

Page 1

CONFORMED COPY

LOAN NUMBER 7065-DO

Loan Agreement

(HIV/AIDS Prevention and Control Project)

between

DOMINICAN REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

Dated June 29, 2001

LOAN NUMBER 7065-DO

LOAN AGREEMENT

AGREEMENT, dated June 29, 2001, between the DOMINICAN REPUBLIC (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a)

"AFU" means the unit referred to in Section 3.07 (a) (ii) of this Agreement;

(b)

"AIDS" means Acquired Immune Deficiency Syndrome;

(c)

"Annual Action Plan" means any of the plans referred to in Section 3.05

(a) and/or (c) of this Agreement;

(d)

"BCRD" means Banco Central de la República Dominicana, the Borrower's Central Bank;

(e)

"BCG" means Bacillus of Calmette and Guerin;

(f)

"COPRESIDA" means Consejo Presidencial del Sida, the Borrower's Presidential Council for AIDS, established pursuant to the Borrower's Decree No. 32-01 of January 8, 2001;

(g)

"Eligible Categories" means Categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h)

"Eligible Expenditures" means the expenditures for goods, works, services and administration costs referred to in Section 2.02 of this Agreement;

(i)

"Executive Commission" means Comisión Ejecutiva para la Reforma del Sector Salud, the Borrower's Executive Commission for Health Sector Reform, established pursuant to the Borrower's Decree No. 308-97 of July 10, 1997;

(j)

"HIV" means Human Immune-deficiency Virus;

(k)

"Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;

(l)

"Law No. 42-01" means Ley No. 42-01 of the Borrower dated March 8, 2001 which established the legal framework for the provision of health services in the Borrower's territory;

(m)

"Law No. 55-93" means Ley No. 55-93 of the Borrower dated December 31, 1993 which established the legal framework for the provision of health services with respect to AIDS in the Borrower's territory;

(n)

"Operational Manual" means the manual referred to in Section 3.04 (a) of this Agreement;

(o)

"Participating Agency" means a Borrower's State Secretariat (Secretaría de Estado) which has partial or total jurisdiction over one or more Project activities to be included in a given Annual Action Plan;

(p)

"Participating Entity" means a public entity vested with legal personality which has partial or total jurisdiction over one or more Project activities to be included in a given Annual Action Plan;

(q)

"Participation Agreement" means any of the agreements referred to in Section 3.06 (a) (i) of this Agreement;

(r)

"Participation Arrangement" means any of the arrangements referred to in Section 3.06 (a) (ii) of this Agreement;

(s)

"PCU" means the unit referred to in Section 3.07 (a) (i) of this Agreement;

Page 3

Agreement;

(t)

"Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(u)

"SESPAS" means Secretaría de Salud Pública y Asistencia Social, the Borrower's Secretariat of Public Health and Social Assistance; and

(v)

"Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to twenty-five million Dollars (\$25,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of

goods (other than the anti-retroviral drug and the baby formula supplements referred to in Part A.4 (a) and (c) of the Project, respectively, to be financed out of the Borrower's counterpart funds), works, services and administration costs required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in the amount of \$250,000. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest, commitment and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

Page 4

(i)

a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii)

a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii)

the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b)

Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c)

Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each

Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(d)

Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through COPRESIDA, with the assistance of the Participating Entities and/or the Participating Agencies, as the case may be, with due diligence and efficiency and in conformity with appropriate health, technical, administrative, financial, educational and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of: (a) the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement; and (b) the anti-retroviral drug referred to in Part A.4 (a) of the Project (to be financed out of the Borrower's counterpart funds as referred to in Section 2.02 of this Agreement) shall be procured under procedures acceptable to the Bank.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a)

prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability of the Project; and

(b)

afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) The Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, inter alia, the environmental guidelines to be followed during Project implementation by the  
Page 5

Borrower, the Participating Entities and/or the Participating Agencies, a format Participation Agreement and Participation Arrangement and the guidelines for the preparation of Annual Actions Plans.

(b)

In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. The Borrower shall: (a) not later than October 31 of each year of Project implementation, starting in year 2001, furnish to the Bank, for its approval, an annual action plan (the Annual Action Plan), each said plan to include, inter alia: (i) the Project activities to be carried out by the Borrower with the assistance of the corresponding Participating Entity or Participating Agency, as the case may be, during the calendar year following the presentation of each said plan; and (ii) the procurement plan and disbursement schedule for each said Project activities; (b) thereafter implement each said Annual Action Plan in accordance with its terms; and (c) carry out the annual action plan for the year 2001 as approved by the Bank prior to the date of this Agreement.

Section 3.06. (a) Upon approval of the corresponding Annual Action Plan by the Bank, the Borrower shall: (i) enter into an agreement or amend the existing agreement (the Participation Agreement) with the corresponding Participating Entity; and/or (ii) cause COPRESIDA and the corresponding Participation Agency to enter into an arrangement or amend the existing arrangement between said agencies (the Participation Arrangement), as the case may be, all on terms and conditions satisfactory to the Bank, including, inter alia, the obligation of said Participating Entity or said Participating Agency, as the case may be, to assist the Borrower in the implementation of the corresponding Annual Action Plan and to follow the provisions of the Operational Manual and the manual referred to in Part B.3 (f) of the Project in providing said assistance.

(b)

(i) The Borrower shall exercise its rights and carry out its obligations under each Participation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.

(c)

In case of any conflict among the terms of any Participation Agreement, the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. (a) The Borrower shall: (i) operate and maintain within COPRESIDA, at all times during Project implementation, a Project coordination unit (the PCU) with a structure, functions and responsibilities acceptable to the Bank, including, inter alia, the responsibility of the PCU to coordinate, monitor and supervise the carrying out of the Project; and (ii) maintain and operate within the Executive Commission, at all times during Project implementation, the administrative and financial unit (the AFU) with a structure, functions and responsibilities acceptable to the Bank, including, inter alia, the responsibility of the AFU to assist the PCU in the coordination of all administrative and financial matters under the Project.

(b)

The Borrower shall ensure that the PCU and AFU are, at all times during Project implementation, headed by an executive director and a financial and administrative director, respectively, and assisted by adequate professional and administrative staff, all with qualifications and experience acceptable to the Bank.

Section 3.08. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall, not later than March 31, 2003, complete the activities mentioned in Part B.3 (e), (f) and (g) of the Project.

(b)

Immediately after the Borrower has adopted the manual referred to in Part B.3 (f) of the Project, the Borrower shall carry out the Project in accordance with the provisions of said manual which shall supplement the environmental provisions already included in the Operational Manual.

(c)

In case of any conflict between the terms of said manual and those of this Agreement, the terms of this Agreement shall prevail.

Page 6

Section 3.09. The Borrower shall:

(a)

maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objective thereof;

(b)

prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, each January 31 and July 31 during Project implementation, starting with the report due not later than July 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of the report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c)

review with the Bank, by March 31 of each year of Project implementation, or such later date as the Bank shall request, starting in year 2002, the pertinent reports 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 objective thereof, based on the conclusions and recommendations of said reports and the Bank's views on the matter.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall at all times maintain within the AFU a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b)

The Borrower shall:

(i)

have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii)

furnish to the Bank as soon as available, but in any case not later than four 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 the report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii)

furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c)

For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i)

maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii)

retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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 Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than February 15, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. For purposes of carrying out the annual technical evaluations referred to in Part C.4 of the Project, the Borrower shall: (a) not later than October 31, 2001 hire consultants with qualifications acceptable to the Bank; (b) not later than February 15 of each year during Project implementation, starting with the report due not later than February 15, 2002, prepare and furnish to the Bank, a report of such scope and in such detail as the Bank shall reasonably request setting forth the results of the evaluation of Project activities set forth in the Annual Action Plan for the previous calendar year; and (c) if deemed appropriate by the Bank, immediately thereafter implement the recommended actions set forth in said report.

#### ARTICLE V

##### Remedies of the Bank

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

(a) Any Participating Entity shall have failed to perform any of its obligations under the corresponding Participation Agreement.

(b)

As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Entity will be able to perform its obligations under the corresponding Participation Agreement.

(c)

Law No. 55-93 or any provision thereof shall have been amended,

Page 8

suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to carry out the Project and/or the ability of any Participating Entity to comply with its obligations under the corresponding Participation Agreement or any provision thereof.

(d)

Law No. 42-01 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to carry out the Project and/or the ability of any Participating Entity to comply with its obligations under the corresponding Participation Agreement or any provision thereof.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a)

Any of the events specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

(b)

Any of the events specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

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

(a)

the Borrower shall have adopted the Operational Manual in a manner satisfactory to the Bank;

(b)

the independent auditors referred to in Section 4.01 (b) (i) of this Agreement have been employed by the Borrower as provided in said Section; and

(c)

the Participation Agreements and/or the Participation Arrangements required for the implementation of the Annual Action Plan for the year 2001 have been executed by the parties thereto.

Section 6.02. The date September 27, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Technical Secretary of the Presidency of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretariado Técnico de la Presidencia  
Palacio Nacional  
Avenida México



Santo Domingo, República Dominicana

Facsimile:

(809) 695-8432

Page 9

For the Bank:

International Bank for

Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD

248423 (MCI) or

(202) 477-6391

Washington, D.C.

64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Washington, D.C., United States of America, as of the day and year first above written.

DOMINICAN REPUBLIC

By /s/ José Rodríguez Soldevila

Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President

Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A.

General

1.

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

Amount of the

% of

Loan Allocated

Expenditures

Category

(Expressed in Dollars)

to be Financed

(1)

Works

1,500,000

85%

(2)

Goods (other than the

anti-retroviral drug

and baby formula

supplements under

Part A.4 (a) and (c)

of the Project,

respectively,  
anti-tuberculosis  
drugs, vaccines,  
condoms and non-  
Page 10

durable goods)

4,606,000

75%

(3)

Vaccines, anti-  
tuberculosis drugs  
and condoms

3,334,000

80% until disbursements  
under this Category  
have reached an amount  
of \$2,500,000; and 50%  
thereafter

(4)

Consultants' services

(a)

Information,  
Educational

1,840,000

80%

and Communication  
Programs

(b)

Other services  
under the

7,800,000

100%

Project

(5)

Training

1,840,000

75%

(6)

Project Administration

Costs

2,000,000

80% until disbursements  
under this Category  
have reached an amount  
of \$1,000,000; and 50%  
thereafter

(7)

Fee

250,000

Amount due under  
Section 2.04 of this  
Agreement

(8)

Premia for Interest Rate

0

Amount due under

Caps and Interest Rate  
Section 2.09 (d) of  
Collars  
this Agreement  
(9)

Unallocated  
1,830,000  
TOTAL  
25,000,000

2.

For the purposes of this Schedule:

(a)

the term "Information, Educational and Communication Programs" means consultants' services expenditures incurred by the Borrower in connection with the design and implementation of the programs referred to in Parts A.1 through A.3 of the Project, including, inter alia, the printing of materials required therefore as provided in the relevant consultant contract;

(b)

the term "Training" means expenditures (other than those for consultants' services) incurred by the Borrower to finance transportation costs and per-diem of trainees and rental of training facilities and equipment under the Project; and

(c)

the term "Project Administration Costs" means expenditures, such as for transportation and per diem costs of PCU and AFU's professional staff, and for non-durable goods, all for purposes of coordinating and supervising the implementation of the Project.

3.

Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4.

The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contract for goods (other than anti-tuberculosis drugs, vaccines and condoms) costing less than \$250,000 equivalent each; (b) contracts for works with the exception of the first two contracts for works to be awarded under each of Parts C.1 (b) and C.4 of Section I to Schedule 4  
Page 11

to this Agreement; (c) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (d) contracts the employment of individual consultants costing less than \$50,000 equivalent each; and (e) Training and Project Administration Costs as set forth in Categories (5) and (6) of the table in Part A.1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B.

Special Account

1.

The Borrower shall open and maintain in Dollars a separate special deposit account in BCRD, on terms and conditions satisfactory to the Bank.

2.

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

(a)

until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall

be made in accordance with the provisions of Annex A to this Schedule 1; and

(b)

upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4.

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

(a)

if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b)

if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c)

if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5.

The Bank 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 Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank 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 Borrower of its determination.

6.

(a)

If the Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b)

If the Bank 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 Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

Page 12

(c)

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

(d)

Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account

When Withdrawals Are Not Made

On the Basis of Project Management Reports

1.

For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$6,000,000.

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 Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b)

For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3.

The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan allocated to the Eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Loan allocated to said Eligible Categories, shall equal twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said Eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account

When Withdrawals Are Made

## On the Basis of Project Management Reports

1.

Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank 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 Bank from the Loan Account under one or more of the Eligible Categories.

2.

Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

Page 13

3.

Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$3,000,000.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in reducing the spread of the HIV/AIDS epidemic through: (a) the increase in health prevention and control programs targeted in particular to high risk groups of population; (b) the expansion of awareness with respect to HIV/AIDS infection and prevention amongst the Borrower's population; and (c) the strengthening of the institutional capacity of the Participating Entities and the Participating Agencies to ensure the effectiveness and the sustainability of the Project.

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

#### Part A:

##### Prevention/Promotion Activities to Reduce HIV/AIDS Transmission

1.

Design and implementation of information, educational and communication programs through, inter alia; (a) the introduction of sex education (said education to include prevention of HIV/AIDS and other sexually transmitted infections) in secondary schools; (b) the carrying out of educational programs for HIV/AIDS high-risk groups of population, in particular commercial sex workers, patients living with AIDS, adolescents, street children, drug users, and individuals with sexually transmitted infections (other than HIV/AIDS); and (c) the carrying out of campaigns, all for purposes of raising awareness and understanding among the targeted population with respect to HIV/AIDS transmission (including other sexually transmitted infections) and promoting behavioral changes among said population to avoid the spread of HIV/AIDS.

2.

(a) Design and implementation of programs to promote the use of condoms as an alternative for effective prevention of HIV/AIDS and other sexually transmitted infections; (b) design and adoption of a policy on condom distribution (including the design of a regulatory framework to govern the distribution of condoms); (c) design and adoption of a subsidy policy with respect to the access to condoms by the Borrower's population, said policy to address, in particular, the accessibility to condoms by low-income households; and (d) design and implementation of a system to monitor and control the quality of condoms and condom availability in the facilities mentioned in Article 16 of Law No. 55-93.

3.

Carrying out of a program which consists of the promotion, administration and distribution of pre-packed treatments for syndromes associated with sexually transmitted infections.

4.

Carrying out of a pilot program in at least six of the Borrower's provinces which consists of, inter alia: (a) the provision of the anti-retroviral drug nevirapine to pregnant women and new born children; (b) the provision of advice to mothers with respect to breastfeeding alternatives; and (c) the provision of baby formula supplements to new born children whose mothers are infected with HIV/AIDS.

5.

Strengthening of the technical capacity of public and private laboratories and blood banks in the Borrower's territory for purposes of improving the quality of HIV testing and counseling and diagnosing and monitoring of HIV/AIDS infections (as well as other sexually transmitted infections).

Part B: Diagnosis and Basic Care of Individuals Affected by HIV/AIDS

Page 14

1.

Design and implementation of a program which will, inter alia: (a) promote voluntary testing for HIV and provide counseling prior to and after said testing with respect to HIV/AIDS (as well as other sexually transmitted infections), in at least eight basic health care facilities in the Borrower's territory; and (b) rehabilitate and refurbish the basic health care facilities referred to in (a) herein.

2.

Design and implementation of a program on home care of HIV/AIDS patients which will include, inter alia, the provision of training to health staff of local and provincial basic care facilities, and counseling to relatives of said patients.

3.

(a) Establishment of basic AIDS health care units in local and provincial basic health care facilities located in areas with the highest prevalence of HIV/AIDS cases for purposes of, inter alia, providing: (i) voluntary testing of HIV (including the provision of counseling prior to and after said testing); (ii) group therapy for HIV/AIDS patients and their families; (iii) training to health staff on HIV/AIDS case management; and (iv) basic general hospital services; (b) rehabilitation and refurbishing of the health care facilities mentioned in paragraph (a) herein; (c) design of a policy for the provision of drugs for opportunistic diseases associated with HIV/AIDS; (d) design and implementation of a logistical system which will permit an efficient supply of drugs for prevention and treatment of opportunistic diseases associated with HIV/AIDS; (e) carrying out of an assessment of medical waste handling and disposal related to HIV/AIDS; (f) preparation and adoption of a manual which will contain guidelines and procedures for medical waste handling and disposal related to HIV/AIDS, said guidelines and procedures to be based on the recommendations resulting from the assessment referred to in (e) herein; and (g) provision of training to health staff on handling and disposal of medical waste.

4.

Implementation of a directly observed treatment national program for tuberculosis patients which will include, inter alia: (a) the provision of care services for tuberculosis high-risk groups of population; (b) the strengthening of the laboratory network to improve the diagnosis of said disease; (c) the provision of training to health staff on tuberculosis prevention and control; (d) the expansion of the BCG vaccination program through the provision of vaccines to prevent tuberculosis; and (e) the provision of anti-tuberculosis drugs.

5.

Carrying out of a program for children orphaned by AIDS which will include, inter alia, the design and implementation of pilot programs that will promote efforts to reduce the stigma and misperceptions about said orphans, and the strengthening of

community-support networks in order to provide psycho-social support and life-skills development to said orphans.

Part C:

Strengthening of HIV/AIDS Surveillance, Project Coordination, Monitoring and Evaluation, and Research

1.

Strengthening of SESPAS' disease surveillance system (in particular the HIV/AIDS sub-system) through: (a) the design of standardized protocols for carrying out cross-sectional surveys of behavior, including the collection of data on population characteristics, in particular data on HIV/AIDS high-risk groups of population; (b) the expansion of basic health care facilities, laboratories and blood banks participating in HIV/AIDS surveillance; and (c) the design and implementation of an integrated management information system for HIV/AIDS, all for purposes of improving the Borrower's resource allocation and decision making concerning HIV/AIDS.

2.

Carrying out of a research program on HIV/AIDS (as well as other sexually transmitted infections and tuberculosis).

3.

Strengthening of the capacity of the PCU to assist the Borrower in the implementation, monitoring and supervision of the Project.

4.

Carrying out of annual technical evaluations to monitor and evaluate the implementation of the Project.

\* \* \*

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

Page 15

### SCHEDULE 3

#### Amortization Schedule

1.

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Installment Share

Payment Date

(Expressed as a %)

On each April 15 and October 15

Beginning October 15, 2006

through October 15, 2017

4.17%

On April 15, 2018

4.09%

2.

If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a)

To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.



(b)

Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3.

(a)

Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b)

Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4.

Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

Page 16

SCHEDULE 4

Procurement

Section I.

Procurement of Goods and Works

Part A:

General

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

Part B:

International Competitive Bidding

1.

Except as otherwise provided in Part C of this Section, goods (other than the anti-retroviral drug and the baby formula supplements referred to in Part A.4 (a) and (c) of the Project, respectively, as referred to in Section 2.02 of this Agreement) shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2.

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

(a)

#### Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b)

#### Preference for Domestically Manufactured Goods

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

Part C:

#### Other Procurement Procedures

1.

#### National Competitive Bidding

(a)

Goods (other than the anti-retroviral drug and the baby formula supplements referred to in Part A.4 (a) and (c) of the Project, respectively, anti-tuberculosis drugs, vaccines and condoms) estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$3,200,000 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 \$350,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c)

Procurement of goods and works under this Part shall be carried out using standard bidding documents acceptable to the Bank.

2.

#### Shopping

Goods (other than the anti-retroviral drug and the baby formula supplements referred to in Part A.4 (a) and (c) of the Project, respectively, anti-tuberculosis drugs, vaccines and condoms) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,790,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower's option, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Page 17

3.

#### Procurement from UN Agencies

(a) Vaccines and anti-tuberculosis drugs, up to an aggregate amount not to exceed \$1,905,000, may be procured from the Pan-American Health Organization; and (b) condoms, up to an aggregate amount not to exceed \$945,000, may be procured from the United Nations Fund For Population Activities, all in accordance with the provisions of paragraph 3.9 of the Guidelines.

4.

#### Procurement of Small Works

Works estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000, 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 Bank, 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 Bank of Procurement Decisions

1.

Prior Review

(a)

With respect to: (i) each contract for goods to be awarded under Parts B.1 and C.3 of this Section; and (ii) the first two contracts for works to be awarded under Part C.1 (b) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b)

With respect to the first two contracts for works to be awarded under Part C.4 of this Section, the following procedures shall apply:

(i)

prior to the selection of any contractor under said Part, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii)

prior to the execution of any contract procured under said Part, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii)

the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

2.

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 the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B:

Quality- and Cost-based Selection

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, paragraph 3 of Appendix 1 thereto, Appendix 2

Page 18

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

Part C:

Other Procedures for the Selection of Consultants

1.

Least-cost Selection

Consultants' services for the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2.

Individual Consultants

Consultants' services for specialized activities under the Project, as approved by the Bank, and for tasks that meet the requirements set forth in paragraph 5.1 of

the Consultant Guidelines, up to an aggregate amount not to exceed \$1,800,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D:

Review by the Bank of the Selection of Consultants

1.

Prior Review

(a)

With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$100,000 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 consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c)

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 Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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.