

**CONFORMED COPY**

**LOAN NUMBER 7227-BR**

## **Loan Agreement**

**(Second Disease Surveillance and Control Project – VIGISUS II)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated November 3, 2004**

**LOAN NUMBER 7227-BR**

**LOAN AGREEMENT**

AGREEMENT, dated November 3, 2004, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated July 30, 1998 which describes the Borrower's policies, strategies and activities to strengthen the Borrower's Disease Surveillance and Control System (the Program);

(B) the Borrower has requested that the Bank support the Program through a series of three loans to the Borrower over a period of approximately eight years;

(C) by an agreement dated December 11, 1998 between the Borrower and the Bank (the First Loan Agreement) the Bank granted to the Borrower a loan in a principal amount in various currencies equivalent to one hundred million Dollars (\$100,000,000) to assist in the financing of the first phase of the Program (the First Phase Project);

(D) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms part of the second phase of the Program, has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

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

Paragraph (c) of Section 9.07 of the General Conditions 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 Borrower and the Bank, the Borrower shall through MOH prepare and furnish to the Bank a report, of such scope and in such detail as the Bank 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 Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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

(a) “Base Surveillance Subproject” means a Second Phase Surveillance Subproject to be carried out by an Eligible State or an Eligible Municipality which ranked as regular performer in the review referred to in Section 3.04 (c) (ii) (A) of this Agreement, in accordance with the provisions of this Agreement and the terms of a revised, if needed, Surveillance Subproject Implementation Agreement;

(b) “Bonus Surveillance Subproject” means a Second Phase Surveillance Subproject to be carried out by an Eligible State or an Eligible Municipality who ranked as high performer in the review referred to in Section 3.04 (c) (ii) (A) of this Agreement, in accordance with the provisions of this Agreement and the terms of a revised Surveillance Subproject Implementation Agreement to reflect additions in financing with respect to the First Phase Surveillance Subproject;

(c) “Communicable Disease Control Training and Capacity Building Subproject” means a Demand Driven Subproject or a Supply Driven Subproject consisting of training and capacity building activities related to the subjects listed in Parts A.1 (a), (b), (c), (d), (e), (f), (g) and (i) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(d) “Communicable Disease Control Research Subproject” means a Demand Driven Subproject or a Supply Driven Subproject consisting of research activities related to the subjects listed in Parts A.1 (c), (d), (f) and (g) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(e) “Demand Driven Subproject” means a subproject to be carried by an Implementation Entity selected by MOH in accordance with the competitive selection procedures set forth in the Operational Manual;

(f) “Eligible Municipality” means any of the municipalities eligible for participating in Parts A.4 or B.4 of the Project in accordance with the requirements of the Operational Manual;

(g) “Eligible State” means any of the states eligible for participating in Parts A.4 or B.4 of the Project in accordance with the requirements of the Operational Manual;

(h) “Emergency Surveillance Subproject” means a Second Phase Surveillance Subproject to be carried out by an Eligible State or an Eligible Municipality which ranked as a deficient performer in the review referred to in Section 3.04 (c) (ii) (A) of this Agreement, in accordance with the terms of this Agreement and the terms of a revised Surveillance Subproject Implementation Agreement to reflect modifications or reductions in financing with respect to the First Phase Surveillance Subproject;

(i) “Environmental Health Training and Capacity Building Subproject” means a Supply Driven Subproject consisting of training and capacity building activities related to the subjects listed in Parts A.2 (a), (b), (c), (d), (f), (g), (h) and (i) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(j) “Environmental Health Research Subproject” means a Demand Driven Subproject or a Supply Driven Subproject consisting of research activities related to the subjects listed in Parts A.2 (b) (d), (e) and (f) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(k) “Environmental Management Actions” means MOH’s environmental management guidelines and actions for the Project set forth in the document furnished by the Borrower to the Bank on April 8, 2004;

(l) “Epidemiology and Disease Control Program” means the Borrower’s program for epidemiology and disease control set forth in MOH’s Portaria No. 1399 of December 15, 1999 which is part of the Program defined in the Preamble to this Agreement;

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

(n) “First Phase Surveillance Subproject” means the portion of the Surveillance Subproject to be carried out during the first half of its implementation period;

(o) “First Phase Surveillance Subproject Transfers” and “Second Phase Surveillance Subproject Transfers” means the amount transferred by the Borrower through the MOH’s Fund to an Eligible State’s health fund or an Eligible Municipality’s health fund as an advance to cover the costs of goods, works, services, incremental operating costs and non-incremental operating costs required for the implementation of their respective Surveillance Subproject;

(p) “Fiscal Year” means the Borrower’s fiscal year which commences January 1;

(q) “FUNASA” means *Fundação Nacional de Saúde*, the Borrower’s National Health Foundation, which was authorized to be established by the Borrower’s Law (*Lei*) 8029 dated August 12, 1990, as modified by Law 8154 dated December 28, 1990, and is operating in accordance with the Borrower’s Decree (*Decreto*) No. 4727 dated June 9, 2003;

(r) “FUNASA Agreement” means the agreement referred to in Section 3.01 (f) of this Agreement;

(s) “FUNASA PCU” means the unit referred to in Section 3.01 (b) (ii) of this Agreement;

(t) “Group 3 Eligible State” and “Group 3 Eligible Municipality” means respectively an Eligible State or an Eligible Municipality rated by MOH as posing a high risk of non-compliance with the procurement requirements of a Surveillance Subproject;

(u) “Health Situation Analysis Research Subproject” means a Demand Driven Subproject or Supply Driven Subproject consisting of research activities related to the subjects listed in Parts A.3 (a), (b), (c) and (d) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(v) “Health Situation Analysis Training and Capacity Building Subproject” means a Demand Driven or a Supply Driven Subproject consisting of training and capacity building activities related to the subjects listed in Parts A.3 (a), (b), (c) and (d) of the Project, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual;

(w) “Health Surveillance Institutional Development Subproject” or “Surveillance Subproject” means a subproject consisting of implementation of a Surveillance Development Plan (PLANVIGI) and a set of activities of the Epidemiology and Disease Control Program to be carried out by an Eligible State or an Eligible Municipality under Part A.4 of the Project, as a First Phase Surveillance Subproject and a Second Phase Surveillance Subproject, in accordance with the provisions of this Agreement and the terms of the Surveillance Subproject Implementation Agreement;

(x) “ICB Goods” means the goods specified in the Surveillance Subproject Implementation Agreement for procurement following the international competitive bidding procedures referred to in Schedule 4, Section I, Part B.1 of this Agreement;

(y) “Implementation Entity” means a governmental education agency, university, research center, center of excellence, laboratory, OSC, foundation, association or other entity, with its own legal personality, which meets the criteria and other requirements set forth in the Operational Manual to carry out a Research Subproject and/or a Training and Capacity Building Subproject;

(z) “Implementation Entity Agreement” means any of the agreements referred to in Section 3.01 (e) of this Agreement;

(aa) “Indigenous Community” means a legally established community-based organization of Indigenous Peoples or an OSC acting on its behalf;

(bb) “Indigenous Community Grant Agreement” means any of the agreements referred to in Section 3.01 (f) (i) (A) (I) of this Agreement;

(cc) “Indigenous Community Subproject” means a subproject to be carried out by an Indigenous Community under Part B.3 of the Project and consisting of activities designed to improve the health of such community, which subproject is eligible for financing out of the proceeds of the Loan in accordance with the procedures and other requirements set forth in the Operational Manual;

(dd) “Indigenous Peoples” means the indigenous peoples recognized as such by the Borrower’s *Fundação Nacional do Índio*, the National Indian Foundation operating in accordance with the Borrower’s Decree No. 4645, dated March 25, 2003, as eligible to benefit from the constitutional and other legal protection as indigenous peoples;

(ee) “Indigenous Peoples and *Quilombolas* Action Plan” means FUNASA’s guidelines and actions for benefiting indigenous peoples and *Quilombolas* under the Project as set forth in the document furnished by FUNASA to the Bank on April 8, 2004;

(ff) “Model Implementation Entity Agreement” means the model Implementation Entity Agreement set forth in the Operational Manual;

(gg) “Model Indigenous Community Grant Agreement” means the model Indigenous Community Grant Agreement set forth in the Operational Manual;

(hh) “Model Surveillance Subproject Implementation Agreement” means the model Surveillance Subproject Implementation Agreement set forth in the Operational Manual;

(ii) “Model Water and Sanitation Subproject Agreement” means the model Water and Sanitation Subproject Agreement set forth in the Operational Manual;

(jj) “MOH” means *Ministério da Saúde*, the Borrower’s Ministry of Health;

(kk) “MOH’s Fund” means *Fundo Nacional de Saúde*, the fund operating in accordance with the Borrower’s Decree No. 3964 of October 10, 2001;

(ll) “Official Gazette” means the Borrower’s official gazette;

(mm) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(nn) “OSC” means a civil society organization operating in the Borrower’s territory with juridical personality granted in accordance with the Borrower’s laws;

(oo) “Performance Indicators” means the indicators set forth in the letters from MOH and FUNASA to the Bank dated April 8, 2004;

(pp) “Procurement Law” means the Borrower’s following procurement laws: Law No. 8666 published in the Official Gazette on June 21, 1993, as amended to the date of this Agreement, Law 10.191 of February 14, 2001, and Law 10520 of July 17, 2002;

(qq) “QCBS Consultants” means the consultants specified in the Surveillance Subproject Implementation Agreement for contracting following the quality and cost-based selection procedures referred to in Schedule 4, Section IV, Part B.1 of this Agreement;

(rr) “*Quilombolas*” means the communities of African descendants referred to in Transitory Article 68 of the Borrower’s Constitution;

(ss) “Research Subprojects” means collectively the Communicable Disease Control Research Subprojects, the Environmental Health Research Subprojects, and the Health Situation Analysis Research Subprojects;

(tt) “Second Phase Surveillance Subproject” means the portion of the Surveillance Subproject to be carried out during the second half of its implementation period;

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

(vv) “SPIV” means the planning, financial and monitoring management system of the Project described in the Operational Manual;

(ww) “Supply Driven Subproject” means a subproject to be carried out by an Implementation Entity selected, due to the strategic nature of the subproject, in accordance with the non-competitive procedures set forth in the Operational Manual;

(xx) “Surveillance Development Plan (PLANVIGI)” means a plan for the strengthening of the public health surveillance and disease control system for communicable and non-communicable diseases, environmental health and health situation analysis proposed by an Eligible State or an Eligible Municipality and approved by MOH in accordance with the provisions of the Operational Manual;

(yy) “Surveillance Subproject Implementation Agreement” means any of the agreements referred to in Section 3.01 (c) of this Agreement;

(zz) “Surveillance Subproject Transfers” means collectively First Phase Surveillance Subproject Transfers and Second Phase Surveillance Subproject Transfers;

(aaa) “SUS” means *Sistema Único de Saúde*, the Borrower’s health system integrating federal, state and municipal delivery systems referred to in Article 198 paragraph 1 and Article 200 of the Borrower’s Constitution;

(bbb) “SVS” means the Borrower’s Secretariat for Health Surveillance within MOH;

(ccc) “SVS PCU” means the unit referred to in Section 3.01 (b) (i) of this Agreement;



(ddd) “Training and Capacity Building Subprojects” means collectively the Communicable Disease Control Training and Capacity Building Subprojects, the Environmental Health Training and Capacity Building Subprojects, and the Health Situation Analysis Training and Capacity Building Subprojects;

(eee) “Water and Sanitation Subproject” means a subproject to be carried out by an OSC, an Eligible State or an Eligible Municipality, for the benefit of *Quilombolas* under Part B.4 of the Project, which subproject is eligible for financing out the proceeds of the Loan in accordance with the criteria and other requirements set forth in the Operational Manual; and

(fff) “Water and Sanitation Subproject Agreement” means any of the agreements referred to in Section 3.01 (f) (i) (A) (II) of this Agreement.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to ninety-nine million five hundred thousand Dollars (\$99,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and Surveillance Subproject Transfers required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for purposes of the Project, open and maintain in Dollars a separate special deposit account in its Central Bank, or a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including in the event it is opened in a commercial bank, appropriate protection against set-off, seizure and attachment. 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. The Closing Date shall be December 31, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in the amount of five hundred thousand Dollars (\$500,000). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

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

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

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

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

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

Section 2.10. The Minister of Health in respect of Parts A and C (other than C.1 (b)) of the Project, and the President of FUNASA in respect of Part B and C.1 (b) of the Project, or any person or persons whom they shall respectively designate in writing, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end, shall:

- (i) through MOH carry out Parts A and C of the Project (other than C.1 (b) thereof), with the assistance of: (i) Implementation Entities in respect of Parts A.1 (j), A.2 (j) and A.3 (f) of the Project, and (ii) Eligible States and Eligible Municipalities in respect of Part A.4 of the Project, and
- (ii) under the terms of the FUNASA Agreement, cause FUNASA to carry out Parts B and C.1 (b) of the Project, with the assistance of: (i) Indigenous Communities in respect of Part B.3 of the Project, and (ii) Eligible States, Eligible Municipalities and OSCs in respect of Part B.4 of the Project,

all with due diligence and efficiency and in conformity with appropriate health, economic, technical, administrative, financial, social and environmental practices (including the Environmental Management Actions) and shall provide and cause to be

provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall:
  - (i) through MOH establish and thereafter maintain, during the implementation of the Project, a coordination unit in SVS (the SVS PCU); and
  - (ii) cause FUNASA to establish and thereafter maintain, during the implementation of the Project, a coordination unit (the FUNASA PCU),

both with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank.

(c) The Borrower shall, through MOH, enter into an agreement (*Termo de Adesão*) with each Eligible State and Eligible Municipality carrying out Surveillance Subprojects under terms and conditions satisfactory to the Bank, substantially in accordance with the terms of the Model Surveillance Subproject Implementation Agreement, setting forth, *inter alia*, in respect of each Surveillance Subproject:

- (i) the Eligible State's and Eligible Municipality's obligation:
  - (A) to carry out the Surveillance Subproject and to meet the performance benchmarks set forth in the Surveillance Development Plan (PLANVIGI);
  - (B) to procure the goods, works and services in accordance with:
    - (I) the requirements of this Agreement; and
    - (II) the contracting procedures applicable to the list of all goods, works and services certified by MOH, including all the ICB Goods and QCBS Consultants (which list shall form part of the Surveillance Subproject Implementation Agreement) and any amendments thereof

approved as per the requirements of the Operational Manual;

- (C) to keep records and accounts for the expenditures financed under the Surveillance Subproject;
  - (D) to utilize the proceeds of the Surveillance Subproject Transfers and provide information to MOH on the use thereof in accordance with the procedures set forth in the Operational Manual; and
  - (E) to enable the Bank to review the Eligible State's and Eligible Municipality's accounts and other information as the Bank shall reasonably request in respect of the Surveillance Subproject and the Epidemiology and Disease Control Program as they relate to the implementation of such Subprojects;
- (ii) the schedule of disbursements, by MOH's health fund to the Eligible State's health fund and Eligible Municipality's health fund, of the Surveillance Subproject Transfers;
- (iii) (A) the institutional and technical requirements for the implementation of the Surveillance Subproject and the Epidemiology and Disease Control Program;
  - (B) the financial and procurement requirements for the implementation of the Surveillance Subproject and the Epidemiology and Disease Control Program as they relate to the Surveillance Subproject;
  - (C) to qualify for implementation of the Second Phase Surveillance Subproject pursuant to the terms of the relevant Surveillance Subproject Implementation Agreement as an Emergency Surveillance Subproject, a Bonus Surveillance Subproject, or a Base Surveillance Subproject; and
  - (D) to determine successful completion of the Surveillance Subproject;

- (iv) the requirements for auditing the Surveillance Subprojects and selected expenditures under the Epidemiology and Disease Control Program;
- (v) the independent procurement review requirements applicable to Eligible States and Eligible Municipalities for the Surveillance Subprojects;
- (vi) 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 or Eligible Municipality with the obligations set forth in the Surveillance Subproject Implementation Agreement; and
- (vii) a list of expenditures that are eligible for financing by proceeds of the Loan.

(d) The Borrower shall, through the MOH's Fund, disburse to each Eligible State's health fund or Eligible Municipality's health fund, as the case may be, the Surveillance Subproject Transfers in accordance with the provisions of this Agreement.

(e) The Borrower shall, through MOH, enter into an agreement with each Implementation Entity, under terms and conditions satisfactory to the Bank, substantially in accordance with the Model Implementation Entity Agreement, setting forth, *inter alia*, the Implementation Entity's obligation to carry out the Research Subproject or the Training and Capacity Building Subproject, as the case may be.

(f) The Borrower shall, through MOH, enter into an agreement with FUNASA under terms and conditions satisfactory to the Bank, setting forth, *inter alia*:

- (i) FUNASA's obligation to carry out Parts B and C.1 (b) of the Project in accordance with the provisions of this Agreement and the schedules thereof, and including,
  - (A) FUNASA's obligation to enter into agreements, satisfactory to the Bank:
    - (I) substantially in accordance with the Model Indigenous Community Grant Agreement, with the Indigenous Communities carrying out Indigenous Community Subprojects; and

- (II) substantially in accordance with the Model Water and Sanitation Subproject Agreement with each OSC, Eligible State and Eligible Municipality carrying out Water and Sanitation Subprojects; and
  
- (B) FUNASA's obligation to exercise its rights and carry out its obligations under the FUNASA Agreement, and each Indigenous Community Grant Agreement and Water and Sanitation Subproject Agreements in such manner as to protect the interests of the Borrower, FUNASA and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, FUNASA shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any of the Indigenous Community Grant Agreements and Water and Sanitation Subproject Agreements; and
  
- (ii) the Borrower's obligation to make available through MOH to FUNASA the proceeds of the Loan allocated to Parts B and C.1 (b) of the Project.
  
- (g) The Borrower shall through MOH:
  - (i) (A) exercise its rights and carry out its obligations under the FUNASA Agreement, and each Implementation Entity Agreement and Surveillance Subproject Implementation Agreement; and
  
  - (B) except as the Bank shall otherwise agree, not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the FUNASA Agreement, or any Implementation Entity Agreement or Surveillance Subproject Implementation Agreement; and
  
  - (ii) (A) cause FUNASA to carry out its obligation to and exercise its rights under each Indigenous Community Grant Agreement and Water and Sanitation Subproject Agreement, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and

- (B) cause FUNASA not to assign, amend, abrogate, suspend, waive, terminate or fail to enforce any Indigenous Community Grant Agreement or Water and Sanitation Subproject Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan, as well as those to be financed by the MOH's Fund disbursements for Surveillance Subproject Transfers under Surveillance Subproject Implementation Agreements, shall be governed by the provisions of Schedule 4 to this Agreement.

(b) Without prejudice to the provisions of Section 6.03 (d) of the General Conditions (and as a supplement to the terms of paragraph 1.13 of the Guidelines referred to in Schedule 4 to this Agreement and paragraph 1.18 of the Consultant Guidelines also referred to in said Schedule), if, at any time, the Bank determines that the procurement of any contract to be financed by the MOH's Fund disbursements for Surveillance Subproject Transfers under Surveillance Subproject Implementation Agreements is not in the eligible list of goods and services or is inconsistent with the procedures set forth or referred to in this Agreement or in the relevant Surveillance Subproject Implementation Agreement, the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to eighty four percent (84%) of the amount of expenditures in respect of such contract. Upon the giving of such notice, such amount of the Loan shall be cancelled.

Section 3.03. The Borrower shall through MOH and FUNASA carry out the Project in accordance with an operational manual, satisfactory to the Bank, said 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 works/goods/services list model, and the criteria for financial management and procurement assessments of Eligible States and Eligible Municipalities and correspondent financial and procurement management risk level classification of such Eligible States and Eligible Municipalities (including Group 3 Eligible States and Group 3 Eligible Municipalities);

(b) the criteria for the approval, implementation and monitoring of First Phase Surveillance Subprojects, including the Surveillance Development Plans (PLANVIGI) thereof, and for implementation of Second Phase Surveillance Subprojects;

(c) a model agreement for implementation of Surveillance Subprojects;



- (d) a model agreement for implementation of Research Subprojects and Training and Capacity Building Subprojects;
- (e) a model agreement for implementation of Indigenous Community Subprojects;
- (f) a model agreement for implementation of Water and Sanitation Subprojects;
- (g) the Environmental Management Actions and the Indigenous Peoples and *Quilombolas* Action Plan; and
- (h) the modalities of implementation, under performance-based agreements with FUNASA, for the delivery of health services by governmental and non-governmental entities.

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

Section 3.04. The Borrower shall through MOH:

- (a) maintain in respect of Parts A and C (other than C.1 (b) of the Project), and cause FUNASA to maintain in respect of Parts B and C.1 (b) of the Project, policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of their respective parts of the Project and the achievement of the objectives thereof;
- (b) prepare, and cause FUNASA to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and semiannually thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of their respective parts of the Project during the period preceding the date of such 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;
- (c) (i) review and cause FUNASA to review, with the Bank, within no more than two months after such report's preparation, the report referred to in paragraph (b) of this Section; and

- (ii) review, and cause FUNASA to review, as the case may be (the Mid-Term Review), with the Bank, not later than twenty-four months from the date of this Agreement: (A) the technical performance evaluation of the Eligible States and Eligible Municipalities in their respective First Phase Surveillance Subprojects; (B) the cost structures developed under Part C.3 of the Project; (C) the effectiveness of the implementation arrangements for the Water and Sanitation Subprojects; and (D) the effectiveness of the implementation of FUNASA's new: (I) management model; and (II) performance management models, including the performance-based agreements with providers of health services to Indigenous Peoples related thereto; and

(d) 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 reports and the Bank's views on the matter.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall through MOH and FUNASA:

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

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

Section 3.06. The Borrower shall, through MOH, furnish to the Bank for its prior review and approval:

(a) any modification to the list of goods, works and services certified by MOH and included in a Surveillance Subproject of a Group 3 Eligible State or Group 3 Eligible Municipality; and

(b) all Research Subprojects estimated to cost \$350,000 equivalent or more; and (ii) all Training and Capacity Building Subprojects estimated to cost \$200,000 equivalent or more.

Section 3.07. The Borrower shall through MOH cause FUNASA to carry out the Indigenous Peoples and *Quilombolas* Action Plan.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall: (i) through MOH maintain in respect of Parts A and C (other than C.1 (b)) of the Project; and (ii) cause FUNASA to maintain in respect of Parts B and C.1 (b) of the Project, a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to their respective parts of the Project.

(b) The Borrower shall through MOH, in respect of Parts A and C (other than C.1. (b)) of the Project, and shall cause FUNASA in respect of Parts B and C.1 (b) of the Project to:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank 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 Bank): (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 Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure or statements of transfer as cited in paragraph 4 (e) of Schedule 1 to this Agreement, the Borrower through MOH shall in respect of Parts A and C (other than C.1 (b)) of the Project, and shall cause FUNASA in respect of Parts B and C.1 (b) of the Project, to:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last

withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that: (I) such statements of expenditure or statement of transfer; and (II) the records and other evidence referred to in paragraph 3 (d) of Schedule 1 to this Agreement submitted during such fiscal year are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall prepare through MOH in respect of Parts A and C (other than C.1 (b)) of the Project, cause FUNASA to prepare in respect of Parts B and C.1 (b) of the Project, and furnish to the Bank, financial monitoring reports (including a special one for Part A.4 of the Project), in form and substance satisfactory to the Bank, which:

- (i) set 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 Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describe 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) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMRs shall be furnished to the Bank 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 Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Bank**

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

(a) FUNASA shall have failed to perform any of its obligations under the FUNASA Agreement.

(b) Any Eligible State or Eligible Municipality shall have failed to perform any of its obligations under a Surveillance Subproject Implementation Agreement, and MOH shall have failed to exercise its remedies under such Surveillance Subproject Implementation Agreement.

Without limiting the rights contained in Section 6.02 of the General Conditions, it is understood that: (i) if any event specified in paragraph (a) of this Section 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 FUNASA Agreement; and (ii) if any of the events specified in paragraph (b) of this Section 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 Surveillance Subproject Implementation Agreement.

## **ARTICLE VI**

### **Effective Date; Termination**

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

(a) the Borrower, through MOH and FUNASA, has adopted the Operational Manual;

(b) the SVS PCU and the FUNASA PCU have been established and staffed with key personnel, in numbers and experience approved by the Bank; and

(c) the Borrower, through MOH and FUNASA, has implanted the SPIV at the central level in a manner satisfactory to the Bank.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Loan provided for in this Agreement has been duly registered by the Borrower's Central Bank.

Section 6.03. The date February 3, 2005, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministério da Fazenda  
Procuradoria Geral da Fazenda Nacional  
Esplanada dos Ministérios, Bloco "P" - 8º andar  
70048-900 Brasília, DF  
Brazil

Facsimile: 55-61-226-2502

With copy to MOH:

Ministério da Saúde  
Secretaria de Vigilância em Saúde  
Esplanada dos Ministérios, Bloco "G" - 1º Andar  
70058-900 Brasília DF  
Brazil

Facsimile: 55-61-223-1168

With copy to FUNASA:

Fundação Nacional de Saúde  
SAS – Quadra 4 – Bloco N  
70070-040 Brasília DF  
Brazil

Facsimile: 55-61-226-7149

With copy to:

SEAIN - Secretaria de Assuntos Internacionais  
Ministério do Planejamento, Orçamento e Gestão  
Esplanada dos Ministérios - Bloco “K” - 5º Andar  
70040-906 Brasília, DF  
Brazil

Facsimile: 55 61 225-4022

For the Bank:

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

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

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Maurício Cardoso Oliva  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Antonio Rocha Magalhães  
Authorized Representative



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works for Parts A and B of the Project (other than for Surveillance Subprojects, Research Subprojects, Training and Capacity Building Subprojects, Indigenous Community Subprojects and Water and Sanitation Subprojects)	6,500,000	50%
(2) Goods for Parts A, B and C of the Project (other than for Surveillance Subprojects, Research Subprojects, Training and Capacity Building Subprojects, Indigenous Community Subprojects and Water and Sanitation Subprojects)	22,800,000	60%
(3) Consultants' Services	6,900,000	60%
(4) Training (other than for Training and Capacity Building Subprojects)	8,200,000	50%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) Incremental Operating Costs	3,500,000	65% until the aggregate disbursed under this Category reaches \$1,500,000; 40% until the aggregate disbursed under this Category reaches \$2,500,000; and 20% thereafter
(6) (a) Research Subprojects and Training and Capacity Building Subprojects	4,800,000	60% of expenditures for goods, works or services under the respective Subproject
(b) Indigenous Community Subprojects	1,500,000	84% of expenditures for goods, works and services under the respective Subproject
(c) Water and Sanitation Subprojects	2,800,000	60% of expenditures for goods, works and services under the respective Subproject
(7) Surveillance Subprojects:		
(a) First Phase Surveillance Subproject Transfers disbursed by the MOH's Fund under each Surveillance Subproject Implementation Agreement	17,400,000	84%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(b) Second Phase Surveillance Subproject Transfers disbursed by the MOH's Fund under each Surveillance Subproject Implementation Agreement		
(i) Bonus Surveillance Subprojects	2,700,000	84%
(ii) Base Surveillance Subprojects	13,200,000	84%
(iii) Emergency Surveillance Subprojects	2,700,000	84%
(c) ICB Goods	200,000	84%
(d) QCBS Consultants	200,000	84%
(8) Front end fee	500,000	Amount due under Section 2.04 of this Agreement
(9) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(10) Unallocated	5,600,000	
TOTAL	<u>99,500,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “training” means expenditures (other than for consultants’ services) incurred in connection with the provision of training under Parts A and B of the Project, including the reasonable travel cost and per-diem of the trainees, training institutions fees, logistics, and materials; and

(b) the term “incremental operating costs” means the following costs to the extent they would not have been incurred absent the Project: (i) costs incurred by the SVS PCU and the FUNASA PCU for utilities, maintenance and consumable office supplies; (ii) technical staff (excluding civil servants and seconded staff acting as consultants); and (iii) costs for the implementation of the procurement reviews referred to in Parts C.1 (b) and C.2 of the Project.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals (other than under Category (7) set forth in the table in paragraph 1 of this Schedule), in an aggregate amount not exceeding \$10,000,000, may be made on account of payments made for expenditures incurred within twelve months before that date (but in no case incurred before February 2, 2004);

(b) payments covered by Category (7) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) the regulations setting forth the requirements for the implementation and financing of Surveillance Subprojects have been issued by MOH;
- (ii) the respective Surveillance Subproject Implementation Agreement has been entered into with the Eligible State or Eligible Municipality and the respective Eligible Municipality has implanted the financed management and procurement modules of the SPIV; and
- (iii) the financial and procurement assessment of all the Eligible States and Eligible Municipalities participating in Part A.4 of the Project has been completed to the satisfaction of the Bank.

(c) payments covered by Category (7) (b) (Second Phase Surveillance Subprojects) set forth in the table in Paragraph 1 of this Schedule, unless:

- (i) a report satisfactory to the Bank, containing the ranking of Eligible States and Eligible Municipalities for the implementation of Bonus Surveillance Subprojects, Base Surveillance Subprojects and Emergency Surveillance Subprojects has been furnished to, and approved by, the Bank; and
- (ii) the respective Surveillance Subproject Implementation Agreement has been amended by the parties thereto to reflect any changes in financing and activities for the Bonus Subprojects and Emergency Subprojects respectively;

(d) payments covered by Category (7) set forth in the table in paragraph 1 of this Schedule, in the event the Borrower through MOH shall have failed to furnish to the Bank by a date six months after the end of each Fiscal Year, together with the audits referred to in Section 4.01 (c) (i) of this Agreement, such documents and other evidence showing, to the satisfaction of the Bank, that at least 84% of the amounts disbursed by the MOH's Fund and covered by Category (7) (a) and (b) set forth in the table in paragraph 1 of this Part A were used for goods, works, services and incremental operating costs, eligible for financing out of the proceeds of the Loan as confirmed by such audit report;

(e) payments made for Research Subprojects and Training and Capacity Building Subprojects unless the respective Implementation Entity Agreement has been entered into by the parties thereto;

(f) payments made for Parts B and C.1 (b) of the Project, unless:

- (i) the FUNASA Agreement has been entered into by the parties thereto; and
- (ii) a legal opinion or opinions have been issued on behalf of the Borrower and FUNASA showing that the FUNASA Agreement has been duly entered into and is legally binding and enforceable in accordance with its terms;

(g) payments made for Indigenous Community Subprojects unless, in addition to paragraph (f) above, the respective Indigenous Community Grant Agreement has been entered into by the parties thereto; and

(h) payments made for Water and Sanitation Subprojects unless, in addition to paragraph (f) above, the respective Water and Sanitation Subproject Agreement has been entered into by the parties thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower:

(a) for goods for Parts A, B and C of the Project under contracts of less than the equivalent of \$350,000 per contract;

(b) for services of individual consultants for Parts A, B and C of the Project under contracts not exceeding \$50,000 equivalent per contract;

(c) for services of consulting firms for Parts A, B and C of the Project under contracts not exceeding \$100,000 equivalent per contract;

(d) for training and incremental operating costs, and Research Subprojects, Training and Capacity Building Subprojects, Indigenous Community Subprojects, and Water and Sanitation Subprojects estimated to cost less than \$350,000 equivalent each; and

(e) for Surveillance Subproject Transfers (in which case the statements of expenditure shall be referred to as statements of transfer).

5. The Bank and the Borrower hereby agree that in the event the review of the performance of the Eligible States and Eligible Municipalities shows that the proceeds of the Loan allocated among the three types of Surveillance Subprojects in Subcategory 7 (b) (i), (ii) and (iii) do not coincide with the results of such review the Bank may, at the request of the Borrower, reallocate the amounts in Subcategory 7 (b) (i), (ii) and (iii) as needed.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to strengthen the Borrower's health surveillance system to reduce mortality and morbidity from communicable and non-communicable diseases as well as the exposure to risk factors associated with health; and (b) to expand access to, and improve the effectiveness of health, water and sanitation services directed to specially vulnerable groups, including Indigenous Peoples and Quilombolas, to improve their health outcomes.

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

#### Part A: Public Health Surveillance

##### 1. Surveillance and Control of Communicable Diseases

Strengthening the Borrower's public health surveillance system through *inter alia*:

- (a) the expansion and improvement of the public health laboratory network;
- (b) the improvement of the quality and utilization of information from the mandatory disease notification system to control communicable diseases;
- (c) the improvement of the capacity in communicable disease surveillance and control through training and research;
- (d) the expansion and strengthening of the hospital – based surveillance, with a focus on emerging and re-emerging infections;
- (e) the guarantee of a cold chain to assure the quality of vaccines;
- (f) the guarantee and expansion of activities designed to control vector-borne diseases;

(g) the improvement of the management capacity of the institutions involved in the SUS which are responsible for surveillance, including those for response to emergencies;

(h) the improvement of the dissemination of information on communicable disease surveillance and capacity in social communication;

(i) the improvement of social participation in disease prevention and control; and

(j) the carrying out of Communicable Disease Control Research Subprojects and Communicable Disease Control Training and Capacity Building Subprojects.

## 2. Environmental Health

Strengthening the implementation of the Borrower's environmental health surveillance system through, *inter alia*:

(a) the improvement of the Borrower's environmental health subsystems for water, air and soil quality;

(b) the structuring of a national subsystem related to hazardous substances, biological and physical factors, chemical accidents and natural disasters;

(c) the creation of a national environmental health laboratory network;

(d) the development of an information system for environmental health surveillance and indicators to evaluate control activities;

(e) the improvement of the scientific and technological capacity of the agencies involved in environmental health surveillance;

(f) the development of national policies for environmental health;

(g) the development of activities within primary health care that help create a healthy environment;

(h) the promotion of social mobilization and community education in areas of high environmental risk;



(i) the improvement of the mechanisms designed to promote intra and inter-sectorial activities; and

(j) carrying out of Environmental Health Research Subprojects and Environmental Health Training and Capacity Building Subprojects.

### 3. Health Situation Analysis

Strengthening the operational and technical capacity to carry out health situation analysis, and monitoring, prevention and control of non-communicable diseases including, *inter alia*:

(a) the improvement of the coverage, quality and utilization of vital statistics with a focus on maternal and infant mortality;

(b) the improvement of the capacity for health situation analysis, including geographical information systems and health program evaluations;

(c) the strengthening of the non-communicable disease and risk factor surveillance system;

(d) the development of an injury surveillance system;

(e) the improvement of the dissemination and social communication related to health promotion and risk factor prevention; and

(f) the carrying out of Health Situation Analysis Research Subprojects and Health Situation Analysis Training and Capacity Building Subprojects.

### 4. Strengthening Institutional Capacity in Eligible States and Eligible Municipalities

Carrying out of Health Surveillance Institutional Development Subprojects (Surveillance Subprojects) in Eligible States and Eligible Municipalities including a set of activities (the Surveillance Development Plan (PLANVIGI)) consisting of, *inter alia*, the strengthening of:

(a) the Eligible States' capacity to lead, organize, manage and monitor surveillance and disease control systems, and provide systematic support to municipalities;

(b) the Eligible Municipalities' capacity to perform essential functions of surveillance, including detection and notification, investigation, data collection, data analysis and interpretation, feedback and dissemination.

(c) the Eligible States' and Eligible Municipalities' technical capacity in the following areas: (i) institutional development; (ii) epidemiological surveillance and disease control; (iii) environmental surveillance; (iv) health situation analysis, and (v) specialized fields.

## Part B: Indigenous Health

### 1. Institutional Capacity Strengthening

(a) Provision of basic health care services to unserved Indigenous Peoples.

(b) Improvement of the technical quality of governmental and non-governmental health service providers serving Indigenous Peoples.

(c) Development and implementation of a performance-based management system for the health service providers employed by FUNASA, including the required performance-based agreements to be entered with such providers.

(d) Implementation of measures for the decentralization of decision making authority to the subregional level and strengthening of the governance mechanisms of the Borrower's Health Districts in charge of Indigenous Peoples health delivery set forth in Law No. 9836 of September 23, 1999.

(e) Improvement of the surveillance system for Indigenous Peoples health while introducing monitoring and evaluation methodologies to assess the structure, process and impact of the system.

### 2. Special Health Needs of Indigenous Peoples

(a) Development of strategies, and carrying out of selected activities and research, as approved by the Bank, with the aim to document and comprehend the causes of malnutrition, alcoholism and suicide among Indigenous Peoples while reducing the incidence of these problems among targeted groups.

(b) Carrying out of research on options regarding the integration of traditional and modern medical practices.

3. Indigenous Community Subprojects

Carrying out of Indigenous Community Subprojects.

4. Water and Sanitation for *Quilombolas*

Carrying out of Water and Sanitation Subprojects.

Part C: Project Management

1. Establishment and operation of: (a) the SVS PCU, and (b) the FUNASA PCU, and carrying out of independent procurement reviews of the Indigenous Community Subprojects and the Water and Sanitation Subprojects.

2. Carrying out of technical, financial and procurement reviews of the Surveillance Subprojects.

3. Provision of technical assistance and equipment as required for the development on a pilot basis of a database of actual costs for a subset of activities implemented by selected Eligible States and Eligible Municipalities under Part A.4 of the Project with the view of preparing standardized costs for such activities.

\* \* \*

The Project is expected to be completed by June 30, 2008.

### SCHEDULE 3

#### Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each January 15 and July 15 Beginning July 15, 2009 through July 15, 2011	5.03%
On each January 15 and July 15 Beginning January 15, 2013 through July 15, 2019	5.03%
On January 15, 2020	4.43%

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

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date,

such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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

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

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

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods and Works for Part A.4 of the Project (Surveillance Subprojects)

##### Part A: General

ICB Goods 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, January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. ICB 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 ICB Goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each respectively.

(b) Preference for Domestically Manufactured Goods

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

##### Part C: Other Procurement Procedures

Goods (other than ICB Goods) and works estimated to cost less than: \$350,000 equivalent per contract for Surveillance Subprojects to be carried out by Eligible States or Eligible Municipalities shall be procured in accordance with the Procurement Law, the list of goods, works and services set forth in the Surveillance Subproject Implementation Agreement, and the following provisions:

(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 therefor;

(b) records and information pertaining to the bidding and award of contracts shall be maintained by the Eligible State and Eligible Municipality and recorded in the SPIV;

(c) the prior non-objection of the Bank shall be required for all deviations from the list of goods, works and services certified by MOH and set forth in the Surveillance Subproject Implementation Agreement in respect of the Group 3 Eligible States and Group 3 Eligible Municipalities; and

(d) the Eligible State and Eligible Municipality shall enable the carrying out of reviews of its procurement actions.

Section II. Procurement of Goods and Works for Parts A (other than A.4) B and C of the Project

Part A: General

Goods and works for Parts A (other than A.4), B and C of the Project 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, January 1999 (the Guidelines) and the following provisions of Section II of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works for Parts A (other than A.4), B and C of the Project shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works for Parts A (other than A.4), B and C to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of Contracts

To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost respectively \$350,000 and \$5,000,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount not to exceed \$11,300,000 equivalent, and works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$12,400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents satisfactory to the Bank, and the following special provisions:

(a) 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 2.51 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.

(b) Whenever required by the Bank, the invitation to bid shall be advertised in a newspaper of wide circulation in Brazil and in the Official Gazette.

(c) The arrangements, under the invitation to bid, for a joint-venture (*consórcio*) of Brazilian and foreign firms shall be approved in advance by the Bank in each case.

(d) The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.



(e) 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.

2. Shopping

Goods (including those for Research Subprojects and Training and Capacity Building Subprojects) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent (excluding Subprojects), may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines including, as a form of such shopping, the bidding (*pregão*) procurement system set forth in the Borrower's Law No. 10.520 of July 17, 2002.

3. Procurement of Small Works

Works estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent (excluding Subprojects), may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. National Law

Goods for Supply Driven Research Subprojects and works for Research Subprojects and Training and Capacity Building Subprojects estimated to cost less than \$100,000 equivalent per contract, may be procured following public competitive bidding and other selection procedures applicable under the Procurement Law and set forth in the Implementation Entity Agreements.

5. Community Participation

Goods and works required for Indigenous Community Subprojects not exceeding in the aggregate \$1,800,000 shall be procured in accordance with procedures acceptable to the Bank.

Section III. Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines (provided, however, that the list of goods, works and services for the Surveillance Subprojects shall be presented with the respective Surveillance Subproject Implementation Agreement). Procurement of all goods and works shall be undertaken in accordance with such procurement plans as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to:

(a) each ICB Goods contract and all contracts procured in accordance with the procedures referred to in Part B.1 of Section II hereof; and

(b) first two contracts for goods and the first two contracts for works procured in accordance with the procedures referred to in Part C.1 of Section II hereof,

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 IV. 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 Section IV of this Schedule.

Part B: Employment of Consultants for Part A.4 of the Project (Surveillance Subprojects)

1. Quality- and Cost-based Selection

(a) QCBS 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 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

(b) 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 under Part A.4 of the Project, estimated to cost less than \$500,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

2. Other Procedures for the Selection of Consultants

(a) Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

(b) Service Delivery Contractors

Services to be provided by social workers and medical personnel under Part A.4 of the Project shall be procured in accordance with procedures acceptable to the Bank.

(c) Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Employment of Consultants for other Parts of the Project

1. Quality- and Cost-based Selection

(a) 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 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

(b) 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 for Part A (other than A.4) and B of the Project, estimated to cost less than \$500,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

2. Other Procedures for the Selection of Consultants

(a) Selection Based on Consultants' Qualifications

Services for: (i) architectural designs for laboratories; (ii) web design; (iii) the development of educational materials on indigenous health; (iv) studies to develop an indigenous health basic care model; and (v) the development of monitoring and evaluation models, indigenous health videos and a cost model for health activities, all 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.

(b) Single Source Selection

Services for: (i) the development of training programs for field epidemiologists and data for decision making; (ii) knowledge sharing; (iii) special indigenous studies; and (iv) masters degrees in health surveillance, not exceeding \$5,000,000 equivalent in the aggregate may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

(c) Commercial Practices

Services to assist private Implementation Entities in carrying out Demand Driven Research Subprojects and Training and Capacity Building Subprojects estimated to cost

less than \$100,000 equivalent may be procured in accordance with commercial practices acceptable to the Bank and described in the Operational Manual.

(d) Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding \$5,300,000 equivalent in the aggregate shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

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 Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank 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 Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$250,000 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 Bank 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 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services and Surveillance Subproject Transfers required for the Project and to be financed out of the proceeds of the Loan 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 the amount of \$10,000,000 to be withdrawn from the Loan 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 Bank 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 Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan 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 Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts



remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank 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 Bank (including, for example, the documents and other evidence referred to in paragraph 3 (d) of Schedule 1 to this Agreement), the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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