

CONFORMED COPY

LOAN NUMBER 7182-BR

Loan Agreement

(Bahia Health System Reform Project)

between

STATE OF BAHIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 26, 2003

LOAN NUMBER 7182-BR

LOAN AGREEMENT

AGREEMENT, dated August 26, 2003, between the STATE OF BAHIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated January 22, 2003 describing a program designed to improve the Borrower's health system (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans over a period of approximately seven years to be utilized by the Borrower in the implementation of the Program;

(C) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms part of the first phase of the Program, have requested the Bank to assist in the financing of the Project;

(D) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan);

(E) the Bank has received a letter from the Borrower, dated May 6, 2003 describing a program designed to achieve integrated economic and social development (the Integrated Development Program) and declaring the Borrower's commitment to the execution of such program; 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 first 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 (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 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 Preamble to this Agreement and in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Basic Care” means the treatments and care provided under the basic health care program set forth in article I.2 and annexes 1 and 2 of NOAS-SUS 01/2002 and articles 9 and 12.1.1 of NOB-SUS 01/1996;

(b) “Basic Care Subproject” or “Subproject” means a subproject consisting of a set of activities designed to reduce infant mortality, maternal mortality, malnutrition, and selected diseases, and to strengthen the Family Health Program, to be carried out by an Eligible Municipality under Part C.3 of the Project, which is eligible for financing in accordance with the provisions of this Agreement and the terms of the respective Subproject Implementation Agreement;

(c) “DIRES” means *Diretorias Regionais de Saúde*, SESAB’s regional offices;

(d) “Eligible Medical Equipment” means equipment eligible for financing under Part A.2 of the Project in accordance with the provisions of the Operational Manual;

(e) “Eligible Micro-Region” means a Micro-Region which has met the requirements of the Operational Manual to participate in Part A.2 of the Project;

(f) “Eligible Municipality” means any Municipality eligible for participating in Part C.3 of the Project in accordance with the requirements of the Operational Manual;

(g) “Environmental Management Actions” means the environmental management guidelines and actions furnished to the Bank by the Borrower, by letter dated May 8, 2003;

(h) “Family Health Program” means the program set forth in article 12.1.2 of NOB-SUS 01/1996 and in MOH’s regulation (*Portaria*) No. 1886 of December 18, 1997;

(i) “Family Health Teams” means the health professionals and other health workers selected for implementation of the Family Health Program;

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

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

(l) “FUNAI” means *Fundação Nacional do Índio*, the National Indian Foundation established by the Guarantor’s Decree (*Decreto*) No. 564, dated June 8, 1992 pursuant to the Guarantor’s Law No. 5371, of December 5, 1967;

(m) “FUNASA” means *Fundação Nacional de Saúde*, the Health National Foundation established by the Guarantor’s Decree (*Decreto*) No. 100, dated April 16, 1991 pursuant to the Guarantor’s Law No. 8.029, dated April 12, 1990, as amended by the Guarantor’s Law No. 8.101, of December 6, 1990 and defined as responsible for indigenous people care according to Art. 3º of the Guarantor’s Decree (*Decreto*) No. 3.156 of August 27, 1999;

(n) “FUNASA Cooperation Agreement” means the agreement referred to in Section 3.01 (e) of this Agreement;

(o) “High Complexity Care” means a set of specialty treatments, procedures and diagnostic activities of high technology and cost, and performed mainly, but not exclusively, in hospital facilities, as specified in MOH’s regulation (*Portaria*) No. 96 of March 27, 2000 and published in the Guarantor’s Official Gazette on June 1, 2000;

(p) “Indigenous Action Plan” means the plan to be developed, if necessary, and implemented in accordance with the Indigenous Peoples Framework;

(q) “Indigenous Peoples” means the indigenous peoples recognized as such by FUNAI as eligible to benefit from the constitutional and other legal protection as indigenous peoples;

(r) “Indigenous Peoples Framework” means the framework set forth in the letter from the Borrower to the Bank dated May 8, 2003;

(s) “Medium Complexity Care” means a set of treatments, procedures and diagnostic activities of medium technology and cost, and performed mainly in ambulatory and hospital settings, as specified in Annex 3A of NOAS-SUS 01/2002;

(t) “Micro-Region” means a group of municipalities associated or operating as such, for the delivery of health services which is established pursuant to Chapter I, Item 5 of NOAS-SUS 01/2002;

(u) “Micro-Region Strengthening Agreement” means any of the agreements referred to in Section 3.01 (d) of this Agreement;

(v) “MOH” means the Guarantor’s Ministry of Health;

(w) “Municipality” means any municipality in the Borrower’s territory which has entered into the *Pacto* Agreement referred to in MOH’s regulation (*Portaria*) No. 1.121 of June 17, 2002;

(x) “NOAS-SUS 01/2002” means *Norma Operacional da Assistência à Saúde*, the MOH’s regulation (*Portaria*) No. 373, dated February 27, 2002, published in the Guarantor’s Official Gazette of February 28, 2002;

(y) “NOB-SUS 01/1996” means *Norma Operacional Básica do Sistema Único de Saúde*, MOH’s regulation (*Portaria*) 2203/96 published in the Guarantor’s Official Gazette dated November 6, 1996;

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

(aa) “*Pacto Agreement*” means any of the agreements entered into by Municipalities in accordance with MOH’s regulation (*Portaria*) No. 1.121 of June 17, 2002;

(bb) “PCU” means the Project coordination unit referred to in Section 3.01 (b) of this Agreement established by SESAB’s regulation (*Portaria*) No. 0253 dated February 11, 2003 and published in the Borrower’s Official Gazette on February 12, 2003;

(cc) “Performance Indicators” means the indicators set forth in a letter from the Borrower to the Bank dated January 22, 2003;

(dd) “Regulation Center” means any *Central de Regulação ou de Marcação*, an office managed by the municipalities of a Micro-Region, or by a municipality, to assign patients to specific health providers according to the medical procedures required;

(ee) “Salvador Implementation Agreement” means the agreement entered into between the Borrower and the Municipality of Salvador on January 10, 2003;

(ff) “SESAB” means *Secretaria da Saúde do Estado da Bahia*, the Borrower’s health secretariat;

(gg) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement;

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

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

(jj) “Technical Services” means the technical and professional services (including medical, pharmaceutical and auditing services) provided to a Regulation Center and for the management of a Micro-Region by consultants’ firms, individuals, non-governmental organizations and other service providers.

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 thirty million Dollars (\$30,000,000), 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 and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the 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 open and maintain in dollars two separate special deposit accounts (one for Part C.3 (a) of the Project and the other for all other Parts of the Project) in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. 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: (i) 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 (ii) 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 Secretary of Health of the Borrower and any person or persons whom he or she shall designate in writing is designated as representative 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 carry out the Project, through SESAB, with the assistance of:

- (i) Micro-Regions and Eligible Micro-Regions with respect of Parts A.1 and A.2 of the Project;
- (ii) the Municipality of Salvador with respect to Part A.3 of the Project, and
- (iii) Eligible Municipalities (and FUNASA, if applicable, following the requirements of the Indigenous Peoples Framework), with respect of Part C.3 of the Project,

all with due diligence and efficiency and in conformity with appropriate health, economic, technical, administrative, financial, environmental and social practices, including the Indigenous Peoples Framework when applicable, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall:
 - (i) maintain, during the implementation of the Project, a Project coordination unit (PCU) 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; and
 - (ii) not later than three months after the Effective Date, strengthen the financial management and procurement capacity of the PCU in a manner satisfactory to the Bank.

(c) The Borrower shall, through SESAB, enter into an agreement with each Eligible Municipality under terms and conditions satisfactory to the Bank, substantially in accordance with the terms of the model Subproject Implementation Agreement, set forth in the Operational Manual, setting forth, *inter alia*, in respect of each Subproject:

- (i) the Eligible Municipality's obligation:
 - (A) to carry out the Subproject and to meet the performance benchmarks related thereto;
 - (B) to procure the goods, works and services in accordance with:
 - (I) the requirements of this Agreement; and
 - (II) the contracting procedures and schedule specified in the procurement plan for all goods, works and services;
 - (C) to keep records and accounts for the expenditures financed under the Subproject;
 - (D) to enable the Bank to review the Eligible Municipality's accounts and other information as the Bank shall reasonably request in respect of the Subproject; and
 - (E) in the event that there are Indigenous Peoples to be affected by the Subproject, to coordinate with FUNASA and other agencies, as needed, and enter into the necessary agreements, to: (i) prepare the Indigenous Action Plan in accordance with the Indigenous Peoples Framework; and (ii) carry out the Indigenous Action Plan;
- (ii) the technical, financial and procurement requirements for the implementation of the Subproject, including annual procurement reviews of the Subproject by independent experts;
- (iii) SESAB's right to suspend disbursements, or cancel amounts to be disbursed, as the case may be, in the event of noncompliance

by the Eligible Municipality with the obligations set forth in the Subproject Implementation Agreement; and

- (iv) a list of expenditures that are eligible for financing by the proceeds of the Loan, including those related to the Indigenous Action Plan when such Plan is needed.

(d) The Borrower shall, through SESAB, enter into an agreement or agreements with all of the municipalities of the Micro-Region and all of the municipalities of the Eligible Micro-Region under terms and conditions satisfactory to the Bank, setting forth, in respect of the implementation of Parts A.1 and A.2 of the Project:

- (i) each of the municipalities' respective obligations in the Eligible Micro-Regions;
- (ii) the governance arrangements for the Micro-Region or Eligible Micro-Region and the respective obligations of the governing body or system thereof as appropriate; and
- (iii) SESAB's respective obligations.

(e) The Borrower shall, before commencing the preparation of an Indigenous Action Plan, enter into a cooperation agreement with FUNASA to set forth that FUNASA shall, in the event that a Subproject is carried out in an Eligible Municipality where Indigenous Peoples could be affected, comply with the requirements of the Indigenous Peoples Framework and carry out the Indigenous Action Plans, as applicable to FUNASA.

(f) The Borrower shall exercise its rights and carry out its obligations under the Salvador Implementation Agreement and the FUNASA Cooperation Agreement, and each of the Subproject Implementation Agreements and Micro-Region Strengthening Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Salvador Implementation Agreement or the FUNASA Cooperation Agreement or any Subproject Implementation Agreement or Micro-Region Strengthening Agreement.

(g) Without limitation upon the provisions of paragraph (a) above, the Borrower shall carry out the Project in accordance with: (i) the Performance Indicators; and (ii) in respect of Part C.3 of the Project, if applicable, the Indigenous Peoples Framework.

Section 3.02. 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 3.03. The Borrower shall 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, financial and environmental requirements thereof);
- (b) the Environmental Management Actions;
- (c) the criteria for the approval, implementation and monitoring of Subprojects;
- (d) the criteria for the establishment of Eligible Micro-Regions and for the implementation and monitoring of Parts A.1 and A.2 of the Project; and
- (e) a model agreement for implementation of Subprojects.

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:

- (a) maintain 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 the Project and the achievement of the objectives thereof;
- (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and yearly 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 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; and

- (c) (i) review with the Bank, within no more than two months after each such reports' preparation, the reports referred to in paragraph (b) of this Section and progress in the implementation of the Integrated Development Program; and
- (ii) thereafter, take all measures, as needed, 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:

(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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain in SESAB a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
 - (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts 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 statements, records and accounts and 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 such records and accounts, and the audit thereof, 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, the Borrower shall:

- (i) maintain or cause to be maintained, 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.

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 and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

(b) The first FMR shall be furnished to the 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 event is specified, namely, that FUNASA shall have failed to perform any of its obligations under the FUNASA Cooperation Agreement, or any agreement entered into with the Borrower and an Eligible Municipality for preparation and implementation of an Indigenous Action Plan provided, however, that the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures incurred or to be incurred by the Borrower or municipality for such Indigenous Action Plan and related Subproject.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Borrower has adopted the Operational Manual.

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 November 26, 2003, 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 Secretary 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:

Secretaria da Fazenda do Estado de Bahia
Av. Luiz Viana s/n, 2a Avenida, nº 260
Centro Administrativo da Bahia
41750-300 Salvador – Bahia
Brazil

Facsimile: (55) (71) 370-2408

With copy to:

Secretaria da Saúde do Estado da Bahia
Av. Luiz Viana s/n, 4a Avenida, Plataforma 06, Lado B
Centro Administrativo da Bahia
41750-300 Salvador – Bahia
Brazil

Facsimile: (55) (71) 371-2488

Secretaria do Planejamento Ciências e Tecnologia do Estado da
Bahia (SEPLANTEC)
Av. Luiz Viana s/n, 2a Avenida, nº 250
Centro Administrativo da Bahia
41750-300 Salvador – Bahia
Brazil

Facsimile: (55) (71) 370-3945

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

Facsímile: 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 District of Columbia, United States of America, as of the day and year first above written.

STATE OF BAHIA

By /s/ Paulo Ganem Souto

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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 (other than for Subprojects)	900,000	50%
(2) Goods (other than for Subprojects)	6,000,000	65%
(3) Consultants' services (other than for Subprojects)	9,000,000	84%
(4) Training (other than for Subprojects)	1,000,000	50%
(5) Subprojects	9,000,000	60% of the cost of goods, works and services (including training) included in a Subproject
(6) Incremental operating costs		
(a) Technical Services	300,000	84%
(b) Other Incremental Operating Costs	1,000,000	40%
(7) Unallocated	2,500,000	

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(8) Front End Fee	300,000	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
TOTAL	<u>30,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” means expenditures incurred in connection with the provision of training under Parts A, B and C of the Project, including the reasonable travel cost and per-diem of the trainees; and

(b) the term “other incremental operating costs” means the reasonable costs incurred: (i) by the PCU for utilities, maintenance, consumable office supplies, and other goods; (ii) for the operation of Micro-Regions; and (iii) for maintenance of the Regulation Centers’ computer network systems and laboratory equipment in Micro-Regions, that would not have been incurred absent 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, in an aggregate amount not exceeding \$3,000,000, may be made on account of payments made for expenditures incurred within twelve months before that date but in no case incurred before January 27, 2003; and

(b) payments covered by Category (5) set forth in the table in paragraph 1 of this Schedule, unless:

- (i) SESAB has developed and implemented the financial management system of the Project in the DIRES with jurisdiction over the Eligible Municipality where the Subproject will be carried out; and
- (ii) the respective Subproject Implementation Agreement has been entered into with the Eligible Municipality; and
- (c) payments covered by Category (5) in respect of a Subproject to be carried out in an Eligible Municipality where Indigenous Peoples are affected, unless:
 - (i) the requirements of paragraph 3 (b) of this Schedule have been met;
 - (ii) the FUNASA Cooperation Agreement has been entered into by the parties thereto; and
 - (iii) the respective Indigenous Action Plan and related implementation agreements have been approved by the Bank.

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 works, and for goods under contracts not exceeding the equivalent of \$250,000 per contract;
- (b) for services of individual consultants and Technical Services under contracts not exceeding \$35,000 equivalent per contract;
- (c) for services of consulting firms under contracts not exceeding \$250,000 equivalent per contract;
- (d) for training and other incremental operating costs; and
- (e) for Subprojects in respect of which prior review of the procurement of goods, works and services included in such Subproject is not required in accordance with the provisions of Parts D.2 of Sections I and II of Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the health status of the Borrower's population; and (b) to improve access, equity and efficiency in the Borrower's health sector.

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: Micro-Regions

1. Strengthening the capacity of Micro-Regions:

(a) as purchasers of health care services, through the provision of technical assistance (and equipment, works and training when applicable) for:

- (i) the preparation and negotiation of draft contracts to be entered into between the municipalities of the Micro-Regions and their local providers setting forth performance based payment for the delivery of services;
- (ii) the establishment and operation of Regulation Centers, including construction of the offices required therefor; and
- (iii) the adaptation of the SUS health identification card to the local needs for such card in the Borrower's territory, and adaptation of such health card in the Micro-Regions.

(b) to conduct clinical environmental and financial audits, through the provision of technical assistance for:

- (i) the development and implementation of auditing and accreditation systems for health providers in the Micro-Regions;
- (ii) the preparation and implementation of plans for the management of medical waste in the Micro-Regions' health centers; and

- (iii) training of personnel of Micro-Regions on audit and accreditation techniques.

(c) to manage the Micro-Region, through the provision of technical assistance and training for the development and implementation of governance systems for Micro-Regions, including the setting up of the planning and budgeting systems thereof, the training of municipal staff of such Micro-Regions and monitoring and evaluation activities.

2. Provision of Medical equipment for Medium Complexity Care facilities in selected municipalities of the Eligible Micro-Regions.

3. Strengthening the municipality of Salvador's capacity for the delivery of health services through the provision of technical assistance to the municipality of Salvador for:

(a) the development of a system of reference and counter reference of patients to various health facilities;

(b) the implementation of Regulation Centers of Basic Care and Medium Complexity Care with capacity to:

(i) manage the access to health services, and purchase services from private providers, if needed; and

(ii) provide data as needed to audit the performance of private and public institutions in the delivery of health services;

(c) the implementation of a study on the situation and practices of environmental health in the municipality of Salvador;

(d) the provisions of technical assistance to strengthen the planning and budgeting capacity of the municipality of Salvador's health secretariat; and

(e) the development and maintenance of epidemiological and administrative data-bases.

Part B: Strengthening SESAB's Regulatory Capacity

1. Carrying out of health, demographic and social household surveys in the Borrower's territory.

2. (a) Carrying out of studies:
 - (i) to develop the contractual arrangements for the provision of health services;
 - (ii) to review the payment system under SUS; and
 - (iii) to improve medical waste management in health facilities; and
- (b) carrying out of workshops to disseminate lessons learned from such studies and the Project in general.
3. Provision of technical assistance and training to strengthen SESAB's capacity:
 - (i) to implement performance-based contracting of health services;
 - (ii) to establish at least one Regulation Center for High Complexity Care at the State level; and
 - (iii) for auditing and accreditation of services.

Part C: Expansion of Basic Care

1. Strengthening the Borrower's capacity to manage and supervise the provision of Basic Care by Municipalities including:
 - (a) the development and implementation of protocols for the delivery of priority health programs required by NOAS SUS 01/2002, and for the improved delivery of services and the recording of medical histories;
 - (b) the implementation of a system to certify the services delivered by Family Health Teams as complying with the norms of the Family Health Program; and
 - (c) the supervision of Municipalities to verify compliance with the *Pacto* Agreements.
2. (a) Development of an internet-based price-bank system for pharmaceutical products and a system for electronic purchases of basic drugs by municipalities;

(b) training of state and municipal staff in such bank and electronic purchases;

(c) improvement of the storage capacity for pharmaceuticals in the Micro-Regions; and

(d) implementation of a communication campaign to improve the rational use of drugs.

3. (a) Carrying out of Basic Care Subprojects; and (b) implementation of procurement audits of such Subprojects.

Part D: Project Management

Establishment and operation of the PCU and refurbishing and equipping of the offices required therefor.

* * *

The Project is expected to be completed by March 30, 2007.

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, 2008 through January 15, 2018	5%

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

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

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

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 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 Guarantor.

(c) Notification and Advertising

The invitation to prequalify or 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

- (a) (i) Goods estimated to cost less than \$250,000 equivalent per contract up to an aggregate amount of \$1,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Guidelines; and
- (ii) except as provided in Part C.3 of this Section I, works shall be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Guidelines.

(b) In the procurement of goods and works under this Part C.1, bidding documents in a 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 works to be undertaken pursuant to this Part C.1:

- (i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 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;
- (ii) 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;
- (iii) 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;
- (iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

- (v) there shall not be, without the Bank's prior approval, issuance of any change order under a contract which would increase or decrease by more than 15% the quantity of works or goods (and related services), as the case may be, without any change in the unit prices or other terms and conditions of such contract.

2. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent (excluding Subprojects), may be procured under contracts awarded on the basis of international/national 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 Guarantor's Law No. 10.520 of July 17, 2002.

3. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract for up to an aggregate amount not to exceed \$160,000 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. Direct Contracting

Laboratory kits which should be procured from the original supplier to be compatible with existing equipment and costing \$250,000 equivalent or less in the aggregate may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

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 procured under Part B.1 of this Section; (b) each contract for vehicles irrespective of value; and (c) the first two contracts each for goods and works procured under Part C.1 (a) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants and Technical Services

Part A: General

Consultants' services and Technical 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 II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services and Technical 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.

2. The following provision shall apply to consultants' services and Technical Services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, 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.

Part C: Other Procedures for the Selection of Consultants and Technical Services

1. Service Delivery Contractors

Technical 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 procedures acceptable to the Bank.

2. 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 in the aggregate \$2,000,000 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 six 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: (i) each contract for the employment of consulting firms (other than for Subprojects) estimated to cost the equivalent of \$250,000 or more; and (ii) each contract for the employment of consulting firms for Subprojects estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants and Technical Services estimated to cost the equivalent of \$35,000 or more, the report on the comparison of the qualifications and experience of candidates, 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 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 Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Part C.3 (a) of the Project and Categories (1), (2), (3), (4), and (6) set forth in said table in respect of all other Parts of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works 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: (i) the amount \$1,500,000 in respect of the Special Account for Part C.3 (a) of the Project; and (ii) an amount of \$1,500,000 in respect of the Special Account for the other Parts thereof, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to: (i) the amount of \$750,000 in respect of the Special Account for Part C.3 (a) of the Project; and (ii) an amount of \$750,000 in respect of the Special Account for the other Parts thereof, until (i) in respect of the Special Account for Part C.3 (a) of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Category (5) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part C.3 (a) of the Project shall be equal to or exceed the equivalent of \$1,500,000 and (ii) in respect of the Special Account for the other Parts of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Categories (1), (2), (3), (4), and (6) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for all Parts of the Project other than Part C.3 (a) thereof shall be equal to or exceed the equivalent of \$2,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

