Development Grant Agreement

(HIV/AIDS and STI Prevention and Control Project)

between

KINGDOM OF BHUTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 1, 2004
AGREEMENT, dated July 1, 2004, between KINGDOM OF BHUTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

WHEREAS (B) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “AIDS” means the Acquired Immuno-deficiency Syndrome;

(b) “Community-Based Organization” or “CBO” means a community-based organization established and operating in the Recipient’s territory and registered with the Recipient, which has met the eligibility criteria set out in the Operational Manual (as hereinafter defined) and, as a result, has received or is entitled to receive an Innovation Grant (as hereinafter defined);

(c) “Dzongkhag” means a district established under the Recipient’s laws;

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

(e) “HIV” means Human Immunodeficiency Virus;

(f) “Infection Control and Health Care Waste Management Plan” means the Recipient’s National Plan for Health Care Waste Management dated April 20, 2004,
including any amendments to such document, satisfactory to the Association, that shall: (i) enable the Recipient to assess, among other things, the Project’s environmental and public health impacts; and (ii) where applicable, govern the preparation of environmental management plans and other appropriate mechanisms, satisfactory to the Association, required to mitigate and monitor any adverse impacts from carrying out the Project;

(g) “Innovation Grant” means the innovation grants made, or proposed to be made, by the Recipient to Line Ministries and Agencies (as hereinafter defined), Dzongkhags, NGOs (as hereinafter defined), CBOs, or other entities, to finance a Workplan (as hereinafter defined) or a Sub-Project (as hereinafter defined), as the case may be;

(h) “Innovation Grant Agreement” means a written agreement to be entered into between MoH (as hereinafter defined) and NGOs (as hereinafter defined), CBOs, or other entities, as the case may be, with terms and conditions satisfactory to the Association, including those set forth in Schedule 6 to this Agreement;

(i) “Line Ministries and Agencies” means the Recipient’s ministries or agencies participating in this project, including, among others, the Recipient’s Ministries of Health, Labor and Human Resources, Information and Communications, Education, Home and Cultural Affairs, and various agencies or departments within any of the Recipient’s ministries, such as, inter alia, the Royal Civil Service Commission, Religious Affairs, and Armed Forces;

(j) “MoH” means the Recipient’s Ministry of Health or any successor entity thereto;

(k) “MSTFs” means the Multisectoral Task Forces established to address health issues at each Dzongkhags;

(l) “National STD/AIDS Control Program” means the Recipient’s National STD/AIDS Control Program to implement National HIV/AIDS Commission (as hereinafter defined) policy decisions and oversee implementation of HIV/AIDS and STI (as hereinafter defined) prevention and control activities;

(m) “National HIV/AIDS Commission” means a commission chaired by the Minister of Health and comprising representatives from Line Ministries and Agencies as well as MSTFs, NGOs (as hereinafter defined) and CBOs, and private sector organizations;

(n) “Non-Governmental Organization” or “NGO” means a non-governmental organization established and operating in the Recipient’s territory and registered with the Recipient, which has met the eligibility criteria set out in the Operational Manual (as hereinafter defined) and, as a result, has received or is entitled to receive an Innovation Grant;
(o) “OI” means opportunistic infections;

(p) “Operational Manual” means the Recipient’s Project Operational Manual dated April 27, 2004, as amended from time to time with the Association’s agreement, containing, among other things, details regarding, project implementation plan, staffing arrangements and terms of references, the Innovation Grants, criteria for selecting Community-Based Organizations and Non-Governmental Organizations for Project activities, including criteria for monitoring and evaluation activities;

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

(r) “PMT” means the Project Management Team established within MoH for assisting in carrying out the Project;

(s) “Priority Groups” means populations that are greatest at risk of contracting HIV/AIDS and STIs, namely, inter alia, sex workers, transport workers, armed forces personnel, out-of-school youth, and migrant workers;

(t) “Priority Areas” means areas declared hotspots by the Recipient where high risk behavior to contract HIV/AIDS and STIs (as hereinafter defined) exist;

(u) “Second Generation Surveillance” means the Recipient’s ongoing systematic collection, collation, and analysis of behavioral and serological data for compilation of strategic information for HIV/AIDS and STIs (as hereinafter defined);

(v) “Sub-Project” means a specific activity or set of activities financed, or proposed to be financed, through an Innovation Grant made under Part A.3 or C.2 of the Project;

(w) “STIs” means Sexually Transmitted Infections;

(x) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(y) “VCT” means voluntary counseling and testing; and

(z) “Workplan” means annual work plan of each of the Line Ministries and Agencies, and Dzongkhags to implement the Project in accordance with the Operational Manual.

**ARTICLE II**

The Grant
Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to four million Special Drawing Rights (SDR 4,000,000).

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

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Royal Monetary Authority on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.05. The Closing Date shall be December 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project
Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate education, environmental and social, health, sanitary, administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Recipient shall:

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

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient’s progress reporting obligations set out in paragraph 5 of Schedule 4. The Recipient shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Effectiveness; Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

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

For the Recipient:

Ministry of Finance
Tashichhodzong
Thimphu, Kingdom of Bhutan

Cable address: Telex: Facsimile:
Ministry of Finance 890-201 323154
Thimphu, Bhutan

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:
INDEVAS 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 New York, New York, United States of America, as of the day and year first above written.

KINGDOM OF BHUTAN

By /s/ Daw Penjo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Enrique Pantoja
Acting Country Director
Bhutan
SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil works</td>
<td>70,000</td>
<td>97%</td>
</tr>
<tr>
<td>(2) Goods, equipment and vehicles</td>
<td>1,240,000</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 95% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) Services</td>
<td></td>
<td>97%</td>
</tr>
<tr>
<td>(a) Consultants’ services</td>
<td>690,000</td>
<td></td>
</tr>
<tr>
<td>(b) Services other than Consultants’ services Under Parts A.2 and D.1 of the Project</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>(4) Training</td>
<td>1,070,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Innovation Grants</td>
<td>560,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Incremental Operating Costs</td>
<td>100,000</td>
<td>50% of expenditures up to June 30, 2009</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,000,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:
(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term “Incremental Operating Costs” means vehicle maintenance, fuel, insurance, supervision field visits (travel and per diem), office rental, office supplies, utilities, and communications expenses, including internet connections.

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 the equivalent of SDR 350,000, may be made on account of payments made for expenditures before that date but after January 1, 2004; and (b) expenditures under Category (5), unless and until guidelines for the processing, approval, and implementation of Innovation Grants satisfactory to the Association have been developed and adopted by the Recipient.

4. It is understood that the percentages of expenditures to be financed under the table set forth in paragraph 1 of this Schedule have been calculated on the basis of the provisions of the Rules on the Sales Tax, Customs and Excise Act of the Kingdom of Bhutan 2000, which provide for an exemption of taxes and customs duties levied in the territory of the Recipient on goods for this Project. If any change is made to said rules which has the effect of levying taxes or customs duties on such goods, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

5. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts costing less than $150,000 equivalent each; (ii) goods and equipment under contracts costing less than $150,000 equivalent each; (iii) service of consulting firms under contracts costing less than $100,000 equivalent each; (iv) service of individual consultants under contract costing less than $50,000 equivalent each; (v) services other than consultants’ services under contracts costing less than $30,000 each; (vi) training; (vii) Innovation Grants; and (viii) all Incremental Operating Costs, each under such terms and conditions as the Association shall specify by notice to the Recipient.

6. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.
SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to reduce the risk of HIV/AIDS and STI transmission.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives.

Part A: Prevention of HIV/AIDS and STIs

Supporting the following broad-based programs that will contribute to reducing the spread of HIV/AIDS and STIs:

1. Promoting of safer sex behaviors, including increasing condom availability and use.

2. Undertaking of advocacy and increasing knowledge among policy makers and opinion leaders, the media, law enforcement, health-care providers, and religious bodies.

3. Financing of Innovation Grants through Workplans and Sub-Projects that include: (i) promoting behavior change among Priority Groups, including Priority Areas through peer education, innovative outreach and communications strategies related to HIV/AIDS and STIs; and (ii) provision of VCT and STI treatment to Priority Groups.

Part B: Institutional Strengthening and Capacity Building

1. Strengthening of laboratory services to ensure improvement in HIV and STI diagnostics and treatment through: (i) the instituting of a national quality assurance for all laboratories; (ii) the establishing of a laboratory information system; and (iii) the provision of training to technical staff.

2. Improving of blood transfusion services through: (i) the developing of a policy on blood safety; (ii) the carrying out of campaigns to mobilize and increase voluntary blood donation; and (iii) the provision of training to technical and/or healthcare staff on safe blood transfusion and rational use of blood and blood products.

3. Enhancing capacity of the following agencies involved in Bhutan’s response to HIV/AIDS and STIs:

   (a) National STD/AIDS Control Program.

   (b) National HIV/AIDS Commission.
(c) Line Ministries and Agencies, and Dzongkhags.

(d) NGOs, CBOs and other voluntary and private organizations.

4. Formulating of a National Policy on HIV/AIDS, through the provision of technical assistance and training.

Part C: Care, Support and Treatment of HIV/AIDS and STIs

1. Establishment of about five VCT centers in key areas to provide VCT services, including the carrying out of outreach services to vulnerable areas and the provision of training to counselors at selected hospitals.

2. Strengthening of management of HIV/AIDS and OI, and establishing support for PLWHA through: (i) the developing of national treatment guidelines for a comprehensive care and support approach, including anti-retroviral treatment; (ii) the establishing and training of Dzongkhag level clinical teams; (iii) the improving of laboratory support; (iv) the instituting of a drug administrative system; and (v) the provision of Innovation Grants.

3. Strengthening of management of STIs through: (i) the carrying out of routine screening of ANC syphilis at Dzongkhag and army hospitals; (ii) the updating of existing STI syndromic management guidelines; (iii) the improving of syndromic treatment of STIs, including the carrying out of antibiotic susceptibility studies; (iv) the disseminating of updated treatment guidelines to pharmacies and health facilities; and (v) the provision of training to health care providers.

4. Implementation of the Infection Control and Health Care Waste Management Plan through the provision of training and equipment to staff of health facilities.

Part D: Strategic Information for HIV/AIDS and STI

1. Expansion of the existing information technology (IT) infrastructure through: (i) the promoting of evidence based decision making and strategic planning; (ii) the installation of local area network (LAN) and implementing network linkage between information systems; and (iii) the provision of technical assistance and training.

2. Strengthening of operational research capacity programs, including the carrying out of social and behavioral research activities through the provision of training and technical assistance.

3. Establishment of Second Generation Surveillance and monitoring and evaluation systems, through the carrying out of various studies, surveys and assessments, and provision of training.
The Project is expected to be completed by June 30, 2009.
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 this Section.

Part B: International Competitive Bidding

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

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) 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 Recipient.

Part C: Other Procurement Procedures

1. National Competitive Bidding

   Goods estimated to cost less than $150,000 equivalent per contract and works irrespective of the value under the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, provided that:

   (i) invitations to bid shall be advertised in at least one widely circulated national newspaper, at least 30 days prior to the deadline for the submission of bids;

   (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
(iii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

(iv) bids shall be opened in public in one place, immediately after the deadline for submission of bids;

(v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(vi) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(vii) contracts shall be awarded to the lowest evaluated bidders;

(viii) post-bidding negotiations shall not be allowed with the lowest evaluated bidders or any other bidders;

(ix) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(x) contracts shall not be awarded on the basis of nationally negotiated rates;

(xi) re-bidding shall not be carried out without the prior concurrence of the Association;

(xii) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;

(xiii) a bidder’s bid security shall apply only to a specific bid, and a contractor’s performance security shall apply only to the specific contract under which it was furnished;

(xiv) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:
(A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and

(B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.

(xv) extension of bid validity shall not be allowed without the prior concurrence of the Association: (i) for the first request for extension if it is longer than eight weeks; and (ii) for all subsequent requests for extension irrespective of the period;

(xvi) bids shall not be invited on the basis of percentage premium or discount over the estimated cost; and

(xvii) there shall not be any restrictions on the means of delivery of the bids.

2. **International or National Shopping**

Goods and activities related to, inter alia: (a) installation of local area network (LAN), including implementing network linkage between information systems; (b) communications activities, all estimated to cost less than $30,000 equivalent per contract; and (c) HIV test kits, may all be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. **Direct Contracting**

(a) Goods, including, inter alia, software, books, journals costing $1000 equivalent or less per contract financed under Innovation Grants; (b) communications activities, estimated to cost less than $5000 equivalent per contract; and (c) vehicles and ARV drugs, may all be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

**Part D: Review by the Association of Procurement Decisions**

1. **Procurement Planning**

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and
approval. Procurement of all goods and works shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. **Prior Review**

   With respect to: (i) the first contract for works awarded in accordance with paragraph C.1 of this Section I irrespective of the value; (ii) each subsequent contracts for works awarded in accordance with paragraph C.1 of this Section I estimated to cost the equivalent of $150,000 or more; (iii) each contract for goods awarded in accordance with paragraph B.1 of this Section I irrespective of the value; and (iv) the first contract for goods awarded in accordance with paragraph C.1 of this Section I irrespective of the value, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. **Post Review**

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

**Section II. Employment of Consultants**

**Part A: General**

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

**Part B: Quality- and Cost-based Selection**

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 2.1 through 2.28 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services, estimated to cost less than $100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

**Part C: Other Procedures for the Selection of Consultants**
1. **Selection Based on Consultants’ Qualifications**

   Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. **Single Source Selection**

   Services estimated to cost less than $100,000 equivalent per contract, with prior concurrence of the Association, may be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. **Individual Consultants**

   Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

**Part D: Review by the Association of the Selection of Consultants**

1. **Selection Planning**

   A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. **Prior Review**

   (a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

   (b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.
(c) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

Implementation Program

1. The Recipient shall, for purposes of the Project, maintain the Operational Manual in form and substance satisfactory to the Association, and shall carry out the Project in accordance with said Manual. Except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the Operational Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. The Recipient shall:

   (a) maintain a PMT within MoH for the overall coordination and management of the Project, and ensure that the PMT is adequately staffed with individuals having qualifications and experience satisfactory to the Association throughout the implementation of the Project; and

   (b) ensure that a project coordinator, a finance officer, an accountant, a procurement officer and a technical officer, all suitably qualified and experienced and acceptable to the Association, shall be assigned to the PMT throughout the implementation of the Project.

3. The Recipient shall implement, in a manner satisfactory to the Association, the environmental mitigation, monitoring and other measures set forth in the Infection Control and Health Care Waste Management Plan in accordance with the objectives, policies, procedures, time schedule and other provisions set forth therein, and shall not take or permit to be taken any action which would prevent or interfere with such implementation.

4. The Recipient shall ensure that Innovation Grants:

   (a) under Sub-Projects shall be made to NGOs, CBOs, or other entities, as the case may be, in accordance with the Operational Manual, with terms and conditions satisfactory to the Association, including those set forth in Schedule 6 to this Agreement; and

   (b) under Workplans shall be made to Line Ministries and Agencies, and Dzongkhags, in accordance with the Operational Manual, with terms and conditions satisfactory to the Association.
5. The Recipient shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2006, 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 period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

   (c) the term “Authorized Allocation” means an amount equivalent to $500,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

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

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

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

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

   (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of
the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

Procedures, Terms and Conditions for carrying out Sub-Projects

1. An Innovation Grant for Sub-Projects under Parts A.3 and C.2 of the Project shall be made by the Recipient, through MoH, only:

   (a) to a CBO, NGO, or other entity, as the case may be, if that entity has established, to the satisfaction of MoH, and on the basis of guidelines acceptable to the Association, that it has the organization, management, staffing and other resources required for the efficient carrying out of Sub-Projects, and has prepared an acceptable plan for the carrying out of said Sub-Project; and

   (b) for Sub-Projects that are: (i) technically feasible and cost effective, and designed in accordance with appropriate environmental and health standards; and (ii) reviewed and approved by the Association.

2. All Innovation Grants shall be made only upon such terms and conditions under which MoH, shall obtain, through an Innovation Grant Agreement, rights adequate and appropriate to protect the interests of the Association and the Recipient. These rights shall include among other things:

   (a) require the CBO, NGO, or other entity, as the case may be, which receives an Innovation Grant, to carry out and operate Sub-Projects with due diligence and efficiency, in accordance with sound educational, technical, financial and managerial standards, and pursuant to the environmental, social and other principles, measures, procedures and guidelines set out in the Operational Manual and, where applicable, the Infection Control and Health Care Waste Management Plan;

   (b) require the CBO, NGO, or other entity, as the case may be, to maintain policies, procedures and records adequate to enable the entity to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of Sub-Projects and the achievement of the objectives thereof;

   (c) require that: (i) the goods and services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of Sub-Projects;

   (d) require that the CBO, NGO, or other entity, as the case may be, shall insure or make adequate provision for the insurance of the goods financed out of the proceeds of the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation;
(e) obtain all such information as the Association and/or the Recipient shall reasonably request relating to the foregoing and to the benefits to be derived from such Sub-Project;

(f) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, the goods and works financed under Sub-Projects, the operation thereof, and any relevant records and documents related thereto; and

(g) suspend or terminate the right of the CBO, NGO, or other entity, as the case may be, to the use of the proceeds of the Grant upon failure by such CBO, NGO, or other entity to perform its obligations under its agreement with MoH providing for the Innovation Grant.
SCHEDULE 7

Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05, Article VII, are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

   (a) The term “Borrower” is modified to read “Recipient”.

   (b) The term “Credit” is modified to read “Grant”.

   (c) The term “credit” is modified to read “grant”; except that where used in Sections 6.02(a)(ii) and 6.02(c)(i), as modified below, the term “credit” shall continue to read “credit”.

   (d) The term “Credit Account” is modified to read “Grant Account”.

   The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Article IV is modified as follows:

   (a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

      “Section 4.02. Currencies in which Commitment Charges are Payable

      (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

      (b) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.
(c) Section 4.03 and its heading are modified to read as follows:

“Section 4.03. Amount of the Grant

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

4. Section 6.02 is modified as follows:

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

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

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

6. Paragraph (c) of Section 9.06 is modified to read as follows:

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

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

“Section 12.05. Termination of Development Grant Agreement.

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