

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7632-BR

Loan Agreement

**(Health Network Formation and Quality Improvement Project – *QUALISUS-REDE*
Fase I)**

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 22, 2009

Public Disclosure Authorized

LOAN AGREEMENT

Agreement dated December 22, 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 two hundred thirty five million Dollars (\$235,000,000), 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 the cost of 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 out of the proceeds of the Loan 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 Variable 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 Notwithstanding the foregoing, if any amount of the withdrawn loan balance remains unpaid when due and such non payment continues for a period of thirty days, then the interest payable by the borrower shall be calculated as provided in section 3.02 (d) of the general conditions.
- 2.05. The Payment Dates are June 15 and December 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; and (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.
- (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.

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 Selected States with respect to Part 1 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 Event of Suspension consists of the following:
- (a) Any Selected State shall have failed to perform any of its obligations under its RHCN Subproject Agreement, and MOH shall have failed to exercise its remedies under such RHCN Subproject Agreement.
- (b) Notwithstanding the rights contained in Section 7.02 of the General Conditions, it is understood that, if the event specified in paragraph (a) 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 respective RHCN Subproject Agreement.

ARTICLE V—EFFECTIVENESS

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Operational Manual has been approved by the Bank and adopted by the Borrower.
- 5.02. The Additional Legal Matters consist of, namely, that the Loan Agreement has been duly registered with the Central Bank of Brazil.

- 5.03. 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 expires on July 28, 2011.

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: 55-61-3412-1740

With copy to:

Ministério da Saúde
Secretaria Executiva
Esplanada dos Ministérios, Bloco "G" – 3 andar
70058-900 Brasília, DF
Brazil

Facsimile: 55-61-33152889

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 Brasilia, Federal Republic of Brazil, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By/s/Ana Lucia Gatto de Oliveira
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Makhtar Diop
Authorized Representative

Witnessed by/s/ Jose Gomes Temporao

SCHEDULE 1

Description of the Project

The objectives of the Project are to: (i) improve the quality and efficiency of the Borrower's SUS RHCNs with emphasis on secondary-level health care, specialty, diagnostic and emergency centers, and logistical systems serving the Borrower's territory and population; and (ii) improve the effectiveness of the Borrower's SUS RHCNs delivery system to prevent, detect and treat priority health conditions in the Borrower's territory and population.

The Project constitutes the first 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: Development of RHCN and Strengthening of Health Care Facilities

Carrying out of RHCN Subprojects in Selected States for the development and implementation of regional and organized arrangements for coordinated or integrated care, as well as for the upgrading, quality enhancement, organizational reform and strengthening of management practices in facilities within the RHCNs, including a set of activities consisting of, *inter alia*, the following:

- (a) Configuration of RHCNs, including territorial demarcation, definition of population, assessment of population's health needs and disease priorities, as well as definition of delivery units and services.
- (b) Provision of support for the establishment of governance arrangements and management structures for RHCNs, including the introduction of alternative arrangements in hospitals included in the RHCNs.
- (c) Design and testing of pooled financing arrangements to finance RHCN services.
- (d) Design and implementation of monitoring and evaluation systems to measure, assess and improve performance of health services at both the regional and the facility levels.
- (e) Provision of support for the consolidation, horizontal integration and efficient management of support services, including pharmaceutical purchasing and supply, diagnostics, pathology and therapeutic services.
- (f) Provision of support for the organization and integration of patient flow administration, including electronic patient identification cards, appointment call centers, emergency dispatch systems and patient transport systems.
- (g) Development and application of clinical pathways for priority conditions or care processes such as hypertension, diabetes mellitus, cancer, and neo-natal care.
- (h) Provision of support for a care management model with the following features: (i) emphasis on primary care; (ii) management of chronic care; (iii) strengthening of health promotion, home care, and patient self-care; (iv) use of population-based risk assessment and classification methods to tailor patient-centered promotion, prevention and treatment programs; and (v) use of multidisciplinary teams across different providers.

- (i) Provision of support for organized management of referrals, bed assignment, diagnostic exams, specialty consultations and urgent/emergency care.
- (j) Provision of support for investments on information and communication technologies for the coordination of care across RHCNs, including: (i) electronic systems such as population registration, medical records, management information, standardized cost accounting, medication reminder systems, and knowledge retrieval; and (ii) communication and logistic information technologies to support referrals, call centers, telemedicine, emergency dispatchers systems, emergency and non-emergency transport systems, complaint and grievance lines, and provider contacts with patients and families.
- (k) Provision of support for investments in connection with the RHCNs to upgrade and equip existing health facilities, including the construction of ambulatory and diagnostic units, remodeling of health centers, polyclinics, and specific departments within hospitals, as well as the procurement of medical and non-medical equipment, furniture and patient transportation vehicles.
- (l) Strengthening of the capacity of Selected States, municipalities, RHCN management and facilities comprising each RHCN, to prepare, negotiate, monitor, evaluate and financially manage contracts.
- (m) Development and implementation of systematic processes to: (i) communicate health and network information to patients in an understandable manner; and (ii) receive feedback from patients on their health status and perceptions of the care received.
- (n) Design of a RHCN-wide continuous quality improvement program for the purposes of upgrading quality through identification, prevention, and correction of errors via continuous assessment, monitoring and strengthening of care delivery processes, through the delivery of the following clinical and service improvements: (i) facility licensure and accreditation (for hospitals and diagnostic units) and quality certification (for ambulatory medical units); (ii) strengthening of hospital quality control commissions; (iii) improvement of systems for the identification, prevention and correction of medical errors, adverse events and facility-acquired infections; (iv) redesign of care processes based on protocols; and (v) continuous monitoring of care processes.
- (o) Implementation of managerial processes to enhance efficiency of services and support functions, including, *inter alia*: (i) inventory and stock control; (ii) intra-facility resource allocation; (iii) purchasing and procurement; (iv) human resource management; (v) pharmaceutical distribution; (vi) control of intra-hospital transfers; and (vii) standardized cost accounting systems.
- (p) Development and implementation of a program to assess competencies, provide training, upgrade skills and continuously improve the performance of personnel and clinical staff in communicating with and providing services to patients.
- (q) Development and implementation of change management strategies aimed at changing providers' behaviors, work schedules and clinical practices for the purposes of engendering the participation and support of key stakeholders, especially physicians, nurses and other health workers.

Part 2: Systems Development for Performance Enhancement

Provision of support for the creation of an enabling institutional and systems environment to support the implementation of RHCN, improve quality and care management, promote alternative payment systems, and strengthen monitoring and impact evaluation, including a set of activities consisting of, *inter alia*, the following:

- (a) The evaluation and improvement of the Borrower's technological innovations and assessment capacity, through the preparation of research studies on the properties, clinical effects and economic impact of selected technologies identified by the Borrower, including data collection, analysis, review, dissemination and training.
- (b) The development of policies, strategies, instruments and systems to support the implementation of networks in the Borrower's territory, through, *inter alia*: (i) the development and testing of structures for RHCN governance; (ii) the development of a national policy in support of RHCNs; (iii) the development and testing of an accreditation system of RHCNs; (iv) the development and implementation of a continuing education program on care coordination; (v) the development and testing of information systems for patient identification cards, electronic medical record systems, and appointment and referral centers; (vi) the evaluation and strengthening of monitoring and auditing systems, as well as planning and management instruments used in SUS with a focus on supporting RHCNs; and (vii) the provision of support for the change in management practices in order to create an enabling institutional environment for RHCN Subproject implementation.
- (c) The provision of support to quality improvement activities at both the RHCN and facility levels, through, *inter alia*: (i) the preparation of a national quality improvement strategy; (ii) the development of a program to stimulate facility licensure and accreditation; and (iii) the establishment of national quality benchmarking and public reporting systems.
- (d) The development, testing and implementation of clinical pathways in support of care coordination for high priority diseases and conditions, including the development of risk classifications systems, through the carrying out of research on: (i) analyzing international experience in pathway development and implementation; and (ii) comparing the pathways to current practice patterns in the unified health system to determine the implications of pathway adoption with respect to quality and cost.
- (e) The strengthening of the Borrower's health financing and performance systems, through: (i) the development of payment mechanisms for RHCN and hospitals that provide clear incentives for efficiency; (ii) the implementation of national cost accounting systems for health care facilities; and (iii) the development and implementation of purchase agreements that link financing to performance.
- (f) The provision of support to the MOH in providing technical assistance, monitoring performance and designing an impact evaluation of the RHCNs that participate in Part 1 of the Project, as well as the provision of goods (information technology), training, travel expenses, and the provision of technical personnel supporting RHCN implementation at the regional level.

Part 3: Project Management

Provision of support to MOH for Project coordination, implementation and supervision, through the provision of technical assistance, non-consulting services, training, financing of incremental operating costs, technical personnel (excluding civil servants and seconded staff acting as consultants) costs, and provision of the necessary rehabilitation services, goods and equipment required under the Project.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Subsidiary Agreements.

1. For the purposes of implementing Part 1 of the Project, the Borrower shall:
 - (a) through MOH, enter into an agreement with each Selected State under terms and conditions satisfactory to the Bank (the RHCN Subproject Agreement), substantially in accordance with the terms and conditions set forth in the Model Subproject Agreement and the Operational Manual, setting forth, *inter alia*, in respect of each RHCN Subproject: (i) the structure, process and results indicators (related to results and implementation at specified intervals, both mandatory and elective, specified in the Operational Manual); (ii) the provisions applicable to each state to be rewarded for achieving the indicators referred to in (i) above, or penalized with a reduction of financing in cases of poor performance; (iii) the state's obligation to procure the goods, works and services for its Part of the Project, in accordance with the requirements of this Agreement and with the contracting procedures and schedule specified in the Procurement Plan for all goods, works and services (which plan shall form part of the RHCN Subproject Agreement); (iv) 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 Selected State with the obligations set forth in the RHCN Subproject Agreement; (v) a list of the activities eligible for financing by proceeds of the Loan under said RHCN Subproject; and (vi) the obligation of each state to carry out each RHCN Subproject in accordance with the provisions of the Anti-Corruption Guidelines;
 - (b) through MOH's Fund, disburse to each Selected State's health fund, the RHCN Subproject Allocations, but only after the Selected State has: (i) entered into the respective RHCN Subproject Agreement; (ii) established a RHCN Subproject coordination unit; (iii) provided training to RHCN Subproject coordinators; (iv) provided satisfactory evidence that a financial management system is in place; and (v) agreed to carry out a fiduciary action plan in those cases in which the Bank considers it necessary;
 - (c) ensure that the number of RHCN Subprojects to be financed under the Project do not exceed 15, and that at least 10 of said RHCN Subprojects should be implemented in metropolitan areas (a large urban area comprising two or more municipalities, as defined by Brazilian law); and
 - (d) exercise its rights under each of the RHCN Subproject 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 RHCN Subproject Agreements, or any of their provisions.

2. For the purposes of assisting MOH in the overall management of the Project, the Borrower shall maintain throughout the execution of the Project, within MOH:

- (a) key staff in number and with qualifications and experience acceptable to the Bank, including a Project coordinator, procurement specialists, a financial management specialist, technical experts and other personnel needed for the effective implementation of the Project. Said key staff will be responsible for, *inter alia*: (i) providing fiduciary and technical assistance to the Selected States; (ii) managing administrative and financial resources; (iii) enabling the carrying out of the auditing of the Project accounts, as well as the carrying out of reviews of MOH and Selected States' procurement actions; and (iv) keeping Project-related documents organized and filed; and
- (b) a technical consulting committee (*Comité Técnico Consultivo*) in charge of conducting Project-related strategic decisions and technical oversight. Said committee shall be formed by representatives of those secretariats within the MOH involved in the execution of the Project.

B. Anti-Corruption.

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

C. Safeguards and Operational Considerations.

1. The Borrower shall carry out the Project in accordance with the provisions of:

- (a) the Environmental Framework;
- (b) the Indigenous Peoples Planning Framework; and
- (c) a manual, satisfactory to the Bank, which includes, *inter alia*: (i) 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 states and correspondent financial and procurement management risk level classification of such states); (ii) the criteria for the approval, implementation and monitoring of the RHCN Subprojects; (iii) a model for RHCN Subproject Agreements; (iv) environmental guidelines for construction, including procedures to follow in case of unexpected findings of objects with possible cultural or archeological value; (v) a time-bound action plan for the proper transport and disposal of medical waste in health facilities, including general procedures for the separation, storage, transport, treatment and final disposal; (vi) the indicators to be used for Project monitoring and evaluation; (vii) the criteria to be applicable to Selected States for their potential ineligibility to participate in an eventual phase 2 of the Program; and (viii) a list of the activities that are eligible for financing by proceeds of the Loan. 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.

2. The Borrower, through MOH, not later than 30 days after the Effective Date shall appoint by *Portaria* to be issued by MOH, an expert panel with qualifications acceptable to the Bank, to evaluate and score the proposed RHCN Subprojects to be financed under the Project.

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 expenditures, including the expenditures paid out of the RHCN Subproject Allocations.

2. The Borrower, through MOH, 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) the statements of expenditures or the customized statements of expenditure, and 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 withdrawal; and (ii) the amounts disbursed as RHCN Subproject Allocations 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) a management letter identifying any internal control weaknesses at the central and decentralized levels 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.

3. Without limitation of the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank, not later than 45 days after the end of each calendar quarter, interim unaudited financial reports covering said quarter, in form and substance satisfactory to the Bank.

Section III. Procurement

A. General.

1. Goods, Works and Non-Consulting Services. All goods, works and non-consulting services 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 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 shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding (including in respect of goods, non-consultants' services and works, <i>convite, tomada de preços</i> and <i>concorrência</i> set forth in the Borrower's Law No. 8.666 of June 21, 1993, and, <i>pregão eletrônico</i> set forth in the Borrower's Law No. 10520 of July 17, 2002), subject to the following additional procedure, namely that the bidding documents shall be acceptable to the Bank.
(b) Shopping.
(c) Direct Contracting.

3. Special Provisions for Procurement under RHCN Subprojects. Goods, works and non-consultant services (other than procured using ICB Procedures) financed by RHCN Subproject Allocations under RHCN Subproject Agreements shall be procured in accordance with the Procurement Plan and the following provisions:

(a) Records and information pertaining to the bidding and award of contracts shall be maintained by the Selected State.
(b) The prior non-objection of the Bank shall be required for deviations from the Procurement Plan set forth in the RHCN Subproject Agreements, following the criteria set forth in the Operational Manual.
(c) Selected States shall enable the carrying out of audits of their procurement actions, including independent procurement audits.
(d) In case of expenditures procured in accordance with national competitive bidding procedures, 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.

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 RHCN 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 shall specify the circumstances under which such methods may be used.

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

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 or reimbursed 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, Non-consultant Services and Training and Incremental Operational Costs (other than those under Category (3) below)	10,000,000	100%
2. Consultant Services (other than those under Category (3) below)	19,000,000	100%
3. RHCN Subproject Allocations disbursed by MOH’s Fund under each RHCN Subproject Agreement	205,000,000	100%
4. Front-end fee	587,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions.
5. Unallocated	412,500	
Total	235,000,000	

2. For the purposes of this Section:

- (a) “Non-consultant Services” means printing services and other services of non-intellectual and advisory nature that can be procured on the basis of performance of measurable physical outputs;
- (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, logistics, as well as training materials and scholarships; and

- (c) the term “Incremental Operational Costs” means the following management and supervision costs, to the extent they would not have been incurred absent the Project, including: (i) maintenance of furniture and equipment; (ii) communication costs; 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 for payments made prior to the date of this Agreement, except that withdrawals (other than under Category (3) set forth in the table in Part A of the previous section), up to an aggregate amount not to exceed \$6,000,000 equivalent may be made for payments made for Eligible Expenditures under the Project within twelve months before that date, but after July 1, 2008.
2. The Closing Date is June 30, 2014.

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.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 15 and December 15 Beginning June 15, 2014 through December 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

A. Definitions

1. “Anti-Corruption Guidelines” means the “ Guidelines on Preventing and Combating Fraud and Corruption in Project Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “Environmental Framework” means the framework prepared by the Borrower, dated December 4, 2008, which sets out the environmental protection measures in respect of the Project.
5. “FUNASA” means *Fundação Nacional de Saúde*, the Borrower’s National Health Foundation, which was authorized to be established by the Borrower’s Law 8029 dated April 12, 1990, as modified by Law 8154 dated December 28, 1990.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
7. “Indigenous Peoples Plan” or “IPP” means the plan or plans to be prepared by the Borrower (through MOH with the assistance of FUNASA) under the IPPF (for those selected RHCN Subprojects located in municipalities with indigenous groups, as identified in MOH’s *Portaria* No. 2656 of October 17, 2007 or any subsequent MOH regulation), setting out the measures to be taken to ensure that indigenous peoples will not be harmed by the Project and to ensure their participation and involvement in the implementation and monitoring of the Project as it affects them.
8. “Indigenous Peoples Planning Framework” or “IPPF” means the framework prepared by the Borrower, dated December 4, 2008, and included in the Operational Manual, which includes, *inter alia*, the type of RHCN Subprojects likely to be proposed for financing under the Project, the potential positive and adverse effects that such RHCN Subprojects may have on indigenous peoples, a plan for carrying out social assessment for such RHCN Subprojects, monitoring and reporting arrangements and disclosure arrangements for IPPs to be prepared under the IPPF, for all those cases when a selected RHCN Subproject is located in municipalities with indigenous groups, as identified by the Borrower’s MOH’s *Portaria* No. 2656 of October 17, 2007 or any subsequent MOH regulation.
9. “MOH” means *Ministério da Saúde*, the Borrower’s Ministry of Health.

10. “MOH’s Fund” means *Fundo Nacional de Saúde*, the fund operating in accordance with the Borrower’s Decree No. 3964 of October 10, 2001.
11. “Operational Manual” means the manual for Project implementation, dated December 4, 2008, prepared by the Borrower and referred to in paragraph C.1(c) of Section I of Schedule 2 of this Agreement.
12. “Performance Indicators” means the Project monitoring and evaluation indicators set forth in the Operational Manual.
13. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
14. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 4, 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.
15. “Program” means the Borrower’s Health Network Formation and Quality Improvement Program (*QUALISUS-REDE*), a program designed for the improvement of health service delivery, focusing on strengthening the efficiency, quality and governance of a range of primary and specialized health care settings by forming regionalized networks. Said program is set forth or referred to in the letter dated October 9, 2008 from the Borrower to the Bank.
16. “RHCN” means regional healthcare networks, designed to provide regional organized arrangements for coordinated or integrated care.
17. “RHCN Subproject” means a subproject consisting of a set of activities described in the Program (as hereinafter defined) to be carried out by a Selected State under Part 1 of the Project in accordance with the provisions of this Agreement, the Operational Manual and the terms of the relevant RHCN Subproject Agreement.
18. “RHCN Subproject Agreements” means any of the agreements referred to in paragraph A.1(a) of Section I of Schedule 2 of this Agreement.
19. “RHCN Subproject Allocation” means the amount disbursed by the Borrower through the MOH’s Fund to a Selected State to cover the costs of goods, works, services (excluding civil servants and seconded staff acting as consultants), training, and operating costs required for the implementation of the RHCN Subprojects.
20. “Selected State” means any of the Borrower’s 26 states and its Federal District that meets the criteria set forth in the Operational Manual and has been selected to receive RHCN Subproject Allocations.
21. “SUS” means *Sistema Único de Saúde*, the Borrower’s unified health system, integrating federal, state and municipal delivery systems, as referred to in Article 198 paragraph 1 and Article 200 of the Borrower’s Constitution.

