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16 LOAN AGREEMENT
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21 (Sao Paulo Health Project)
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28 INTERNATIONAL BANK FOR RECONSTRUCTION
29 AND DEVELOPMENT
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32 and
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35 STATE OF SAO PAULO
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44 Dated , 1984

01 LOAN AGREEMENT

02 AGREEMENT, dated _____, 1984, between
03 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (herein-
04 after called the Bank) and STATE OF SAO PAULO, (hereinafter
05 called the Borrower) a political sub-divison of the Federative
06 Republic of Brazil, (hereinafter called the Guarantor).



ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated October 27, 1980, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, 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) "SES" means Secretaria Estadual da Saude, the Borrower's Secretariat of Health;

(b) "MSP" means the Municipality of Sao Paulo;

(c) "SHS" Secretaria de Higiene e Saude, the MSP's Secretariat of Hygiene and Health or, if the context so requires the Secretariat of Hygiene and Health of any other Municipality in the Project Area;

(d) "INAMPS" means Instituto Nacional de Assistencia Medica da Previdencia Social, the Guarantor's National Social Security Institute for Medical Assistance;

(e) "Model" means the model for the provision of basic health services to be utilized under Part B.1 of the Project, as substantially described in Annex 1 to Schedule 1 to this Agreement;

(f) "Basic Health Unit" means a set of health facilities, including an adequate building, with the functions of providing basic health care (presently called Health Posts or Centers), and the new approach in service content summarized in Part II of Annex 1 to Schedule 1 to this Agreement;

(g) "Project Area" means the geographic area within the RMSP (as the term is defined in (j) below) where the Project is located and which comprises: (i) Target Areas, as the term is defined in (h) below; and (ii) Extension Points, as the term is defined in (i) below;

(h) "Target Area" means each of the geographical areas listed below where the Model will be fully developed: (i) the area within MSP usually referred to as Freguesia do O and which comprises the MSP Health Districts denominated Casa Verde, Limao, Nossa Senhora do O, Brasilandia and Cachoeirinha; (ii) the area within MSP usually referred to as Itaquera-Guaianazes and which comprises the MSP Health Districts denominated Itaquera and Guaianazes; (iii) the area where the Municipalities of Cotia and Vargem Grande are located; (iv) the semi-rural area usually referred to as Caieiras where the Municipalities of Caieiras,

Mairipora, Franco da Rocha, Francisco Morato and Cajamar are located; and (v) the area usually referred to as Maua where the Municipalities of Maua, Ribeirao Pires, and Rio Grande da Serra are located.

(i) "Extension Points" means each of the geographical areas within MSP where, under Part B (1) of the Project, only ambulatory and referral services will be provided by the corresponding Basic Health Unit, where the Health Districts denominated Tucuruvi, Vila Maria, Santo Amaro, Jabaquara, Butanta, Penha da Franca, Vila Prudente and Lapa are located, and where, the remainder of the Model will be developed in follow-up phases of a health program, the next of which is to be prepared under Part B.9 of the Project.

(j) "RMSP" means Regiao Metropolitana de Sao Paulo, the geographical area sometimes referred to as Greater Sao Paulo Metropolitan Area;

(k) "Project Unit" means the Special Committee for the Metropolitan Health Program established by Article 1 of the Borrower's Decree No. 21862, published on December 29, 1983, and "Regulations" means the regulations governing the activities of the Project Unit referred to in Article 4 of the aforesaid Decree, as approved by the Borrower's Secretary of Health in fulfillment of Section 6.01 (c) of this Agreement.

(1) "CIS Agreement" means the agreement between the Guarantor's Ministry of Social Security and Assistance, with the participation of INAMPS, and the Guarantor's Ministry of Health, and the Borrower, dated October 27, 1983, entered into with the purpose of putting into effect and executing an integrated health, program in the Borrower's territory;

(m) "CRIS Agreement" means the agreement denominated "Primeiro Termo Aditivo" (First Additional Terms) to the CIS Agreement, entered into, on October 27, 1983, amongst the same agencies and entities mentioned in (1) above except that the Borrower was represented by the SES, all pursuant to the terms of the CIS Agreement, and with the purpose of establishing the mechanisms necessary for putting into effect and executing an integrated health program in RMSP;

(n) "CIMS Agreement" means the agreement denominated "Termo de Adesao" (Adhesion Terms) to the CRIS Agreement, entered into, on October 27, 1983, amongst the Guarantor's Ministry of Health, INAMPS, the Borrower and MSP, with the participation of SHS, all pursuant to the CRIS Agreement and with the purpose of implementing and executing an integrated health program in MSP, with emphasis on the development of basic health services;

(o) "Special Account" means the account to be opened pursuant to Section 2.02 (b) of this Agreement;

(p) "Account Bank" means the Guarantor's Central Bank;

(q) "Cruzeiro" means the unit of currency of the Guarantor;

(r) "FUNDES" means Fundo Estadual de Saude, the Borrower's Health Fund established under Lei Complementar No. 204, dated and published December 20, 1978;

(s) "Project Account" means the account in FUNDES to be established pursuant to Section 3.06 of this Agreement;

(t) "By-laws" means [by-laws of Project Account];

(u) "Administrator" means the Borrower's banking agency appointed as administrator of the Project Account;

(v) "FUNDAP" means Fundacao do Desenvolvimento Administrativo (Administrative Development Foundation), a foundation [wholly owned by the Borrower];

(w) "Initial Deposit" means the amount of the proceeds of the Loan withdrawn from the Loan Account through one or more withdrawals under Category (8) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, and deposited in the Special Account pursuant to paragraph 3 of Schedule 5 to this Agreement; and

(x) "CNRH" means Conselho Nacional de Recursos Humanos (National Human Resources Council) _____

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 Loan Agreement, an amount in various currencies equivalent to fifty-seven million two hundred thousand dollars (\$57,200,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, 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 shall cause to be opened and thereafter maintained in dollars a Special Account in the Account Bank on terms and conditions satisfactory to the Bank. Deposits into and payments out of the Special Account shall be made in accordance with Schedule 5 to this Agreement.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods and civil works 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 2.04. The Closing Date shall be June 30, 1989 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.05. (a) The Borrower shall pay to the Bank a fee equivalent to one hundred forty-two thousand six hundred forty-three dollars (\$142,643).

(b) 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 the said fee in such currency or currencies as the Bank shall determine.

Section 2.06. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.07. (a) The Borrower shall pay interest on the principal amount of the Loan, withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.08 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost" of Qualified Borrowings means the cost, expressed as a percentage per annum, as reasonably determined by the Bank, provided that the amount of \$8,520.5 million referred to in (iii) (B) hereunder shall be reckoned at a cost of 10.93% per annum.

(iii) "Qualified Borrowings" means (A) outstanding borrowings of the Bank drawn down after June 30, 1982; and (B) until July 1, 1985, the amount of \$8,520.5 million (representing borrowings of the Bank between July 1, 1981 and June 30, 1982) less any part thereof repaid earlier than July 1, 1985.

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

Section 2.08. Interest and other charges shall be payable semiannually on _____ and _____ in each year.

Section 2.09. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

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, shall carry out the Project, other than Part A thereof, with due diligence and efficiency and in conformity with appropriate administrative, financial and public health practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) The Borrower shall, not later than October 31, 1984, enter into one or more agreements satisfactory to the Bank with the Guarantor, through CNHR, and FUNDAP whereunder the Borrower shall cause FUNDAP to take all action required on its part consistently with appropriate financial practices so as to manage all financial aspects of the carrying out of Part A of the Project, and to abide by all provisions of this Agreement concerned with the carrying out of such Part of the Project, particularly Section 2.03 of the Guarantee Agreement and Sections 4.01 and 4.02 hereof and, shall make available to CNHR, through FUNDAP, as a grant, the funds allocated from time to time to Category (4) of the table set forth in Schedule 1 to this Agreement, and the Guarantor shall specify the activities of CNRH through which the Guarantor shall discharge its obligations under

Section 2.03 of the Guarantee Agreement. Unless the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the agreement or agreements in question or any provision thereof;

(c) Without limitation or restriction to the provisions of paragraph (a) of this Section, the Borrower shall, until the Closing Date: (i) maintain the Project Unit and shall provide it with such resources as shall be required to enable the Project Unit to discharge its responsibilities in respect of the carrying out of the Project; (ii) ensure that the head of the Project Unit is a qualified and experienced person selected for the purpose by the Council established under the CIS Agreement; and (iii) afford the Bank a reasonable opportunity to comment on the qualifications and experience of any candidate to the position of head of the Project Unit.

Section 3.02. (a) In order to assist the Borrower in implementing Part B of the Project, particularly in the areas of personnel, budgetary and management information systems, and of health services organization, delivery and evaluation, and in completing final designs for Part D of the Project, the Borrower shall employ, respectively, management, health services, and architectural consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank, such consultants to be selected in accordance with princi-

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03 ples and procedures satisfactory to the Bank on the basis of the
04 "Guidelines for the Use of Consultants by World Bank Borrowers
05 and by the World Bank as Executing Agency" published by the Bank
06 in August 1981.

07 (b) The Borrower shall hire the consultants on health
08 services organization, delivery and evaluation, required by
09 paragraph (a) of this Section, not later than April 1, 1985.

10 Section 3.03. (a) The Borrower undertakes to insure, or make
11 adequate provision for the insurance of, the imported goods to be
12 financed out of the proceeds of the Loan against hazards incident
13 to the acquisition, transportation and delivery thereof to the
14 place of use or installation, and for such insurance any indem-
15 nity shall be payable in a currency freely usable by the Borrower
16 to replace or repair such goods.

17 (b) The Borrower shall cause all goods and services
18 financed out of the proceeds of the Loan to be used exclusively
19 for the purposes of the Project.

20 Section 3.04. (a) The Borrower shall furnish to the Bank,
21 promptly upon their preparation, the plans, specifications,
22 reports, contract documents and construction and procurement
23 schedules work and procurement schedules for the Project, and any
24 material modifications thereof or additions thereto, in such
25 detail as the Bank shall reasonably request.

(b) The Borrower: (i) shall maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in the Project; (ii) shall enable the Bank's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank at regular intervals all such information as the Bank shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Loan and the goods and services financed out of the proceeds.

(c) Without limiting the generality of the preceding paragraphs, the Borrower shall prepare a report on all aspects of Project execution as of June 30, 1986, or as of a later date if the Bank shall reasonably so request, and an evaluation thereof and furnish to the Bank such report not later than September 30, 1986 or three months counted from such later date.

(d) Upon the award by the Borrower of any contract for goods, works or services to be financed out of the proceeds of the Loan, the Bank may publish a description thereof, the name

and nationality of the party to whom the contract was awarded and
the contract price.

(e) The Borrower shall enable the Bank's representatives to
examine all plants, installations, sites, works, buildings,
property and equipment of the Borrower and any relevant records
and documents.

(f) Promptly after completion of the Project, but in any
event not later than six months after 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 accom-
plishment of the purposes of the Loan.

Section 3.05 The Borrower shall take or cause to be taken
all such action as shall be necessary to acquire as and when
needed, but never later than December 31, 1985, all such land and
rights in respect of land as shall be required for the construc-
tion (and operation) of the facilities included in Part D.4 and
Part D.5 of the Project and shall furnish to the Bank, promptly

1 after such acquisition, evidence satisfactory to the Bank that
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3 such land and rights in respect of land are available for pur- _____ sink for 1st page
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5 poses related to the Project.

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7 Section 3.06 (a) The Borrower shall open in FUNDES and
8
9 thereafter maintain, a separate account in cruzeiros (the Project
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11 Account), with as many sub-accounts as required, which the
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13 Borrower, through the Project Unit, shall use for purposes of
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15 carrying out the Project, other than Part A thereof;

16 (b) The Borrower, through the Project Unit, shall pay with
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18 funds deposited in the Project Account, all expenditures in
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20 cruzeiros incurred by the Borrower under the Project.

21 (c) The Borrower shall ensure that the funds deposited in
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23 the Project Account are, at all times, equivalent to not less
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25 than the aggregate of three-and-one-half-months' estimated expen-
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27 ditures in cruzeiros under the Project.

28 (d) The Borrower shall take all steps as shall be necessary
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30 to ensure that the Administrator take all such action as shall be
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32 required on its part to enable the Borrower to comply with its
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34 obligations under this Section and to have the Project Account
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36 replenished from time to time, with the equivalent in cruzeiros
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38 of funds debited by the Account Bank from the Special Account.

39 Section 3.07. The Borrower shall not assign, amend, abrogate
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41 or waive the CIS Agreement or the CRIS Agreement or the CIMS

Agreement or any provision thereof, and shall take all necessary steps on its part as shall be required to enable the appropriate functioning of each of the councils established pursuant to the provisions of each of the said Agreements.

Section 3.08. The Borrower shall take all such steps as shall be necessary to ensure that physicians and other staff employed by SES or SHS in the Project Area would normally be engaged in a full-time basis and would be renumerated in accordance with the Borrower's Law No. 341.

Section 3.09. The Borrower shall carry out Part B.(6) (A) of the Project in form and substance satisfactory to the Bank by June 30, 1985.

Section 3.10. (a) The Borrower shall have the Special Account audited annually by independent auditors acceptable to the Bank and, promptly after the audit and not later than four months after the close of the Account Bank's fiscal year, the Bank shall be furnished with certified copies of such audit, together with a certified copy of the auditor's report, including a description of the audit procedures.

(b) The Borrower shall cause the Account Bank to furnish to the Bank each month certified statements of the Special Account, and from time to time such other information concerning such Special Account, the said statements and the audit of the Special Account, as the Bank shall reasonably request.

ARTICLE IV

Financial and other Covenants

Section 4.01. (a) The Borrower, through the Project Unit, shall maintain and, only in respect of Part A of the Project, cause FUNDAP to maintain, separate accounts and records adequate to reflect in accordance with consistently maintained, appropriate accounting practices, the operations, resources and expenditures in respect of the Project, of the departments and agencies of the Borrower responsible for carrying out the Project, and of FUNDAP, respectively. The Borrower shall, in addition, maintain through the Project Unit separate accounts and funds adequate to reflect in accordance with identical accounting practices the annual recurrent costs of operating the public sector health system in the Project Area.

(b) Without limitation on the foregoing, the Borrower shall: (i) maintain or cause to be maintained separate accounts reflecting all expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditures; (ii) retain, until one year after the Closing Date, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditures; and (iii) enable the Bank's representatives to examine such records.

Section 4.02. The Borrower shall:

(a) have its accounts referred to in Section 4.01 and the Project Account, and cause FUNDAP to have its separate accounts referred to in Section 4.01 of this Agreement (hereinafter called the FUNDAP Accounts) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish, and cause FUNDAP to furnish, to the Bank as soon as available, but in any case not later than six months after the end of each fiscal year: (i) certified copies of the accounts referred to in Section 4.01 to this Agreement and the Project Account, and of the FUNDAP Accounts, respectively for such year as so audited; and (ii) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including, without limitation to the foregoing, a separate opinion by said auditors in respect of the expenditures and records referred to in paragraph (b) of Section 4.01 of this Agreement as to whether the proceeds of the Loan withdrawn from the Loan Account on the basis of statements of expenditure have been used for the purpose for which they were provided; and

(c) furnish, and cause FUNDAP to furnish, to the Bank such other information concerning said accounts, records and expenditures, as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.03. (a) The Borrower represents that at the date of this Agreement no lien exists on any of its assets as security for any debt [except as otherwise currently reported to the Bank or stated in writing.*]

(b) The Borrower undertakes that, except as the Bank shall otherwise agree: (i) if the Borrower shall create any lien on any of its assets as security for any debt, such lien will equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan, and in the creation of any such lien express provision will be made to that effect, at no cost to the Bank; and (ii) if any statutory lien shall be created on any assets of the Borrower as security for any debt, the Borrower shall grant, at no cost to the Bank, an equivalent lien satisfactory to the Bank to secure the payment of the principal of, and interest and other charges on, the Loan; provided, however, that the foregoing provisions of this paragraph shall not apply to: (A) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property or as security for the payment of debt incurred for the purpose of financing the purchase of such property; or (B) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

* If a lien is requested by the Guarantor under recently issued Portaria No. 039

Section 4.04. The Borrower shall:

(a) cause all health facilities in the Project Area, _____ sink for 1st page
including those constructed and equipped under the Project, to be
efficiently operated and maintained, and the services to be
furnished thereunder to be provided promptly as needed, all in
conformity with appropriate practices and by competent personnel
in adequate numbers, and shall furnish to the Bank, through the
Project Unit and not later than June 30, 1985 a detailed plan of
a maintenance system for the purpose;

(b) provide, or cause to be provided, as and when needed,
the funds, facilities, services and other resources required for
purposes of paragraph (a) above; and

(c) without limitation or restriction upon the provision of
paragraphs (a) and (b) hereof, make or cause to be made adequate
provision for such operation and maintenance in the annual
recurrent budgets of the Borrower for such facilities equal to at
least one and one-half of one per cent (1.5%) of replacement cost
per year in the case of buildings and one and three-tenths of one
per cent (1.3%) of replacement cost per year in the case of
equipment, furniture and vehicles.

Section 4.05. (a) The Borrower shall consult with the Bank
on the financial and manpower implications of any proposed new
major investment, other than the Project, to be undertaken by the

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03 Borrower or any political subdivision or agency thereof in the
04 health sector within RMSP.

05 (b) For purposes of this Section the term "new major
06 investment" means any construction of new hospital facilities to
07 be used to provide the most sophisticated kind of health-care
08 services, usually referred to as tertiary health care.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) that any party to the CIS Agreement, the CRIS Agreement, the CIMS Agreement or any agreement or Termo de Adesao accepted by the Bank for purposes of sub-paragraphs (b), (c) or (d) of paragraph 4 of Schedule 1 to this Agreement shall have failed to comply with its obligations under the Agreement in question;

(b) that the Borrower's Lei Complementar No. 204 or the By-laws or the Regulations or the Borrower's Decree No. 21862 or the Borrower's Law No. 341 shall have been abrogated or modified;

(c) that the Borrower or FUNDAP shall have failed to comply with their respective obligations under the Agreement referred to in paragraph (b) of Section 3.01 of this Agreement; and

(d) that any of the councils established pursuant to the CIS or the CRIS or the CIMS Agreements shall have been disestablished or ceased to be operative.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof:

(a) that any of the events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) that any of the events specified in paragraph (b) or paragraph (d) of Section 5.01 of this Agreement shall occur.



ARTICLE VI

Effective Date; Termination

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

(a) that the Loan Agreement has been duly registered by the Banco Central do Brasil;

(b) that all necessary acts, consents and approvals to be performed or given by the Borrower, its political subdivisions or agencies, by any agency thereof, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Borrower to perform its obligations pursuant to this Agreement, together with all necessary powers and rights in connection therewith, have been performed or given;

(c) that the Regulations have been issued in form and substance satisfactory to the Bank; and

(d) that By-laws have been issued in form and substance satisfactory to the Bank and that the Administrator has been appointed.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Loan Agreement has been duly registered by the Banco Central do Brasil; and

(b) that all necessary acts, consents and approvals to be performed or given by the Guarantor, the Borrower, their political subdivisions or agencies, or by any agency thereof or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Guarantor and the Borrower to perform their respective obligations pursuant to the Guarantee Agreement and this Agreement, and to enable INAMPS and MSP to perform their respective obligations under the CIS, CRIS and CIMS Agreements, together with all necessary powers and rights in connection therewith, have been performed or given.

Section 6.03. The date _____, * is hereby specified for the purpose of Section 12.04 of the General Conditions.

* A date approximately ____ days after the date of signature of this Agreement will be inserted here.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The _____ 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 Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Cable address:

Telex:

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Regional Vice President
Latin American and the Caribbean

STATE OF SAO PAULO

By

Authorized Representative

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works (other than those included in Part D (1) of the Project	25,500,000	40%
(2) Goods	14,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) under inter-national competitive bidding and 40% of local expenditures for other items procured locally
(3) Consultant services other than under Category (4) or (6)	1,100,000	100%
(4) Studies under Part A of the Project	1,900,000	100%

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<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Training and fellowships	2,000,000	100% of foreign expenditures and 40% of local expenditures
(6) Studies under Parts B (8) and (9) of the Project	1,500,000	100%
(7) Salaries of, and furniture, materials and supplies for Project Unit	1,000,000	40%
(8) Initial deposit in Special Account	5,000,000	
(9) Fee	142,643	Amount due under Section 2.05 of this Agreement
(10) Unallocated	4,257,357	
TOTAL	<u>57,200,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. The disbursement percentages have been calculated in compliance with the policy of the Bank that the proceeds of the Loan shall not be disbursed on account of payments for taxes levied by, or in the territory of, the Guarantor on goods or services, or on the importation, manufacture, procurement or supply thereof; on this basis, if the amount of any such taxes levied on or in respect of items in any Category decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such Category as required to be consistent with the aforementioned policy of the Bank.

4. 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 the equivalent of \$3,000,000, may be made in

respect of Category (1), subject to paragraphs (b) and (c) below, sink for 1st pag

and Category (3) on account of payments made for expenditures

before that date but after January 1, 1984;

(b) payments made for expenditures for civil works under

Part D.3 of the Project unless, subject to sub-paragraph (c)

below, the Municipality of Cotia, the Borrower and the owners of

the hospital included under such Part of the Project have exe-

cuted and delivered an agreement, on terms and conditions satis-

factory to the Bank, in respect of: (i) the carrying out of such

Part of the Project; and (ii) upon completion thereof, the

operation of the hospital in question;

(c) payments made for expenditures under Parts C or D of

the Project in respect of a Municipality within RMSP other than

MSP unless the Prefeito of the municipality in question has

signed, together with the other authorities stipulated under the

CRIS Agreement the corresponding Termo de Adesao (Adhesion terms)

on terms and conditions satisfactory to the Bank; and (d) pay-

ments made for expenditures under Part A.2 of the project, unless

the agreement or agreements referred to in Section 3.01 (b) of

this Agreement and Section 2.03 (a) of the Guarantee Agreement

have been entered into in form and substance satisfactory to the

Bank.

5. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditure for such item shall be financed out of the proceeds of the Loan, and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of

the Loan as, in the Bank's reasonable opinion, represents the
amount of such expenditures which would otherwise have been
eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve health status in the Project Area; (b) to improve the cost-effectiveness ratio of health services delivered generally within the RMSP; and (c) to assist the Guarantor to develop and put into effect appropriate policies on national health sector issues.

The Project is the first phase of a larger program which aims at improving the provision of health services by means of the utilization of the Model throughout RMSP, and consists of the following Parts:

Part A: National Policy Analyses

Developing a program of policy studies aimed at improving national policy formulation. The studies will include the following subjects: (i) alternative models for expansion of health-service coverage; (ii) decentralization of health service delivery: technical, political and institutional implications; (iii) economic and financial aspects of the health system; (iv) technology options and impact on cost-effectiveness of the health system; and (v) other subjects agreed from time to time pursuant to the annual reviews stipulated in Section 2.03 (b) of the Guarantee Agreement.

Part B: Institutional Development

Establishment of new organizational arrangements for the provision of health services in the Project Area, including:

(1) utilization in the Target Areas of the full Model described in Annex 1 hereto, except for the Regional level thereof and, in the Extension Points, provision of ambulatory and referral services by means of the 38 Basic Health Units included under Part D (5) of the Project and the system to be established under Part B (3) of the Project;

(2) administration of public health services by SHS for the two Target Areas known as Freguesia do O and Itaquera-Guaianazes and the Extension Points, and by SES for the other Target Areas; and management of health services, whether by SHS or SES, organized hierarchically according to the Model, from the Basic Health Unit to the SHS or SES headquarters;

(3) establishment of a system of standardized procedures for referral and counter-referral between different levels in the Model;

(4) in cases where they will be more cost-effective than in-center care or when they are necessary, establishment of ~~preventive and curative procedures for~~ ~~procedures for outreach services, such as home visiting for~~ ~~health promotion and education, screening and simple preventive~~

~~tive, curative, nutrition and family planning services; health outreach~~
service

(5) monitoring and evaluation of the main processes and activities of the Model taking place under the Project and its impact on health status and costs, together with comparisons of alternative approaches;

(6) (A) introduction of simple cost accounting at each level of the Model to determine the unit costs of each major service or procedure, and (B) development of improved systems of record keeping and billing to INAMPS for reimbursement;

(7) establishment of a manager accountability system, and encouragement of community participation at all levels of the Model;

(8) preparation of Project related studies on health needs in RMSP examining in depth health needs and community attitudes to health and health providers substantially as detailed in Annex 2 thereby; and

(9) strengthening of the planning capabilities of SES and the preparation thereby of a feasibility study for a second-phase health project.

Part C: Manpower Development

(1) Establishment of a human resources center within SES to ensure SES' managerial capacity to support Project manpower policies, and training, selection and development of human resources.

(2) Design and execution of a health services staff training program in the Project Area consisting of approximately: (i) 67 local courses for about 1,200 participants; (ii) 428 in-house courses for about 6,000 participants; (iii) 398 continuing education 2-day seminars and workshops for about 5,000 participants; (iv) 395 local scholarships for health visitors and sanitation agents and inspectors; (v) 1380 local scholarships for hospital attendants and auxiliaries; (vi) 425 local scholarships for workshops of technical and professional staff participating in the implementation of the Model; and (vii) 11 local or overseas scholarships for senior professional staff participating in the implementation of the Model.

(3) Acquisition and utilization of training equipment for local training institutions involved in Part C (2) above.

Part D: Health Facilities

A program of expansion of facilities, upgrading existing buildings and acquisition and construction of new facilities, including:

(1) acquisition of and minor modifications to the 226 bed Nardini Hospital in Maua;

(2) conversion of about 140 beds at the existing Juqueri Psychiatric Hospital to general-hospital beds by means of renovating about 1,400 square meters, adding about 3,000 square

meters of new construction and acquiring and utilizing new equipment;

(3) addition of about 115 beds to the private, non-profit Cotia hospital, together with upgrading of its technical department, and acquisition and utilization of additional equipment to accomodate the additional patient load;

(4) construction, furnishing and equipping of five new general hospitals in the MSP, each with about 200 beds.

(5) construction, furnishing and equipping of approximately 99 new Basic Health Units, with about 61 in Target Areas and 38 in Extension Points.

(6) renovation and re-equipping of existing facilities for approximately 28 Basic Health Units in Target Areas; and

(7) acquisition and utilization of about 72 ambulances and 180 vehicles for 12 Model Health Modules in Target Areas and for the Project Unit, for its activities and for the training program under Part C of the Project.

* * *

The Project is expected to be completed on September 30, 1988.

ANNEX 1 TO SCHEDULE 2

Description of the Model

The Model would be flexible so as to be adequate for the population needs and will normally have the following features.

I. Organizational structure:

- (a) Health Modules, each of which will correspond with geographic areas comprised of populations ranging from about 60,000 to 250,000; health needs of populations in each area will be covered by means of: (i) ambulatory health services to be provided by 2 to 10 Basic Health Units, depending on the needs of the area in question, and (ii) in-patient services to be provided by one 200-bed hospital equipped with an emergency-care unit, but with no out-patient department since most of such services are to be provided by the satellite Basic Health Units. Each Basic Health Unit in each Module will be the normal point of entry to the health system in the area in question and will constitute an expenditure and accounting unit. A referral system would integrate each Basic Health Unit in the Module to the Area hospitals. The Health Module Manager will be proposed by the head of the Project Unit and appointed by SES or SHS, as the case may be, and will be assisted by Directors of Ambulatory, In-Patient and

Administrative services. Each Basic Health Unit Chief will report to the Director of Ambulatory Services and will be assisted by a council of elected community representatives. Staff will be expected to rotate between ambulatory and in-patient services so as to further the integration of basic health care within the Module.

(b) Health Areas, each of which will correspond to geographic areas comprised of populations ranging from 90,000 to 470,000. Each Health Area will contain 1 to 6 Health Modules each, depending on the Health needs of the population in the geographic area in question. Some medical specialty services will be available in only one of the hospitals of the Health Area in question. Logistical functions and common medical services such as laboratories, materials and drug supply, ambulance and laundry services will be managed by an Area office headed by a Manager advised by a council consisting of the Module Managers, representatives of the municipalities concerned, INAMPS and the community.

(c) Health Regions, each of which will correspond to geographic areas with an average population of 1.4 million, will contain a variable number of Health Areas and will provide services ranging from primary to

tertiary health care. The Health Regions may cut across

Municipal lines of RMSP in order to balance population sink for 1st page

and service distribution and, although tertiary care

services will be coordinated at this institutional

level, Health Regions will not be part of the Project

from an institutional development viewpoint.

II. The services to be provided under the Model will be those
summarized below:

(a) Medical Surveillance, Diagnosis and Treatment:

Monitoring of pregnant women and children's nutritional status,

childbirth, vaccinations, screening for chronic diseases (such as

tuberculosis, hypertension and cancer of cervix), treatment of

injuries, diagnosis and treatment of common diseases (such as

diarrhea, respiratory and other infections, dental cavities),

simple surgery and rehabilitation of convalescent patients. These

services would be rendered to some extent through home visits

(for example, screening) but mainly through a Health Basic Unit

and the corresponding hospital. School children would be cared

for by the school health services mainly. The complexity of

medical and surgical care and the sophistication of medical

technology would be limited, avoiding highly specialized manpower

and expensive technology applicable only to rare problems.

Hospitals would have the following functions: pediatric, gynecobstetrics, internal medicine, and surgery. Surgical procedures up to about the level of complexity of a cholecystectomy will be included; more complex surgery will be referred to a tertiary care facility. Biochemical tests, X-ray and electrocardiograms will be performed within the Health Module; more complex diagnoses would be done at the tertiary-care facilities outside the Health Module.

(b) Nutrition and Integral Care for Women and Children:

The model will include food supplementation for children, pregnant and lactating women, breastfeeding promotion, early detection and control of breast and cervical cancer, early detection and treatment of sexually-transmitted diseases, family planning.

(c) Promotion and Health Education: Demand creation and

education would be stimulated through advertisement of services, home visits, simple messages of self-care, personal hygiene, family spacing, and the like.

(d) Environmental Sanitation: The model includes personal

health services only but it will include minor action in environmental sanitation such as sanitary household inspection, control

of rodents and insects, food hygiene control and community participation in trash collection and appropriate disposal.

III. Adequate cost-effectiveness will be achieved by, together with the establishment of each Health Module described in I above, introducing:

(a) Substitution of a reimbursement system by INAMPS based on the reasonable cost of providing care for the existing fee-for-service system. The cost of the new system will be computed as a function of an estimated number of visits per capita, in the case of a Basic Health Unit, and of the actual procedures performed, in the case of a hospital; and

(b) Non-renewal of contractual arrangements between INAMPS and private physicians and group practices in the Project Area so as to replace the services provided under such arrangements with those to be provided under the Project.

ANNEX 2 TO SCHEDULE 2

Studies to be Carried Out
Under Part B (8) of the Project

I. Manpower Management

- (a) Health personnel, productivity and career development
- (b) Labor markets for health workers
- (c) Management alternatives
- (d) Employment conditions and motivation, and personnel turnover
- (e) Health worker rotation between ambulatory and hospital services
- (f) Evaluation of training programs

II. Support and Diagnostic Services

- (a) Feasibility of centralized support services
- (b) Logistics of drug supply and other materials
- (c) Effectiveness of milk distribution programs
- (d) Use of diagnostic aids in Basic Health Units
- (e) Cost/benefit of diagnostic services centralized in hospitals

III. Health Care Services

- (a) Criteria for patient referral and hospital admission
- (b) Quality control of services
- (c) Anthropometric measures in nutrition surveillance
- (d) Pilot testing of improved nutrition intervention

IV. Health Service Consumers

- (a) Consumer preferences, health practices and utilization of services
- (b) Tracer studies of coverage, treatment and follow-up of special user categories, such as, psychiatric patients, family planning clients, chronic disease sufferers, or alcoholics
- (c) Special baseline studies for Project health indicators

V. Health Finance

Research on evaluation methodologies of Project cost-effectiveness

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each [] and []	
beginning []	
through []	
On []	

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal; see General Conditions, Section 3.04.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.04 (b) of the General Conditions:

Time of Prepayment

Premium

The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:

SCHEDULE 4

Procurement

A. International Competitive Bidding

1. Except as provided in Part C hereof, goods and civil works ~~shall~~ be procured under contracts awarded in accordance with procedures consistent with those set forth in the current edition of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods and works to be procured on the basis of international competitive bidding, and in addition to the requirements of paragraph 1.2 of the Guidelines, the Borrower shall prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank shall reasonably request; the Bank will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods and works in question. The Borrower shall provide the necessary

information to update such notice annually so long as any goods or works remain to be procured on the basis of international competitive bidding.

3. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding: (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for the imported goods, or the ex-factory price or off-the-shelf price of other goods offered in such bid; (ii) customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery, pursuant to the bid, of the goods shall not be taken into account in the evaluation of the bids; and (iii) the cost of inland freight and other expenditures incidental to the delivery of the goods to the place of their use or installation shall be included.

B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to, the following provisions:

01
02
03 1. All bidding documents for the procurement of goods
04 shall clearly indicate any preference which will be granted, the
05 information required to establish the eligibility of a bid for
06 such preference and the following methods and stages that will be
07 followed in the evaluation and comparison of bids.

08 2. After evaluation, responsive bids will be classified in
09 one of the following two groups:

10 (1) Group A: bids offering goods manufactured in
11 Brazil if the bidder shall have established to the
12 satisfaction of the Borrower and the Bank that
13 such goods contain components manufactured in
14 Brazil equal to at least 50% of the value of the
15 complete goods.

16 (2) Group B: bids offering any other goods.

17 3. In order to determine the lowest evaluated bid of each
18 group, all evaluated bids in each group shall first be compared
19 among themselves, without taking into account customs duties and
20 other import taxes levied in connection with the importation, and
21 sales and similar taxes levied in connection with the sale or
22 delivery, pursuant to the bids, of the goods. Such lowest
23 evaluated bids shall then be compared with each other, and if, as
24 a result of this comparison, a bid from group A is the lowest, it
25 shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding (i) to the c.i.f. bid price of goods to be imported in each group B bid an amount equal to the smaller of (A) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of goods offered in such group B bid, or (B) 15% of the c.i.f. bid price of such goods, and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B bid if they originated from the same foreign country as the bid included in group B which enjoys the lowest customs duties and other import taxes, or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph 3 above, shall be selected for the award.

C. Other Procurement Procedures

1. Civil works contracts and contracts for goods other than complex items such as x-rays and surgical equipment but including all furniture and vehicles, will be awarded under competitive

bidding procedures, locally advertised, to the extent such procedures are satisfactory to the Bank.

2. Contracts for goods other than those referred to in 1 above, and goods that cannot be grouped in packages of a size adequate for competitive bidding, shall be awarded after having sought quotations from not less than 3 reputable suppliers, to the supplier quoting the lowest price.

3. The aggregate of contracts for goods awarded in accordance with 1 and 2 above shall not exceed the equivalent of \$3,500,000 and the aggregate of contracts awarded in accordance with 2 above shall not exceed the equivalent of \$600,000.

D. Review of Procurement Decisions by the Bank

1. Review of invitations to bid and of proposed awards and final contracts:

With respect to all contracts estimated to cost the equivalent of \$1,000,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any

further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked or prequalification was invited.

(d) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph, the Borrower shall furnish to the Bank, promptly after its execution and prior to the submission to the Bank of the

first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than ____% of the original price, the Borrower shall inform the Bank of the proposed modification, waiver, extension or change order and the reasons therefor. The Bank, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform the Borrower and state the reasons for its determination.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Categories" means, collectively, Category (1), Category (2), Category (3), Category (4), Category (5), Category (6) and Category (7) mentioned in the table in paragraph 1 of Schedule 1 to this Agreement and the term "Category" means any one of them; and

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project, to be financed out of the proceeds of the Loan allocated from time to time to the categories in accordance with the provisions of, and in the percentages set forth in, the table set forth in paragraph 1 of Schedule 1 to this Agreement and which, except for services under Category (4) (Part A of the Project), have been paid out of the funds deposited in the Project Account.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. The Account Bank shall authorize withdrawals from the Special Account on the basis of the evidence that the Bank shall have reasonably determined. For each such withdrawal so authorized, the Account Bank shall debit the Special Account with the dollar equivalent of the amount of the

Eligible Expenditures in question in cruzeiros or any other currency other than dollars, determined on the basis of the rate of exchange between the dollar and such currency in effect at the date each payment from the Project Account shall have been made or, in the case of services under Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, at the date the expenditure was incurred.

3. The Bank shall, at the request of the Borrower, and after evidence satisfactory to the Bank of the establishment of the Project Account and of the deposit therein of 2,000,000,000 cruzeiros has been furnished to the Bank withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the Initial Deposit. The amount of the Initial Deposit originally allocated to Category (8) of the table set forth in paragraph 1 of Schedule 1 to this Agreement may at the request of and by notice to the Borrower be increased in order to adjust the level of the Special Account to the disbursement requirements of the Project. In such cases, the Bank may also adjust the amount formerly allocated to such Category (8). Deposits other than the Initial Deposits shall be made on the basis of requests by the Borrower furnished to the Bank at such intervals as the Bank shall specify; if so requested the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such

amounts as shall be required to replenish the Special Account with amounts equal to payments made out of the Special Account for Eligible Expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed in the aggregate the equivalent of the Initial Deposit, as such amount might have been adjusted pursuant to paragraph 3 hereof. Except as the Bank may otherwise agree, each such deposit after the Initial Deposit shall be withdrawn by the Bank from the Loan Account under the respective Category or Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. Prior to or at the time of each request by the Borrower for a deposit by the Bank into the Special Account after the initial deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank (a) when the Bank shall have determined at any time that

all further withdrawals can be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement, or (b) when the total unwithdrawn amount of the Loan allocated to the Categories minus the amount of any outstanding qualified agreement to reimburse entered into by the Bank and of any outstanding special commitment made by the Bank pursuant to Section 5.02 of the General Conditions, with respect to the Categories, shall be equal to the equivalent of twice the amount of the Initial Deposit, as such amount may have been adjusted by the Bank pursuant to paragraph 3 hereof. Withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Categories shall follow such procedures as the Bank shall specify by notice to the Borrower and shall, except as the Bank shall otherwise agree, be made only after and to the extent the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice have been or will be utilized in making payments for Eligible Expenditures.

6. If the Bank shall have determined at any time that:

(a) any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the

Borrower shall, promptly upon notice from the Bank and, unless otherwise agreed by the Bank, prior to any further deposit into the Special Account by the Bank, 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; or

(b) any amount outstanding in the Special Account will not be required to cover further payment for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account.