

p-4597

**LOAN NUMBER 7545-BR**

# **Loan Agreement**

**(Family Health Extension Program – Phase 2)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated** *September 9, 2009*



**LOAN AGREEMENT**

Agreement dated September 9, 2009, between the FEDERATIVE REPUBLIC OF BRAZIL (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

**ARTICLE I—GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions.

**ARTICLE II—LOAN**

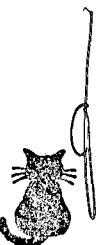
- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of eighty three million four hundred and fifty thousand Dollars (\$83,450,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing expenditures for the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Borrower’s Minister of Health.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are February 15 and August 15 in each year.



- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (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 the 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 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) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for 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 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank 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.

### ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out the Project through MOH (with the assistance of the Eligible Municipalities, with respect to Part 1 of the Project, and the Eligible States, with respect to Part 2 of the Project), all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.



#### **ARTICLE IV—REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consist of the following:
- (a) Any Eligible Municipality shall have failed to perform any of its obligations under its Municipal Subproject Agreement, and MOH shall have failed to exercise its remedies under such Municipal Subproject Agreement.
  - (b) Any Eligible State shall have failed to perform any of its obligations under its State Subproject Agreement, and MOH shall have failed to exercise its remedies under such State Subproject Agreement.
  - (c) Notwithstanding the rights contained in Section 7.02 of the General Conditions, it is understood that, if any of the events specified in paragraphs (a) or (b) above shall have occurred, the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures under the concerned Municipal Subproject Agreement or State Subproject Agreement, as the case may be.

#### **ARTICLE V—EFFECTIVENESS**

- 5.01. The Additional Legal Matter consists of namely, that the Loan has been duly registered with the Central Bank of Brazil.
- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 26, 2009.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. The Borrower's Address is:  
Ministério da Fazenda  
Procuradoria Geral da Fazenda Nacional  
Esplanada dos Ministérios, Bloco "P"- 8 andar  
70048-900 Brasília, DF  
Brazil
- Facsimile: 55-61-3226-2502



With copy to:

Ministério da Saúde  
Secretaria de Atenção à Saúde  
Esplanada dos Ministérios, Bloco "G" –9 andar  
70058-900 Brasília, DF  
Brazil

Facsimile: 55-61-3226-4340

SEAIN – Secretaria de Assuntos Internacionais do  
Ministério do Planejamento, Orçamento e Gestão  
Esplanada dos Ministérios – Bloco "K" – 5 andar  
70040-906 Brasília, DF  
Brazil

Facsimile: 55-61- 2020-5006

6.03. The Bank's Address is:

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

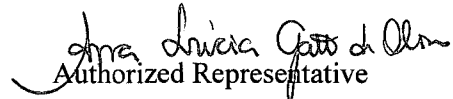
Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391



AGREED at Branlia, Brazil, as of the day and year first above written.

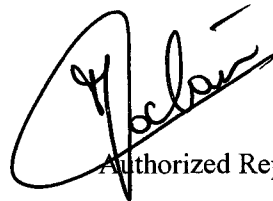
FEDERATIVE REPUBLIC OF BRAZIL

By

  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By

  
Authorized Representative

WITNESSED

By

  
Minister of Health

## SCHEDULE 1

### Description of the Project

The objectives of the Project are to: (a) increase access to family health-based primary care in Eligible Municipalities; (b) improve the technical quality of, and patient satisfaction with, primary care; and (c) improve the efficiency and effectiveness of family health service providers as well as the broader delivery system.

The Project constitutes the second phase of the Program and 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 1: Municipal Subprojects

Carrying out of Municipal Subprojects in Eligible Municipalities, including a set of activities consisting of, *inter alia*, the following:

- (a) Organization, supervision and provision of family health extension and basic care services:
  - (i) conversion to the Family Health Program by Eligible Municipalities where this model has not yet been adopted;
  - (ii) extension of the Family Health Program in Eligible Municipalities where this model is at an initial phase of implementation; and
  - (iii) continued expansion of the Family Health Program in Eligible Municipalities that have already made significant headway on family health, but have yet to attain coverage targets.
  
- (b) Consolidation, quality improvement and innovation in Eligible Municipalities that have shown significant progress in coverage extension of the Family Health Program during the Program:
  - (i) introduction of a system of quality assessment of health services providers and municipal managers of the Family Health Program; and
  - (ii) upgrading and equipping of the health facilities used by the Family Health Teams to support their tasks, including, *inter alia*, the construction and rehabilitation of family health centers, and the procurement of medical and non-medical equipment, furniture and vehicles (excluding ambulances).



- (c) Strengthening of the capacity of the Family Health Teams of the Eligible Municipalities:
  - (i) development and implementation of training courses for members of Family Health Teams, such as municipal-based in-service training; and
  - (ii) design of instruments and methods for supervision of the Family Health Teams.
- (d) Strengthening municipal management of primary health care in selected municipalities:
  - (i) development and implementation of: (A) performance-based management systems; (B) capacity building of family health coordination units; and (C) performance-based contracts between managers of eligible municipalities and Family Health Teams; and
  - (ii) development, implementation and dissemination of new health care practices, work processes, and protocols.
- (e) Strengthening of monitoring and information systems:
  - (i) development and upgrading of information systems of the Eligible Municipalities to manage data, track results, and assess performance; and
  - (ii) development and implementation of monitoring and evaluation systems.

Part 2: Strengthening State Capacity

Carrying out of State Subprojects in Eligible States for strengthening of the institutional capacity of their health secretariats, including a set of activities consisting of, *inter alia*, the following:

- (a) Restructuring the Eligible States' health secretariats to play a central role in oversight, quality improvement, and supervision of municipal delivery systems, including activities consisting of *inter alia* the following:
  - (i) establishing state family health coordination teams to provide technical support and oversee the performance of basic care and family health services implemented by municipalities under their jurisdiction;
  - (ii) introducing a system of quality assessment for family health providers in small and medium-size municipalities;





- (iii) equipping offices for state family health coordination teams; and
  - (iv) strengthening State capacity to supervise municipal family health services.
- (b) Supporting continuous education of family health professionals and paraprofessionals by establishing partnerships with universities and other training institutions to develop and implement in-service courses required by family health professionals and paraprofessionals such as community health agents and dental hygiene assistants.
- (c) Formulating and implementing a State plan for performance monitoring and supervision of family health services in municipalities, including, *inter alia*, the following:
- (i) establishing monitoring teams to assess, on a regular basis, the performance of municipalities in the operation of their basic care systems;
  - (ii) upgrading information systems to manage data and track performance of municipal family health services;
  - (iii) equipping offices for monitoring and evaluation teams;
  - (iv) developing skills required for monitoring and evaluation of family health services;
  - (v) implementing evaluative and operational research to measure the performance of municipal basic care providers; and
  - (vi) developing and supporting implementation of a performance-based municipal management system.

**Part 3: Strengthening Federal Oversight of the Family Health Program**

1. Developing and implementing a management model for family health that includes, *inter alia*, the following activities:
- (a) developing managerial roles and protocols for the management of basic health units;
  - (b) developing and implementing instruments and mechanisms for organizing and planning family health;



- (c) developing and implementing a results-based management system, including the development and application of performance-based contracts between municipal managers and family health teams;
  - (d) developing and disseminating instruments, manuals and training for linking financing to performance;
  - (e) developing and implementing cost accounting systems for family health, including software procurement and development; and
  - (f) hosting workshops and seminars to facilitate the development, dissemination and implementation of mechanisms for state and municipal health planning and reorganization.
2. Strengthening the quality of family health care by:
- (a) developing clinical guidelines for primary care management of specific diseases and conditions; and
  - (b) providing technical support and training for extension of a quality assessment system for basic care and family health.
3. Strengthening the formation of family health professionals by:
- (a) supporting specialization residencies and post-graduate degrees in family health;
  - (b) supporting research opportunities for family health professionals;
  - (c) supporting the development and implementation of family health curricula in medical and nursing schools;
  - (d) supporting the development of textbooks and training materials in family health;
  - (e) supporting the formulation and implementation of pre-service and in-service courses for family health professionals and paraprofessionals;
  - (f) supporting the development and implementation of inter-municipal cooperation plans for the sharing of best practices, cross-fertilization, pooled financing of training and horizontal technical assistance among participating municipalities;
  - (g) supporting the implementation of a national family health performance award; and



- (h) developing and implementing training and capacity building activities for Family Health Teams.
4. Supporting the Eligible States and Eligible Municipalities to develop training programs and capacity for research, monitoring and evaluation, and coordination and supervision by:
- (a) carrying out research and evaluative studies on equity, efficiency and quality of the Family Health Program's service organization and delivery; and
  - (b) preparing methodology and a plan for impact evaluation of family health services.
5. Consolidation and standardization of monitoring systems and instruments for basic care and family health care including, *inter alia*:
- (a) strengthening and standardizing monitoring systems to track performance of the Family Health Program and for gauging compliance with MOH-state-municipal agreements;
  - (b) revising the indicators used in monitoring systems for federal assessment of state and municipal performance in basic care and family health; and
  - (c) upgrading information systems including the development of integrated data systems to support the performance monitoring of the Family Health Program and basic care, including the reformulation of the existing systems.
6. Provision of support for Project coordination, through the provision of technical assistance, financing of incremental operating, operational and fiduciary staff (excluding civil servants), travel expenses (per diem, lodging and transportation) other than for training purposes, and provision of the necessary goods and equipment required under the Project.



## SCHEDULE 2

### Project Execution

#### Section I. Institutional and Other Arrangements

##### A. **Subsidiary Agreements and Institutional Arrangements.**

1. The Borrower shall:

- (a) through MOH, enter into an agreement with each Eligible Municipality under terms and conditions satisfactory to the Bank (the Municipal Subproject Agreement), substantially in accordance with the terms and conditions set forth in the relevant Model Subproject Agreement and the Operational Manual, setting forth, *inter alia*, in respect of each Municipal Subproject: (i) The Eligible Municipality's obligation to procure the goods, works and services, including the Prior Review Consultants, in accordance with the requirements of this Agreement and the contracting procedures and schedule for the goods, works and service set forth in the Municipal Subproject Agreement; (ii) MOH's right to suspend disbursements, or cancel amounts to be disbursed, as the case may be, in the event of non compliance by the Eligible Municipality with the obligations set forth in the Municipal Subproject Agreement; (iii) the independent procurement review requirements applicable to Eligible Municipalities for the Municipal Subprojects; and (iv) a list of the groups of Eligible Municipality expenditures that are eligible for financing by proceeds of the Loan; and
- (b) through MOH's Fund, disburse to each Eligible Municipality's health fund, the Municipal Subproject Transfers, but only after the Eligible Municipality has entered into the respective Municipal Subproject Agreement, all in accordance with the provisions of this Agreement and the terms and conditions of the Operational Manual.

2. The Borrower shall:

- (a) through MOH, enter into an agreement with each Eligible State under terms and conditions satisfactory to the Bank (the State Subproject Agreement), substantially in accordance with the terms and conditions set forth in the relevant Model Subproject Agreement and the Operational Manual, setting forth, *inter alia*, in respect of each State Subproject: (i) the Eligible State's obligation to procure the goods, and services; including the Prior Review Consultants, in accordance with the requirements of this Agreement and the contracting procedures and schedule for goods and services set forth in the State Subproject Agreement; (ii) MOH's right to suspend disbursements, or cancel amounts to be disbursed, as the case may be, in the event of non-compliance by the Eligible State with the obligations set forth in the State Subproject Agreement; (iii) the independent procurement review requirements applicable to Eligible States for the State Subprojects and (iv) a list of the groups of Eligible State expenditures that are eligible for financing by proceeds of the Loan; and



- (b) through MOH's Fund, disburse to each Eligible State's health fund, the State Subproject Transfers, but only after the Eligible State has entered into the respective State Subproject Agreement, all in accordance with the provisions of this Agreement and the terms and conditions of the Operational Manual.

3. The Borrower shall exercise its rights under each of the Municipal Subproject Agreements and State Subprojects Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of the Municipal Subproject Agreements or the State Subproject Agreements, or any of their provisions.

4. The Borrower shall maintain, until completion of the Project, within MOH, key staff in number and with qualifications, experience and functions satisfactory to the Bank, responsible for the management, coordination, supervision, monitoring and evaluation of the Project.

5. The Borrower shall carry out the Project in accordance with the provisions of the Operational Manual, satisfactory to the Bank, which manual to include, *inter alia*: (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof, such as the criteria for financial management and procurement assessment of municipalities and states and correspondent financial and procurement management risk level classification of such municipalities and states); (b) the criteria for the approval, implementation and monitoring of the Municipal Subprojects and State Subprojects; (c) a model agreement for each one of the type of subprojects to be implemented under the Project; (d) the Environmental Framework; and (e) the indicators to be used for Project monitoring and evaluation. In case of any inconsistency between any provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail. Any amendment on the Operational Manual shall be acceptable to the Bank.

## **B. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

## **Section II. Project Monitoring, Reporting, Evaluation.**

### **A. Project Reports.**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Performance Indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than two months after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months before the Closing Date.



**B. Financial Management, Financial Reports and Audits.**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions, for all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure (including customized statements of expenditure for Municipal Subprojects Transfers and State Subprojects Transfers).

2. Without limitation on the provisions of Part A of this Section the Borrower shall prepare and furnish to the Bank not later than one month after the end of each calendar semester interim unaudited financial reports for the Project covering the semester in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower and shall contain, *inter alia*:

(a) a separate opinion as to whether:

(i) (A) the statement of expenditure or the customized statements of expenditure; and (B) any required documents and other evidence 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; and

(ii) in respect of: (A) each audit other than for the last fiscal year, the amounts disbursed as Municipal Subproject Transfers and State Subproject Transfers were used or are available for use for goods, works, services and operating costs eligible for financing out of the proceeds of the Loan; and (B) in respect of the last audit of the Project, the amounts disbursed as Municipal Subproject Transfers and State Subproject Transfers during such year or in prior years, as the case may be, were used for goods, works, services and operating costs eligible for financing out of the proceeds of the Loan; and

(b) a management letter identifying any internal control weaknesses that may need to be addressed by the Borrower.

The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General.**

1. **Goods, Works and Non-Consulting Services.** All goods, works and non-consulting services (including those for the Municipal Subprojects and State Subprojects) required for the Project and to be financed out of the proceeds of the Loan, shall be procured in accordance with



the requirements set forth or referred to in Section I of the Procurement Guidelines, and in accordance with the provisions of this Schedule as the case may be.

**2. Consultants' Services.** All consultants' services (including those for Municipal Subproject and State Subproject) required for the Project and to be financed out of the proceeds of the Loan, shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and in accordance with the provisions of this Schedule, as the case may be.

**3. Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods, Works and Non-Consulting Services**

**1. International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

**2. Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant services. The Procurement Plan in respect of Part 3 of the Project and the Operational Manual in respect of Parts 1 and 2 of the Project, shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding, subject to the following additional procedures:  (i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;  (ii) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national circulation in Brazil;  (iii) the arrangements, under the invitation to bid, for joint-ventures ( <i>consórcios</i> ) of Brazilian and foreign firms shall be approved in advance



<p>by the Bank in each case;</p> <p>(iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and</p> <p>(v) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.</p>
(b) Shopping
(c) Direct Contracting.

3. **Special Provisions.** The following procedures shall apply in respect of Municipal Subprojects and State Subprojects:

(a) In competitive bidding procedures, contracts shall be awarded to the lowest evaluated bidder, and the lowest bidder should not be disqualified without sound reasons therefore.
(b) Records and information pertaining to the bidding and award of contracts shall be maintained by the Eligible Municipality or the Eligible State, as the case may be.
(c) The Eligible Municipality or the Eligible State, as the case may be, shall enable the carrying out of reviews of its procurement actions, including independent procurement reviews.
(d) The decisions emanating from any one of the governmental control institutions or the judicial branch (at the Federal, State or Municipal levels), identifying a case of misprocurement, shall be deemed by the Bank as constituting sufficient evidence of a local determination regarding misprocurement (without the need to have such decision confirmed by any other such institution or branch).

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services, including those procured under Municipal Subprojects and State Subprojects, shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan in respect of Part 3 of the Project and the Operational Manual in respect of Parts 1 and 2 of the Project shall specify the circumstances under which such methods may be used.





<b>Procurement Method</b>
(a) Selection Based on the Consultants' Qualifications
(b) Individual Consultants
(c) Single Source Selection
(d) Least Cost Selection
(e) Selection based on Fixed Budget

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General.**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.



### Allocation of Loan Proceeds

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures for which Loan Account withdrawals can be made
1. Goods and non-consultant services; Consultant services and Training (except for Municipal Subprojects and State Subprojects)	11,100,000	100%
2. Municipal Subproject Transfers and Prior Review Consultants disbursed by the MOH's Fund under each Municipal Subproject Agreement	55,000,000	100%
3. State Subproject Transfers and Prior Review Consultants disbursed by the MOH's Fund under each State Subproject Agreement	12,450,000	100%
4. Incremental Operational Costs	3,500,000	100%
5. Front-end fee	208,625	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
6. Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07 (c) of this Agreement
7. Unallocated	1,191,375	
<b>Total</b>	<b>83,450,000</b>	

2. For the purposes of this Section:

- (a) "non-consultant services" means printing services, production of videos, communication campaigns and communication costs;
- (b) the term "training" means expenditures (other than for consultants' services) incurred in connection with the carrying out of training, seminars, and workshops under the Project, including the reasonable travel cost, per-diem, lodging and transportation for trainers and trainees, as well as training materials and living expenses for students; and



- (c) the term “Incremental Operational Costs” means the following management and supervision costs incurred by MOH, to the extent they would not have been incurred absent the Project, including: (i) MOH’s fiduciary and operational staff assigned to the Project; and (ii) travel expenses (per-diem, lodging and transportation), other than for training purposes.

**B. Withdrawal Conditions; Withdrawal Period.**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals (other than under Categories (2) and (3) set forth in the table in Part A of this Section), up to an aggregate amount not to exceed \$8,000,000 equivalent may be made for payments made for Eligible Expenditures under the Project within twelve months before that date.
  - (b) under Categories (2) and (3) set forth in the table in Part A of this Section, if the Borrower, through MOH, shall have failed to furnish to the Bank by a date six months after the end of each of the Borrower’s fiscal years, together with the audits referred to in paragraph B.3 of Section II of Schedule 2 of this Agreement, such documents and other evidence showing, to the satisfaction of the Bank, that the amounts disbursed by the MOH’s Fund and covered by Categories (2), and (3), were used or are still available for use for goods, works, services and operating costs eligible for financing out of the proceeds of the Loan under the respective Category as confirmed by such audit report.
2. The Closing Date is March 30, 2013.



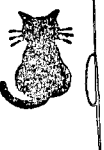
### SCHEDULE 3

#### Amortization Schedule

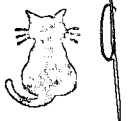
1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal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

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each February 15 and August 15	
Beginning August 15, 2013 through February 15, 2038	2%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
  - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.



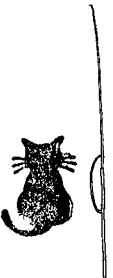
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.



## APPENDIX

### Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Basic Health Care Program” means the program set forth in article 1.2 and annexes 1 and 2 of NOAS-SUS 01/2001 and articles 9 and 12.1.1 of NOB-SUS 01/1996 and Portaria No. 648/2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Eligible State” means any of the Borrower’s 26 states and the Federal District.
6. “Environmental Framework” means the framework prepared by the Borrower and included in the Operational Manual, which sets out the environmental protection measures in respect of the Project.
7. “Eligible Municipality” means any of the municipalities with 100,000 or more inhabitants eligible for participating in Part 1 of the Project in accordance with the requirements of the Operational Manual.
8. “Family Health Program” means the program set forth in article 12.12 of NOB-SUS 01/1996 and in MOH’s regulation (*Portaria*) No. 648/2006.
9. “Family Health Teams” means the health professionals and other health workers selected for implementation of the Family Health Program.
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
11. “Model Subproject Agreement” means any of the model subproject agreements, including models for Municipal Subproject Agreements and State Subproject Agreements, to be included in the Operational Manual.
12. “MOH” means *Ministério de Saúde*, the Borrower’s Ministry of Health.
13. “MOH’s Fund” means *Fundo Nacional de Saúde*, the fund operating in accordance with the Borrower’s Decree No. 3964 of October 10, 2001.



14. "Municipal Subproject" means a subproject consisting of a set of activities described in the Family Health Program and the Basic Health Care Program to be carried out by an Eligible Municipality under Part 1 of the Project in accordance with the provisions of this Agreement, the Operational Manual and the terms of the Municipal Subproject Agreement.
15. "Municipal Subproject Agreements" means any of the agreements referred to in paragraph A.1 (a) of Section I of Schedule 2 of this Agreement.
16. "Municipal Subproject Transfer" means the amount transferred by the Borrower through the MOH's Fund to an Eligible Municipality as an advance to cover the costs of goods, works, services, training, and operating costs required for the implementation of the Municipal Subprojects.
17. "Operational Manual" means the manual for Project implementation prepared by the Borrower, dated March 18, 2008, and referred to in paragraph 5 of Section I of Schedule 2 of this Agreement.
18. "Performance Indicators" means the indicators set forth in the Operational Manual.
19. "Prior Review Consultants" means the consultants specified in the Municipal Subproject Agreements or the State Subproject Agreements for contracting following the selection procedures referred to in paragraphs C.1 and C.2 of Section III of Schedule 2 of this Agreement for which the prior review provision apply.
20. "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised October 2006.
21. "Procurement Plan" means the Borrower's procurement plan for the Project, dated March 18, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
22. "Program" means the program designed to enhance policies and strategies with respect to the public health sector in Brazil, and set forth or referred to in the letter dated January 29, 2002 from the Borrower to the Bank.
23. "State Subproject" means a subproject consisting of a set of activities described in the Family Health Program or the Basic Health Care Program to be carried out by an Eligible State under Part 2 of the Project in accordance with the provisions of this Agreement, the Operational Manual and the terms of the State Subproject Agreement.
24. "State Subproject Agreement" means any of the agreements referred to in paragraph A.2 (a) of Section I of Schedule 2 of this Agreement.
25. "State Subproject Transfer" means the amount transferred by the Borrower through the MOH's Fund to an Eligible State as an advance to cover the costs of goods, services, training, and operating costs required for the implementation of the State Subprojects.

