

CONFORMED COPY

LOAN NUMBER 7066-BAR

Loan Agreement

(HIV/AIDS Prevention and Control Project)

between

BARBADOS

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 6, 2001

LOAN NUMBER 7066-BAR

LOAN AGREEMENT

AGREEMENT, dated July 6, 2001, between BARBADOS (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 it 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) "AIDS" means Acquired Immune Deficiency Syndrome;
- (b) "Annual Action Plan" means any of the plans referred to in Section 3.05 (a) and/or (c) of this Agreement;
- (c) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;
- (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, services and operating costs referred to in Section 2.02 of this Agreement;
- (f) "HIV" means Human Immune-deficiency Virus;
- (g) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;
- (h) "Maturity Fixing Date" means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;
- (i) "MH" means the Borrower's Ministry of Health;
- (j) "NACHA" means the Borrower's National Commission on HIV/AIDS established pursuant to the Borrower's Cabinet Decision Number 1369/MH 61, dated November 23, 2000;
- (k) "Operational Manual" means the manual referred to in Section 3.04 (a) of this Agreement;
- (l) "Participating Agency" means a Borrower's Ministry which has partial or total jurisdiction over one or more Project activities to be included in a given Annual Action Plan;
- (m) "Participation Arrangement" means any of the arrangements referred to in Section 3.06 (a) (ii) of this Agreement;
- (n) "Participation Agreement" means any of the agreements referred to in Section 3.06 (a) (i) of this Agreement;
- (o) "Participating Entity" means a private entity vested with legal personality which has partial or total implementation responsibility for one or more Project activities to be included in a given Annual Action Plan;
- (p) "PCU" means the unit referred to in Section 3.07 (a) of this Agreement;
- (q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and
- (s) "STI" means sexually transmitted infections.

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 fifteen million one hundred and fifty thousand Dollars (\$15,150,000) 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, works, services and operating 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 \$151,500. 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 said 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 percent (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 January 15 and July 15 in each year.

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each January 15 and July 15, the first such installment to be payable on the seventh (7) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the twenty-first (21) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-fifteenth (1/15) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after July 15, 2017, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.

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:

- (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 its Prime Minister's Office, with the assistance of the Participating Agencies and/or Participating Entities, as the case may be, with due diligence and efficiency and in conformity with appropriate public health, medical, 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 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 3 to this Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan 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:
(i) a manual (the Operational Manual), acceptable to the Bank, said manual to include, inter alia: (A) the procurement, financial management and environmental guidelines to be followed during Project implementation by the Borrower, the Participating Agencies and/or Participating Entities; and (B) the guidelines for the preparation of the Annual Action Plans; and (ii) the manual referred to in Part B.8 (b) of the Project.

(b) In case of any conflict amongst the terms of the Operational Manual, the manual referred to in Part B.8 (b) of the Project and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. The Borrower shall: (a) not later than December 31 of each year during 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 Agencies and/or Participating Entities, 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 calendar year; (b) thereafter implement each said Annual Action Plan, approved by the Bank, 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 each relevant Participating Entity; and (ii) cause the Prime Minister's Office and each relevant Participating Agency to enter into an arrangement or amend the existing arrangement between the Prime Minister's Office and the corresponding Participating Agency (the Participation Arrangement), all on terms and conditions satisfactory to the Bank, including, inter alia, the obligation of each said Participating Agency or each said Participating Entity, 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.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Participation Agreement and Participation Arrangement 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 and Participation Arrangement or any provision thereof.

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

Section 3.07. (a) The Borrower shall operate and maintain within NACHA, 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 assist the Borrower in the coordination, monitoring and supervision of the Project.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by an executive director and staffed with a financial and administrative director, respectively, and assisted by an adequate number of professional and administrative staff, all with qualifications and experience acceptable to the Bank.

Section 3.08. 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 November 30 and May 30 during Project implementation, starting with the report due not later than November 30, 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, on or about January 15th of each year during Project implementation, 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.

Section 3.09. The Borrower shall ensure that the study referred to in Part B.8 (a) of the Project includes the results of an environmental assessment, carried out with public consultation in Barbados and satisfactory to the Bank, of the medical waste disposal alternatives recommended by said study which go beyond the disposal measures and infrastructure in place in Barbados as of April 1, 2001. Such alternatives shall be: (a) implemented if deemed satisfactory by the Bank and the

Borrower; and (b) implemented in a manner that complies with the relevant environmental mitigation measures recommended by said assessment.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than 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 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 December 31, 2003, 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.

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.

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

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 approved 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;
- (c) the Participation Agreements and/or the Participation Arrangements required for the implementation of the Annual Action Plan for year 2001 activities, have been executed by the parties thereto; and
- (d) a financial management system, satisfactory to the Bank, has been established as provided in Section 4.01 (a) of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Participation Agreements referred to in Section 6.01 (c) above have been duly authorized or ratified by the Borrower and the Participating Entities and are legally binding upon the Participating Entities.

Section 6.03. The date October 4, 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 Prime Minister 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:

Prime Minister's Office
Government Headquarters
Bay Street, St. Michael
Barbados

Facsimile:

(246) 436-9280

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

BARBADOS

By /s/ Michael King

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Orsalia Kalantzopoulos

Acting 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 Loan Allocated	% of Expenditures
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Category	Dollars)	to be Financed
(1) Works	1,370,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods		
(a) equipment (except as covered under Categories	885,000	100% of foreign expenditures and 85% of local expenditures (3) and (4) below)
(b) anti-retroviral drugs	3,534,000	90% following determination of capacity to manage, until disbursements under this Category have reached an amount of \$3,233,000; and 50% thereafter
(c) laboratory reagents	3,000,000	90% until disbursements under this Category have reached an amount of \$2,831,000; and 50% thereafter
(d) condoms	650,000	80% until disbursements under this Category have reached an amount of 500,000; and 50% thereafter
(3) Consultants' Services and Training	3,460,000	100%
(4) Operating Costs	1,208,000	50%
(5) Front-end-fee	151,500	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (d) of this Agreement
(7) Unallocated	891,500	
TOTAL	15,150,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "laboratory reagents" means biological or chemical substances used in laboratory for analysis and testing;

(d) the term "Operating Costs" means reasonable Borrower expenditures, which

would not have been incurred absent the Project, to finance consumable items and utilities; and

(e) the term "Training" means reasonable expenditures incurred by the Borrower to finance transportation costs, per-diem of trainees, rental of training facilities, and training materials and equipment required for training activities under the Project.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$1,500,000 equivalent, may be made in respect of Categories (1) and (2) (a) set forth in the table in paragraph 1 of Part A of this Schedule on account of payments made for expenditures before that date but after May 15, 2001; and

(b) payments made for expenditures under Category (2) (b) and (2) (c) set forth in the table in paragraph 1 of Part A of this Schedule, unless the Borrower has presented to the Bank evidence, satisfactory to the Bank, that it has: (i) acquired the medical/technical capacity to provide anti-retroviral therapy to approximately 500 patients with HIV/AIDS; and (ii) issued and put into effect the upgraded manual referred to in Part B.8 (b) of the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$50,000 equivalent per contract; (b) contracts for works costing less than \$150,000 equivalent per contract; (c) contracts for the employment of consultant services of firms costing less than \$100,000 equivalent per contract; (d) contracts for the employment of individual consultant services costing less than \$50,000 equivalent; and (e) Training and Operating Costs as set forth in Categories (3) and (4) of the Table in paragraph 1 of Part A 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 its central bank, 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: (i) the records and accounts for the Special Account; or (ii) 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.

(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 the amount of \$4,000,000.

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 Category 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.

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 the amount of \$2,000,000.

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 programs for the prevention, care and control of the epidemic, targeted in particular to high risk groups of population; and (b) the strengthening of the institutional capacity of the Participating Entities and 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 and Control of HIV/AIDS Transmission

1. Establishment of HIV/AIDS coordination units in each of the Participating Agencies for purposes of assisting the Borrower in the preparation and implementation of the corresponding Annual Action Plans.

2. Carrying out of a national information, education and communications program for the purposes of: (a) raising people's awareness of HIV/AIDS risks and protection measures; (b) promoting behavioral changes with respect to safe sex practices; and (c) promoting among public and private leaders the protection of rights of people living with HIV/AIDS.

3. Carrying out of a national program to distribute condoms among the Borrower's population.

4. Strengthening of the implementation capacity of programs for the prevention and control of STIs.

5. Strengthening of MH's capacity to: (a) prevent mother to child HIV/AIDS transmission; and (b) monitor and protect the blood supply throughout the Borrower's territory.

Part B: Diagnosis, Treatment and Care of People with HIV/AIDS

1. 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.

2. 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.

3. Upgrading of at least 8 polyclinics for counseling, testing and follow-up of patients with HIV/AIDS.

4. Strengthening of the technical capacity of the Borrower to procure anti-retroviral drugs.

5. Rehabilitation and refurbishing of facilities to treat patients with opportunistic infections and provide care and anti-retroviral therapy for patients with AIDS.

6. (a) Provision of anti-retroviral drugs for HIV/AIDS patients; and (b) carrying out of laboratory testing for the diagnosis, treatment and surveillance of persons with HIV/AIDS.

7. Carrying out of a voluntary counseling and confidential HIV/AIDS testing program.

8. (a) Carrying out of a study to assess possible alternative solutions and the implementation of the recommended solution to improve the safe disposal of medical waste; and (b) upgrading of the Borrower's Queen Elizabeth Hospital's manual for the handling and disposal of medical waste on the basis of the recommendation of such study.

Part C: Management and Institutional Strengthening

1. Strengthening of the capacity of the PCU to comply with its responsibilities referred to in Section 3.07 (a) of this Agreement.

2. Carrying out of a research program on HIV/AIDS.

3. Strengthening of the Borrower's STI/HIV/AIDS surveillance and information management system through the design and implementation of an integrated data base for the purposes of improving the Borrower's resource allocation and decision making concerning HIV/AIDS.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA 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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(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 anti-retroviral drugs) estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 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 \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may 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 anti-retroviral drugs) estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$485,000 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.

3. Direct Contracting

Anti-retroviral drugs up to an aggregate amount not to exceed \$4,482,000 equivalent may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$150,000 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 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. 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 Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines and Section 3.05 (a) (ii) of this Agreement. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank and with the provisions of said paragraph 1 and said Section 3.05 (a) (ii).

2. Prior Review

(a) With respect to: (i) each contract for goods to be awarded under Parts

B.1 and C.1 (a) of this Section; and (ii) each contract for works to be awarded under Parts B.1 and 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 goods to be awarded under Part C.2 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier 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.

(c) The provisions of subparagraphs (b), (ii) and (iii) above shall also apply to contracts procured under Part C.3 of this Section.

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 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 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 \$1,000,000 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 advisory services under the Project, as approved by the Bank, that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$2,500,000 equivalent, shall 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. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines and Section 3.05 (a) (ii) of this Agreement. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1 and Section 3.05 (a) (ii) of this Agreement.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost \$100,000 equivalent 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.

