the National AIDS Council's Regional Committees established pursuant to the NAC-NAS Decision, composed of regional directorates of ministries, civil society and private sector representatives, responsible for reviewing, selecting and monitoring of Subprojects in a determined geographical area of the Recipient's territory;

(r) "Report-Based Disbursements" means the Recipient's option to withdrawal of funds from the Grant Account referred to in Part A.4 of Schedule 1 to this Agreement;

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

(t) "STIs" means Sexually Transmitted Infections;

(u) "Subgrant" means a grant made or proposed to be made by the Recipient to a CSO or PSO, as the case may be, out of the proceeds of the Grant to finance a Subproject (as hereinafter defined);

(v) "Subgrant Agreement" means an agreement supporting a Subproject between a NAS, RCs, and CSOs or PSOs, and referred to in paragraph 3 of Schedule 4 to this Agreement; and

(w) "Subproject" means a specific Subproject for activities in the fight against HIV/AIDS, carried out by a CSO or a PSO, as the case may be, and financed, or proposed to be financed, through a Subgrant under 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 this Agreement, an amount in various currencies equivalent to four million seven hundred thousand Special Drawing Rights (SDR 4,700,000).

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

(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. (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 2.04 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 or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.05. The Closing Date shall be December 31, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and public health 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 works, goods, and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

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

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

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

Section 3.04. The Recipient shall furnish to the Association, no later than twelve months after the Effective Date, an independent institutional assessment of NAC and

NAS (at the central and regional levels), in form and substance satisfactory to the Association.

ARTICLE IV

Financial Covenants

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

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of reports referred to in Part A.6 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made, all records

(contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Schedule 4, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association no later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report 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 NAC-NAS Decision shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NAC or NAS to implement the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that any event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Recipient.

ARTICLE VI

Effectiveness; Termination

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

(a) the Recipient has adopted: (i) an accounting and financial management system for the Project, which shall provide, *inter alia*, for the preparation of FMRs; and (ii) the Project Implementation Manual; all in form and substance satisfactory to the Association;

(b) that each PSOs listed under paragraph 1.02 (e) of this Agreement have presented Action Plans for the first year of the Project to fight against HIV/AIDS, in form and substance satisfactory to the Association;

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

(d) the Recipient has recruited the staff for NAS, including the National Secretary to be responsible for overall Project management, a financial manager, a procurement specialist, and a monitoring and evaluation specialist, all with experience and qualifications, and under terms of reference satisfactory to the Association; and

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 Minister of Economy and Finance 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:

Ministério da Econonia e das Finanças
C.P. 67
Bissau
Guinea Bissau

Cable address:
MEF

Facsimile:
245-20 16 26

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) (202) 477 6391
64145 (MCI)

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	10,000	100%
(2) Goods		100%
(a) equipment and vehicles	450,000	
(b) drugs, tests and medical supplies	280,000	
(3) Consultants' Services, training and audits	1,890,000	100%
(4) Operating Costs	1,460,000	100%
(5) Refunding of Project Preparation Advance	510,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(6) Unallocated	100,000	100%
	<hr/>	
TOTAL	<u>4,700,000</u>	

2. For the purposes of this Schedule, the terms:

(a) "Operating Costs" means the incremental expenses incurred on account of Project implementation, including office furniture and supplies, vehicle operation and maintenance, communication and insurance costs, rental expenses, office maintenance costs, utilities, travel cost for Project staff, and reasonable bank charges related to the operations of the Special Account, but excluding salaries of officials of the Recipient's civil service; and

(b) "training" includes scholarships stipendiums, purchase of training materials, rental of training facilities, and travel costs.

3. For purposes of this Agreement, it is understood that the percentages of expenditures to be financed under the table set forth in paragraph 1 of this Schedule have been calculated on the basis of the provisions of a decision of the Recipient's Ministry of Economy and Finance conveyed to the Association through letters dated March 14, 2003 and May 27, 2003, respectively, confirming the exemption of taxes and custom duties levied in the territory of the Recipient on works, goods and services for this Project. In the event of any change which has the effect of levying taxes or customs duties on such works, goods and services, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) services of consulting firms costing less than \$100,000 equivalent per contract; (d) services of individual consultants and audits costing less than \$50,000 equivalent per contract; and (e) training and Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

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

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

B. Special Account

1. The Recipient shall, open and maintain in FCFA a special deposit account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

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

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

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

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

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

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-Based Disbursements;

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

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

(d) if the Recipient shall have failed to publicly disclose at its central and regional levels on each Annual HIV/AIDS Day all Project related expenditures.

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

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

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

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

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of FCFA 364,000,000 equivalent to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to FCFA 182,000,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 940,000.

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

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

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

3. The Association shall not be required to make further deposits into the Special Account, once the total un-withdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to

Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining un-withdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

ANNEX B
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-Based Disbursements

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

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.6 of this Schedule 1 applicable to such withdrawal application accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in: (i) reducing the spread of HIV/AIDS infection in the Recipient's population; (ii) increase the access to STI/HIV/AIDS treatment; (iii) mitigating the health and socio-economic impact of HIV/AIDS at the individual, household, and community level; and (iv) building strong and sustainable national capacity to respond to the HIV/AIDS epidemic.

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 and Capacity Building

Supporting CSOs at the national, provincial, communal and local level in their initiatives against HIV/AIDS, through the preparation and execution of Subprojects, detailing, among other things, the measures to be taken by their staff and by their members to initiate or strengthen their fight against HIV/AIDS, including: (a) conducting information, education and communication activities on the impact of the HIV/AIDS epidemic and supporting the formal and informal education sectors to carry messages about HIV/AIDS and promote behavioral changes by specific targeting groups such as women, orphans, and PLWHA; (b) promoting the use of condoms through social marketing and distribution of condoms; (c) expanding testing and counseling as well as psychological and material support for PLWHA and their families; and (d) investing in agricultural and private sector skills training and revenue-generating activities for PLWHA and their families; all through the provision of technical advisory, training and Subgrants approved in accordance with the Project Implementation Manual.

Part B: Government Multi-Sector Response

1. Supporting the Recipient's MOH in its initiatives against HIV/AIDS through prevention, control, support for PLWHA by developing and implementing a global treatment and a strategy to strengthen the Integrated Health Network, through, *inter alia*: (a) increasing the supply of HIV/AIDS related drugs and materials, such as the supply of condoms, drugs to treat opportunistic infections, anti-retrovirals for the reduction and prevention of mother to child transmission and post exposure prophylaxis; (b) strengthening clinical laboratory capacity to enable diagnosis and monitoring of HIV therapy, including monitoring and diagnosis of opportunistic infections; (c) improving measures to enhance bio-security; (d) improving measures to enhance blood safety; (e) providing training and anti-retroviral drugs for post-exposure prophylaxis for health

sector workers; (f) improving management of opportunistic infections, focusing on their prevention and treatment; and (g) improving management monitoring and evaluation of activities supported under this part of the Project and the overall progress of the epidemic; all through the provision of technical advisory services and training, the acquisition of goods and equipment in accordance with the Project Implementation Manual.

2. Supporting the Recipient's PSOs in the implementation of their comprehensive HIV/AIDS work plans focusing the activities on the internal and external impact of the HIV/AIDS epidemic on the specific ministry/agency staff to include: (a) training PSOs on HIV/AIDS-related activities; (b) conducting information, education and communication activities on the impact of the HIV/AIDS epidemic and supporting the formal and informal education to promote behavioral changes; (c) promoting the use of condoms through social marketing and distribution of condoms; and (d) facilitating counseling as well as psychological and material support for PLWHA and their families; all through the provision of Subgrants approved in accordance with the Project Implementation Manual.

Part C: Institutional Development for Program Management

1. Strengthening the capacity of NAC to establish effective secretariats and networks at the national, regional, and district levels and sector focal points in designing, implementing, monitoring and evaluating strategic HIV/AIDS control; all through the provision of technical advisory services, operating costs, training, small civil works, vehicles and equipment in accordance with the Project Implementation Manual.

2. Strengthening the capacity of NAS to meet the Recipient's fiduciary responsibilities with the Association and other sources of funding for the National Strategic Plan by establishing national financial management and procurement systems, and implementing, coordinating, managing, monitoring and evaluating frameworks for the Project, at the regional level, through the provision of technical advisory services and training, the acquisition of goods, equipment and vehicles, and the execution of works for office rehabilitation in accordance with the Project Implementation Manual.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for non-medical goods shall be grouped in bid packages estimated to cost \$15,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Non-medical goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 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

Non-medical goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines under contracts awarded on the basis of: (a) national shopping procedures, if available locally; or (b) international shopping procedures, if not available locally.

3. Direct Contracting

Proprietary items, such as HIV/AIDS testing reagent may be procured, with the Association's prior agreement, from a particular manufacturer or from Central de Compras de Medicamentos Essenciais – CECOME in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Goods, including pharmaceuticals, reagents and medical consumables, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured from the Inter-Agency Procurement Services Office of the United Nations (IAPSO), the United Nations International Children's Fund (UNICEF), the United Nations Fund for Population Activities (UNFPA), and the World Health Organization (WHO), in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Subprojects may, pursuant to paragraph 3.15 of the guidelines, be procured in accordance with procedures acceptable to the Association and defined in the Project Implementation Manual.

6. Procurement of Small Works

Works estimated to cost less than \$50,000 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) all contract for goods or works estimated to cost the equivalent of \$150,000 and \$200,000 respectively or more; (b) all contracts under community participation estimated to cost the equivalent of \$50,000 or more, and (c) the first five contracts for community participation costing less than \$50,000 equivalent, 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 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 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. Selection Based on Consultants' Qualifications

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

2. 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.

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 the consulting firms estimated to cost the equivalent of US\$100,000 or more and each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix I 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 and the short list 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. General

The Recipient shall carry out the Project in accordance with the Project Implementation Manual, the Action Plans for the first year of Project implementation, and Medical Waste Management Plan, and except as the Association shall otherwise agree, shall not amend or waive any provision of the Manuals or the Plans without the Association's prior written approval.

2. NAC, NAS and RCs:

(a) The Recipient shall maintain NAC with structure and functions, staffing and resources satisfactory to the Association and in accordance with the Project Implementation Manual for the purposes of, *inter alia*, to provide general oversight of Project implementation;

(b) The Recipient shall maintain NAS with structure, staffing and resources satisfactory to the Association and in accordance with the Project Implementation Manual to carry out the daily facilitation, implementation, monitoring, evaluation and coordination of the Project, and to include, *inter alia*: (i) preparing regionalized and consolidated annual work programs and budgets for the Project; (ii) preparing FMRs in accordance with Section 4.01 and 4.02 of this Agreement; (iii) carrying out monitoring and evaluation and report to the Association on the status of Project implementation; (iv) provision of technical support; (v) channeling funds and facilitating implementation of the Project activities to Subgrant Beneficiaries, and (vi) approving the RC and Regional Focal Point Action Plans, Subprojects, Subgrant Agreements as specified in the Project Implementation Manual.

(c) The Recipient shall maintain RCs with structure, staffing and resources satisfactory to the Association and in accordance with the Project Implementation Manual to carry out the daily facilitation, implementation, monitoring, evaluation and coordination of the Project at the provincial and communal levels, respectively, including the approval of the PSOs Action Plans and Subprojects, and the execution of Subgrant Agreements with CSOs and PSOs for an amount not to exceed the ceilings specified in the Project Implementation Manual.

(d) The Recipient shall cause NAC to furnish, not later than December 31, 2004, and thereafter by December 31 of each year, to the Association for its review and

approval, proposed detailed 12-month work plans, including training programs and proposed budgets in respect of Project activities for the forthcoming year.

3. Provision of Subgrants

(a) Without limitation upon the provisions of paragraph 1 above, a Subproject shall be eligible for financing under a Subgrant upon approval of NAC, NAS or RC, as the case may be. The selection of the Subprojects shall be based on an appraisal conducted in accordance with criteria and guidelines set forth in the Project Implementation Manual, and including that the proposed activities are economic and technically viable and a CSO or a PSO must be eligible, and, in the case of a CSO, have legal capacity to contract under the laws of the Recipient.

(b) Subprojects shall be received, reviewed and selected, and approved by NAC, NAS or RC, as the case may, under terms and conditions satisfactory to the Association, which shall include, *inter alia*, the following:

- (i) a description of the proposed Subproject, with its budget and its performance indicators;
- (ii) provisions requiring the financing to be made on a Subgrant basis pursuant to Subgrant Agreements;
- (iii) the obligation to: (A) carry out the Subproject with due diligence and efficiency and in accordance with sound administrative, technical and financial standards taking into account environmental and ecological implications and in accordance with the provisions of the Project Implementation Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Project Implementation Manual, the operations, resources and expenditures in respect of the Subproject; and (C) maintain adequate reporting in accordance with the standards specified in the Project Implementation Manual;
- (iv) the requirement that: (A) the goods, works and services to be financed from the proceeds of the Subgrant shall be procured in accordance with the procedures set forth in the Project Implementation Manual and referred to in Schedule 3 to this Agreement; and (B) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

- (v) the right of the Recipient to inspect, by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Subproject, the operations thereof and any relevant records and documents;
- (vi) the right of the Recipient to obtain all information as the Recipient or the Association shall reasonably request regarding the administration, operations and financial conditions of the Subproject; and
- (vii) the right of the Recipient to suspend or terminate the right of the CSO or the PSO to use the proceeds of Subgrant for the Subproject upon failure by the CSO or PRSO to perform any of its obligations under its Subgrant Agreement.

4. Monitoring and Reporting

The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with Project Performance Indicators satisfactory to the Association, 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 and December of each year, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to Paragraph 4(a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by November of each year, or such later date as the Association shall request, the reports referred to in Paragraph 4 (b) of this Section, and thereafter act promptly and diligently in order to take, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed between the Recipient and the Association in furtherance of the objectives of the Project.

5. Midterm Review

(a) The Recipient shall carry out, jointly with the Association, not later than December 31, 2005, a comprehensive midterm review aimed at: (i) documenting progress toward achieving the Project objectives; (ii) identifying and resolving obstacles to Project

implementation; (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review; and (iv) an overall evaluation of the Project against the agreed Project Performance Indicators as reflected under paragraph 4 a) of this Schedule.

(b) The Recipient shall not later than four weeks prior to the midterm review referred to in paragraph 5 (a) above, furnish to the Association a midterm report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in the Project implementation.

(c) Promptly after completing the midterm review, the Recipient shall take all measures required to fulfill the recommendations arising out of said review for the efficient completion of the Project and the achievement of the objectives thereof, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

SCHEDULE 5

Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 3.05, 6.05, Article VII, are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Recipient” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “credit” is modified to read “grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”.
 - (d) The term “Credit Account” is modified to read “Grant Account”.
 - (e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Article IV is modified as follows:
 - (a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”
 - (b) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

Section 4.03 and its heading are modified to read as follows:

“Section 4.03. Amount of the Grant

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

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

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

“Section 12.05. Termination of Development Grant Agreement.

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