

December 17, 2002

Mr. Pedro Sampaio Malan
Ministro da Fazenda
Ministério da Fazenda
Procuradoria Geral da Fazenda Nacional
Esplanada dos Ministérios – Bloco “P” – 8º andar
Brasilia, DF 70048-900, Brazil

**Re: Loan No. 4394-BR (Disease Surveillance and Control Project)
Amendment to Loan Agreement**

Excellency:

We refer to the Loan Agreement between International Bank for Reconstruction and Development and the Federative Republic of Brazil, dated December 11, 1998, with respect to the above-captioned Project (the Loan Agreement). Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Loan Agreement.

We hereby notify you that the Bank has extended the date referred to under Section 2.03 of the Loan Agreement to December 31, 2003.

Besides, and following on our discussions with you, we propose to amend the following sections of the Loan Agreement: Whereas (A), Sections 1.02 (c), (h), (i) (q), (u), (v) and (w), 3.01(a), 3.02(a) and (b), the table of paragraph 1 of Schedule 1, Part B.1(b)(iv) of Schedule 2, Section I Parts C.1 and C.2 of Schedule 4, and Section II Part C.3 of Schedule 4.

In addition, as of the date hereof the Bank has not received a copy of the amendment proposed by the Bank on February 16, 2000 (related to Project Monitoring Reports) countersigned by you. Your signing of this letter shall imply an agreement not to proceed with the referred amendment proposal of February 16, 2000.

As a consequence of this amendment, the Loan Agreement shall read in its entirety as the attachment to this letter. Please confirm your agreement to the foregoing amendment (including stopping the processing of the February 16, 2000 proposed amendment) by signing and dating the two originals of this letter in the spaces provided below, and returning one to us. This amendment shall enter into effect as of its date first above written, upon receipt by the Bank of one original of this letter signed by you.

Sincerely yours,

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

Vinod Thomas
Director
Brazil – Country Management Unit
Latin America and the Caribbean Region

AGREED:

FEDERATIVE REPUBLIC OF BRAZIL

By: _____
Authorized Representative

Name: Maurício Cardoso Oliva
Attorney of the National Treasury

Date: January 31, 2003

Attachment

LOAN NUMBER 4394-BR

Loan Agreement

(Disease Surveillance and Control Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

**Dated December 11, 1998
(as amended on December 17, 2002)**

LOAN AGREEMENT

AGREEMENT, dated December 11, 1998 between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), as amended on December 17, 2002.

WHEREAS (A) the Bank has received a letter dated July 30, 1998 (and its addendum dated July 30, 2002 –letter number 824/GM), from the Borrower to the Bank enclosing the Borrower’s Disease Surveillance and Control Program (hereinafter the DSC Program or Program) which consists of a series of activities to strengthen the Borrower’s National Disease Surveillance and Control System (as hereinafter defined) through: (i) the improvement of the data management telecommunications system; (ii) the rehabilitation of the laboratory network; and (iii) the training of staff;

WHEREAS (B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the DSC Program, has requested the Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower in support of the first phase of the DSC 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 Currency Pool Loans” of the Bank, dated January 1, 1985 (as amended through December 2, 1997) (the General Conditions) with the modification set forth below, constitute an integral part of this Agreement.

Section 9.07 (c) is modified to read:

“(c) Not later than six months prior to the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, the Borrower shall 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 in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Operating Plan” means each plan referred to in Section 3.05 (c) of this Agreement;

- (b) “Banco Central” means Banco Central do Brasil, the Borrower’s Central Bank;
- (c) “Beneficiary” means any public (including a Municipality or a State, as such terms are hereinafter defined) or non-profit entity located in the Borrower’s territory, eligible under the Operational Manual (as hereinafter defined), which is responsible for the carrying out of a Subproject (as hereinafter defined);
- (d) “BSL-2” means biosafety laboratory 2, which is a laboratory facility capable to handle pathogens that can cause human or animal disease, but are unlikely to represent a serious hazard to laboratory workers, the community or the environment;
- (e) “BSL-3” means biosafety laboratory 3, which is a laboratory facility capable to handle pathogens that usually cause serious human or animal disease, but do not ordinarily spread from one infected individual to another;
- (f) “Border Laboratories” means those laboratories to be created under the DSC Program to control imported diseases that will help diagnose main endemic diseases which cross borders, and will handle other routine laboratory tests;
- (g) “FNS” means Fundação Nacional da Saúde, the Borrower’s National Health Foundation, established pursuant to the Borrower’s Decree No. 100 of April 16, 1991, the Project implementation entity referred to in Section 3.02 of this Agreement (or any successor thereto acceptable to the Bank);
- (h) “Grant” means a grant to be made or proposed to be made by the Borrower to a Beneficiary, out of the proceeds of the Loan, for the purposes of partially financing the costs of a Subproject pursuant to Section 3.02 (a) or Section 3.02 (b) of this Agreement;
- (i) “Grant Agreement” means any of the agreements referred to in Section 3.02 (a) and Section 3.02 (b) of this Agreement for the provision of a Grant;
- (j) “Indigenous Peoples Development Framework” means the section of the Operational Manual which contains the principles, criteria and procedures that shall apply to the preparation and carrying out of any Subproject under Part B.2 of the Project;
- (k) “Legal Amazon” means the area referred to in Borrower’s Decree-Law No. 5,173 of October 27, 1966 and Article 45 of Complemental Law No. 31 of October 11, 1977, which comprises the following States (as hereinafter defined), or part thereof, of the Borrower: Acre, Amapá, Amazonas, Maranhão, Mato Grosso, Pará, Rondonia, Roraima and Tocantins;
- (l) “MIS” means the Project monitoring and information system, satisfactory to the Bank, to provide information on the Project implementation, which shall include, inter alia, the indicators set forth in the DSC Program;
- (m) “MOH” means Ministério da Saúde, the Borrower’s Ministry of Health;
- (n) “Municipality” means the Borrower’s political subdivision as referred to in the Borrower’s Constitution;
- (o) “National Disease Surveillance and Control System” means a surveillance system that: (i) collects the basic information necessary at the municipal and state levels for the control of diseases,

epidemics, and environmental health hazards; and (ii) proposes measures to monitor and control the development of epidemics;

(p) “National Reference Laboratories” means laboratories that review test methods and results from lower-level laboratories, when requested, and are often specialized in a particular disease;

(q) “Operational Manual” means the manual issued by MOH in June 1998 (including the administrative and financial procedures revised in October 2001 and a procurement manual for Beneficiaries), satisfactory to the Bank, containing, inter alia: (i) the procedures and criteria related to training, technical assistance, environmental protection and other activities to be carried out under the Project; (ii) the criteria and procedures for the selection, and the procedures for the carrying out, of Subprojects (as issued in 1999 and amended in July 2002); (iii) the Indigenous Peoples Development Framework; (iv) the allocation of Project funds for the benefit of States and Municipalities on the basis of technical criteria such as population size and disease incidence; and (v) the standard form of a Grant Agreement; as such Operational Manual may be amended from time to time by agreement between the Borrower and the Bank;

(r) “PCU” means the Project coordination unit established pursuant to FNS’s Portaria No. 231 of July 1, 1998;

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

(t) “State” means the Borrower’s political subdivision as referred to in the Borrower’s Constitution;

(u) “Subproject” means a Subproject 1 or a Subproject 2;

(v) “Subproject 1” means any investment referred to in Parts A.1 (b), A.2 (a), A.3, A.4, A.5, B.1 (b) and B.2 of the Project to be carried out by a Beneficiary utilizing the proceeds of a Grant and which meets the eligibility criteria set forth in the Operational Manual; and

(w) “Subproject 2” means any study or research referred to in Part A.6 of the Project to be carried out by a Beneficiary utilizing the proceeds of a Grant and which meets the eligibility criteria set forth in the Operational Manual; and

(x) “Zoonoses Centers” means municipal health units that undertake: (i) the surveillance and control of zoonoses (i.e., diseases transmitted by vertebrate animals, such as rabies and leishmaniasis) through the identification of sick animals, their immunization and elimination if necessary; (ii) entomological surveillance and vector control; and (iii) control of poisonous reptiles.

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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred million Dollars (\$100,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawals.

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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or 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, 2003 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 commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

“(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter.”

“(c) (iii) ‘Quarter’ means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year.”

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.08. The Minister of Health, and the person or persons designated in writing by such Minister, 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 (a) 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 as set forth in Schedule 2 to this Agreement, and, to this end, through MOH, shall: (i) carry out Parts A.1 (a), A.2 (b), A.6, A.7, B.1 (a) and C of the Project, and its corresponding activities under Parts A.4, A.5 and B.2 of the Project; (ii) cause the Beneficiaries, pursuant to the relevant Grant Agreement as referred to in Section 3.02 (a) of this Agreement, to carry out Parts A.1 (b), A.2 (a), A.3 and B.1 (b) of the Project, and their corresponding activities under Parts A.4, A.5 and B.2 of the Project, and (iii) cause the Beneficiaries, pursuant to the relevant Grant Agreement as referred to in Section 3.02 (b) of this Agreement, to carry out Part A.6 of the Project,

(b) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with: (i) the Operational Manual; (ii) the relevant Annual Operating Plan; and (iii) appropriate administrative, financial, health and environmental practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(c) The Borrower, through MOH, shall:

(i) maintain, within FNS, until the completion of the Project a coordination unit (the PCU) with adequate responsibilities, structure and functions, and with staff in adequate numbers and with adequate qualifications, for the purposes of, inter alia: (A) assisting in the overall coordination and carrying out of the Project; (B) preparing the relevant Annual Operating Plan for the Bank’s approval; and (C) approving Subprojects costing \$3,000,000 or less and recommending those Subprojects costing more than \$3,000,000 to the Bank for approval, all in accordance with the relevant provisions of the Operational Manual; and

(ii) not later than one hundred and twenty days after the Effective Date, put into effect the MIS.

Section 3.02. Without limitation upon the provisions of Section 3.01 (b) of this Agreement, and, for the purposes of providing funds for the Project, the Borrower shall, through MOH, enter into

arrangements, satisfactory to the Bank, with FNS, such arrangements to include, inter alia, the obligation of FNS to:

(a) enter into an agreement, satisfactory to the Bank, with each Beneficiary for the purposes of financing, on a grant basis up to ninety percent (90%) of the costs of a Subproject 1, said agreement to include the terms and conditions set forth in the standard form for Subprojects 1 contained in the Operational Manual;

(b) enter into an agreement, satisfactory to the Bank, with each Beneficiary for the purposes of financing, on a grant basis, up to a hundred percent (100%) of the costs of a Subproject 2, said agreement to include the terms and conditions set forth in the standard form for Subprojects 2 contained in the Operational Manual; and

(c) exercise its rights and comply with its obligations under each Grant Agreement in such a manner as to protect the interests of the Borrower and the Bank, and, except as the Borrower and Bank shall otherwise agree, not to assign, amend, suspend, abrogate, waive or fail to enforce any of the Grant Agreements, or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. In the preparation and carrying out of any Subproject under Part B.2 of the Project, the Borrower, through MOH, shall, inter alia, ensure that the principles, criteria and procedures set forth in the Indigenous Peoples Development Framework are incorporated and applied in manner satisfactory to the Bank.

Section 3.05. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, the Borrower, through MOH, shall:

(a) In the months of February and August during each year of Project implementation, starting in August 1999, prepare on the basis of the MIS and furnish to the Bank semi-annual reports on the progress in the implementation of the Project, such reports to take into consideration the indicators set forth in the DSC Program, and to be of such scope and in such detail as the Bank shall reasonably request. The report to be issued in the month of August during each year of Project implementation, starting in August 1999, shall include a section on a special examination carried out by specialized consultants on whether the procurement of goods and works, and the employment of consultants were carried out in accordance with the provisions of Schedule 4 to this Agreement;

(b) In the months of March and September during each year of Project implementation, starting in March 1999, hold semi-annual reviews (the review to take place in September 2000 to be the mid-term review) jointly with the Bank, such reviews to be based on the report referred to in paragraph (a) above and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank, during the reviews referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during any of such reviews; and

(c) In the month of October during each year of Project implementation, starting in October 1999, furnish to the Bank for approval an annual plan prepared by the PCU, satisfactory to the Bank (the Annual Operating Plan), describing, inter alia, the Project activities (including Subprojects) to be carried out during the next twelve months, including the costs thereof.

Section 3.06. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower, through MOH, shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months prior to the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower 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.

ARTICLE IV

Financial Covenants

Section 4.01 (a) The Borrower shall establish and maintain a financial management system, satisfactory to the Bank, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

- (b) The Borrower shall:
 - (i) have the records and accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
 - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as the Bank shall 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, the Borrower shall:
 - (i) maintain, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the financial management system referred to in Section 4.01 (a) of this Agreement has been established.

Section 5.02. 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 to be furnished to the Bank, namely, that the Loan Agreement has been validly registered by Banco Central.

Section 5.03. The date March 11, 1999 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 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 6.02. 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, D.F.
Brazil

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:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

With copies to:

Ministério da Saúde
Fundação Nacional de Saúde
SAS Quadra 04, Bloco N - Sala No. 501
70040-906, Brasília, D.F.
Brazil

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906, Brasília, D.F.
Brazil

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Subprojects	66,000,000	60% of the relevant Grant Agreement
(2) Works	5,500,000	50%
(3) Goods	5,300,000	50%
(4) Consultants' Services	9,900,000	25%
(5) Training	13,300,000	50%
(6) Unallocated	_____0_	
TOTAL	100,000,000	

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

(a) Payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding an amount equivalent to \$4,000,000, may be made on account of payments made for expenditures before that date but after September 1, 1997 or a date twelve months before the date of this Agreement (i.e., December 11, 1998), whichever is later.

(b) Expenditures under a Subproject costing more than \$3,000,000 equivalent, unless the Bank has approved such Subproject.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for: (i) goods costing less than \$350,000 equivalent (except the first two contracts for goods costing between \$100,000 equivalent and \$350,000 equivalent); (ii) works costing less than \$5,000,000 equivalent (except the first two contracts for works costing between \$350,000 equivalent and \$5,000,000 equivalent); (iii) services of consulting firms costing less than \$100,000 equivalent; and (iv) services of individual consultants costing less than \$50,000 equivalent; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve and strengthen the Borrower's National Disease Surveillance and Control System in order to contribute to the reduction of mortality and morbidity resulting from communicable diseases.

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: Strengthening of the National Disease Surveillance and Control System

1. Improvement of the Data Management Telecommunications System:

(a) Carrying out of the following activities: (i) development and implementation of new modules for the Borrower's public health information system; and (ii) improvement of the data telecommunications system at the FNS's central level.

(b) Carrying out of the following activities: (i) acquisition of micro-computers, printers, telephone access, and vehicles to States, Municipalities and non-profit public entities; and (ii) provision of technical assistance to assist States and Municipalities in implementing the improved and standardized disease surveillance programs, through, inter alia, the acquisition of hardware and software and carrying out of training.

2. Laboratory Network

(a) Carrying out the upgrading and construction of about fifty Zoonoses Centers.

(b) Carrying out of the following activities: (i) upgrading of twelve existing National Reference Laboratories to convert them from the BSL-2 to the BSL-3 category; and (ii) the construction of twelve Border Laboratories.

3. Cold Storage Facilities

Carrying out of rehabilitation, expansion, and equipment of about sixty cold storage facilities to strengthen the distribution and storage of vaccines and other perishable medical products.

4. Environmental Surveillance Facilities

Carrying out the rehabilitation and equipment of regional entomology centers, and water, air, and soil quality laboratories.

5. Training

Carrying out of training activities for Municipal, State, and central FNS staff in areas such as epidemiology, laboratory reporting, laboratory biosafety, environmental surveillance, and management.

6. Studies and Research in Epidemiological Surveillance.

Carrying out of Project-related activities, including: (a) studies on the development and implementation of health indicators; (b) periodical population-based health analyses; (c) monitoring and evaluation of specific diseases; and (d) publication of epidemiological analyses, guides, and manuals.

7. Technical Assistance

In respect of this Part A of the Project, provision of technical assistance in order to assist States and Municipalities in Subproject preparation, appraisal, supervision and procurement.

Part B: Strengthening of Disease Control in Selected Areas

1. Disease Control in the Legal Amazon

(a) Carrying out of the following activities: (i) training of about five hundred forty community health agents; (ii) management training for about fifty-four public health officials; and (iii) training of about ninety technicians in communicable disease surveillance and control.

(b) Carrying out of the following activities: (i) rehabilitation, expansion, and provision of equipment to public health laboratories and other health facilities in the Legal Amazon; (ii) acquisition of boats and vehicles; (iii) acquisition and administration of anti-malarial drugs and reagent kits for the diagnosis of hepatitis, leishmaniasis, and malaria; (iv) carrying out of drainage works or similar environmental management activities related to the control of malaria and (iv) provision of technical assistance for Subproject preparation under this Part of the Project.

2. Indigenous Health

Carrying out of the following activities: (a) rehabilitation and equipment of health centers, health posts, environmental health, and other health facilities adapted to the indigenous culture; (b) acquisition of equipment such as basic health equipment which includes scales and stethoscopes, boats, vehicles and geographic positioning systems; (c) training of about one thousand indigenous health agents; and (d) provision of technical assistance for Subproject preparation under this Part of the Project and for organization and training of local indigenous nuclei.

Part C: Project Administration

Support for the operations of the PCU through the financing of, inter alia: (a) consultants' services; (b) travel and per diem; (c) training; (d) equipment; and (e) other administrative expenses, such as supplies and communications expenses.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each May 1 and November 1	
beginning May 1, 2004 through November 1, 2013	5,000,000

* The figures in this column represent Dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) 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;

(b) to the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost \$350,000 equivalent or more each; and

(c) the invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$100,000 equivalent or more but less than \$350,000 equivalent per contract, up to an aggregate amount of \$35,000,000 equivalent, and:

(i) works estimated to cost less than \$5,000,000 per contract to be procured by the Borrower or FNS; and

(ii) works estimated to cost \$350,000 equivalent or more but less than \$5,000,000 equivalent per contract to be procured by Beneficiaries under Subprojects;

up to an aggregate amount of \$10,000,000 equivalent, may all be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods and works under this Part C.1, bidding documents acceptable to the Bank in standardized form for the Project, shall be used.

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to this Part C.1:

(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 for at least three consecutive days in a newspaper of wide circulation in Brazil;

(c) the arrangements, under the invitation to bid, for joint-ventures (consórcios) 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; and

(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. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$20,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$350,000 equivalent per contract, to be procured by Beneficiaries under Subprojects, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods and works procured under Part B.1 of this section; (b) the first two contracts for goods estimated to cost between \$100,000 and \$350,000 equivalent each; and (c) the first two contracts for works estimated to cost between \$350,000 and \$5,000,000 equivalent each, the procedure 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.

Part E: Other

For purposes of the Guidelines, the term custom duties and other import taxes includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (Additional ao Frete para a Renovação da Marinha Mercante), established pursuant to the Borrower's Decree-Law No. 1,142 of December 30, 1970, as amended on December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may replace it, in whole or in part, after January 1, 1988.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

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

2. Single Source Selection

Specialized services in disease and environmental surveillance and control up to up to an aggregate amount of \$3,000,000 in the aggregate shall, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Selection Based on Consultant's Qualifications

Services for small technical and engineering assignments to be procured by Beneficiaries under Subprojects, which are estimated to cost not more than \$50,000 equivalent per contract and up to an aggregate amount of \$5,000,000 equivalent, may be procured in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that the terms of reference for any single-source selection of consulting firms shall be subject to the Bank's prior approval.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) 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 and services 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 an amount equivalent to \$10,000,000 (or such other amount as the Bank shall establish, by notice to the Borrower), to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$7,500,000.

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 with respect to the Project, 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 for the Project 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, 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.

