

**CONFORMED COPY**

**LOAN NUMBER 7253-BR**

# **Loan Agreement**

**(Sustainable and Equitable Growth Technical Assistance Project)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated October 4, 2005**

**LOAN NUMBER 7253-BR**

**LOAN AGREEMENT**

AGREEMENT, dated October 4, 2005, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated January 20, 2004, describing its program of actions, objectives and policies to support a set of microeconomic and institutional reforms that will foster sustainable growth by favoring capital accumulation and productivity gains in Brazil, especially aiming at reducing logistics costs, enhancing business environment, improving financial sector efficiency, access and soundness, and increasing technological progress and innovation (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project, which is the first phase of the technical assistance required for the implementation of the Program; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999, with the modification of paragraph (c) of Section 9.07 set forth below (the General Conditions), constitute an integral part of this Agreement:

“(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 of the Project, its cost and the benefits derived and to be derived

from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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

(a) “ANTAQ” means *Agência Nacional de Transportes Aquaviários*, the Borrower’s Waterborne Transport Regulatory Agency;

(b) “ANTAQ Coordinating Unit” means the ANTAQ unit referred to in Section 3.01 (b) (ii) of this Agreement;

(c) “ANTT” means *Agência Nacional de Transportes Terrestres*, the Borrower’s Land Transport Regulatory Agency;

(d) “ANTT Coordinating Unit” means the ANTT unit referred to in Section 3.01 (b) (ii) of this Agreement;

(e) “Bankruptcy Framework” means the following Bills of Law already approved by the Borrower’s House of Representatives (*Câmara de Deputados*), and expected to become laws in the Borrower’s territory once they are approved by the Borrower’s Senate: (i) Bill of Law No. 4376-E, of 1993, which provides for a new bankruptcy law; and (ii) Bill of Law No. 72/03 (*Emenda Aglutinativa Substitutiva Global ao Projeto de Lei Complementar No. 72/03*), which amends certain provisions of the Borrower’s Law No. 5172, of October 25, 1966 (the National Tax Code), applicable to enterprise bankruptcy and restructuring proceedings;

(f) “Beneficiary Entity” means any of the following entities: SRF, SPE, SEAE, SUSEP, SDE, MJ’s Secretariat of Judicial Reform, CADE, MT’s Secretariats of National Transport Policies and of Administration, DNIT, ANTT, ANTAQ, MCT’s Executive Secretariat and MCT’s Secretariats for Strategic Scientific Development Policies, for Social Inclusion, and for Strategic Development Policy, which benefit from the technical assistance provided under the Project as indicated in Schedule 2 to this Agreement, or any other entity which may benefit from a new activity to be included in the Project as provided in Section 3.03 of this Agreement; and “Beneficiary Entities” means all such entities together;

(g) “CADE” means *Conselho Administrativo de Defesa Econômica*, MJ’s Economic Defense Administrative Council;

(h) “COFIEX” means *Comissão de Financiamentos Externos*, the Borrower’s Commission of External Borrowings, within the Borrower’s Ministry of Planning, Budget and Management, and governed by the Borrower’s *Decreto* No. 3502, of June 12, 2000;

(i) “Coordinating Unit” means the ANTAQ Coordinating Unit, the ANTT Coordinating Unit, the DNIT Coordinating Unit, the MCT Coordinating Unit, the MF Coordinating Unit, the unit referred to in Section 3.01 (b) (iii) of this Agreement, or any other unit which may be included in the Project as a result of any of the reviews referred to in Section 3.03 (c) of this Agreement; and “Coordinating Units” means all such units together;

(j) “DNIT” means *Departamento Nacional de Infra-estrutura de Transporte*, the Borrower’s Department of Transport Infrastructure;

(k) “DNIT Coordinating Unit” means the DNIT unit referred to in Section 3.01 (b) (ii) of this Agreement;

(l) “Eligible Categories” means categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(m) “Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(n) “FMR” means each report referred to in Section 4.02 of this Agreement;

(o) “MCT” means *Ministério da Ciência e Tecnologia*, the Borrower’s Ministry of Science and Technology;

(p) “MCT Coordinating Unit” means the MCT unit referred to in Section 3.01 (b) (i) of this Agreement;

(q) “MF” means *Ministério da Fazenda*, the Borrower’s Ministry of Finance;

(r) “MF Coordinating Unit” means the MF unit referred to in Section 3.01 (b) (i) of this Agreement;

(s) “MJ” means *Ministério da Justiça*, the Borrower’s Ministry of Justice;

(t) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(u) “MT” means *Ministério dos Transportes*, the Borrower’s Ministry of Transport;

(v) “SDE” means *Secretaria de Direito Econômico*, MJ’s Secretariat of Economic Law;

(w) “SEAE” means *Secretaria de Acompanhamento Econômico*, MF’s Secretariat for Economic Monitoring;

(x) “SPE” means *Secretaria de Política Econômica*, MF’s Secretariat of Economic Policy;

(y) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(z) “SRF” means *Secretaria da Receita Federal*, MF’s Federal Revenue Secretariat; and

(aa) “SUSEP” means *Superintendência de Seguros Privados*, MF’s Superintendence of Private Insurance.

## 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 twelve million one hundred twenty thousand Dollars (\$12,120,000), 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. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, as well as in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2008 or such later date as the Bank shall establish, after having received evidence that COFIEX has recommended the extension of the Closing Date. The Bank shall promptly notify the Borrower of such later date, which shall not be a date beyond the date recommended by COFIEX.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (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 said fee.

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

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

Section 2.07. Interest and other 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 following persons are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions: (a) SPE's Secretary, in respect of the first withdrawal of funds for the Special Account and the expenditures under Parts A and B of the Project; (b) the Borrower's Minister of Transport, in respect of expenditures under Part C of the Project; and (c) the Borrower's Minister of Science and Technology, in respect of expenditures under Part D of the Project. Such

persons may designate, in writing, other persons to act on their behalf for the same purposes for which they are hereby being designated.

### **ARTICLE III**

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

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall, under the general coordination of SPE and the assistance of the Beneficiary Entities, carry out: (i) Parts A and B of the Project, through the MF Coordinating Unit; (ii) Parts C.1 and C.2 of the Project, through the unit referred to in Section 3.01 (b) (iii) of this Agreement; (iii) Part C.3 of the Project, through the DNIT Coordinating Unit; (iv) Part C.4 of the Project, through the ANTT Coordinating Unit; (v) Part C.5 of the Project, through the ANTAQ Coordinating Unit; and (vi) Part D of the Project, through the MCT Coordinating Unit, all with due diligence and efficiency and in conformity with appropriate administrative, financial, economic, scientific, technical, regulatory, environmental and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall:
- (i) through MF and MCT, establish and maintain, during the execution of the Project, units within MF and MCT for purposes of coordinating and managing the carrying out of Parts A and B of the Project (the MF Coordinating Unit) and Part D of the Project (the MCT Coordinating Unit), respectively, such units to have a structure and functions satisfactory to the Bank, and qualified staff in adequate numbers as required to carry out their responsibilities under the Project;
  - (ii) through DNIT, ANTT and ANTAQ, establish and maintain, during the execution of the Project, units within DNIT, ANTT and ANTAQ for purposes of coordinating and managing the carrying out of Part C.3 of the Project (the DNIT Coordinating Unit), Part C.4 of the Project (the ANTT Coordinating Unit) and Part C.5 of the Project (the ANTAQ Coordinating Unit), respectively, each such unit to comprise a coordinator with qualifications, experience and terms of reference satisfactory to the Bank; and



- (iii) through MT, designate or establish, and maintain a unit, which may be the DNIT Coordinating Unit, the ANTT Coordinating Unit, the ANTAQ Coordinating Unit, or a new unit acceptable to the Bank, for purposes of coordinating and managing the carrying out of Parts C.1 and C.2 of the Project.
  
- (c) The Borrower shall:
  - (i) through MF and MJ, maintain, during the execution of the Project, arrangements, satisfactory to the Bank, under which: (A) the MF Coordinating Unit will manage the carrying out of Parts B.1, B.2 and B.3 of the Project for the benefit of SDE, MJ's Secretariat of Judicial Reform and CADE, respectively, by undertaking the responsibility for the procurement of goods and services and the financial management of the payments and expenditures under such Parts of the Project; and (B) MJ will make annual budget transfers to the MF Coordinating Unit as shall be necessary for such unit to carry out the tasks referred to in (A) above.
  
  - (ii) through the MF Coordinating Unit and the MCT Coordinating Unit, maintain, during the execution of the Project, arrangements, satisfactory to the Bank, with an entity having capacity, satisfactory to the Bank, to assist each such unit in the procurement of goods and services under their respective Project components.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods and 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:

- (a) through each Beneficiary Entity, furnish to the Bank and SPE, at the end of each semester during Project implementation, a report, in such detail and of such scope as the Bank shall request, on the progress in the carrying out of the respective Project component under the responsibility of such Beneficiary Entity;
  
- (b) through SPE, furnish to the Bank, at the end of each semester during Project implementation, a report containing a summary of consolidated information on the progress of all components of the Project; and

(c) through SPE, review with the Bank, not later than April 30 of each year during the execution of the Project, the progress in the carrying out of the Project activities during the preceding twelve-month period, and the need to add or eliminate activities under the Project in order to achieve the objective of the Project. The Bank may (subject to compliance with its internal approval processes) agree to finance new Project activities under the Loan if: (i) there is an express support to the carrying of such activities by the relevant Ministry or Ministries of the Borrower; (ii) there is availability of Loan funds to finance the additional activities; (iii) such additional activities do not trigger any of the Bank's safeguard policies; and (iv) the Bank is satisfied with the arrangements for the implementation of such new activities.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall: (i) furnish to the Bank the reconciliation of the Special Account at the end of each calendar quarter during the execution of the Project; and (ii) cause each Coordinating Unit to establish and maintain financial management systems acceptable to the Bank, including records and accounts, and to prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to their respective Project components.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements,

and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall:

- (i) through each Coordinating Unit, retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that the relevant statements of expenditure and reports referred to in Part A.5 of Schedule 1 to this Agreement, as the case may be, are included in the audits for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's reporting obligations set out in Section 3.03 (a) and (b) of this Agreement, the Borrower shall, through each Coordinating Unit, prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), which:

- (i) sets forth sources and uses of funds for the component or components of the Project under the responsibility of such Coordinating Unit, both cumulatively and for the period covered by said report, showing separately funds provided by the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in the implementation of such Project component or components, 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 such Project component or components, 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 the period not covered by the previous FMR until the end of such calendar quarter.

## ARTICLE V

### Effectiveness; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement, within the meaning of Section 12.01 (c) of the General Conditions:

(a) the MF Coordinating Unit has been established as provided in Section 3.01 (b) (i) of this Agreement;

(b) at least two Coordinating Units have been established as provided in Section 3.01 (b) of this Agreement and their respective financial management systems referred to in Section 4.01 (a) of this Agreement have been established as provided therein; and

(c) the arrangements referred to in Section 3.01 (c) have been entered into between the respective parties thereto.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely, that the Loan has been validly registered with the Central Bank of Brazil.

Section 5.03. The date January 9, 2006, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VI

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

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Facsimile: (011-55-61) 412-1740

With copies to:

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

Facsimile: (011-55-61) 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	248423 (MCI) or	(202) 477-6391

Washington, D.C. 64145 (MCI)

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

FEDERATIVE REPUBLIC OF BRAZIL

By/s/ Sonia de Almendra Freitas Portella

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By/s/ Pamela Cox

Regional Vice President  
Latin America and the Caribbean

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods expenditures, 100% of local cost) local for	1,000,000	100% of foreign expenditures (ex-factory and 85% of expenditures other goods procured locally
(2) Consultants' services and training	8,600,000	84%
(3) Front-end fee	121,200	Amount due pursuant to Section 2.04 of this Agreement
(4) Unallocated	2,398,800	
(5) Premia for Interest Rate Caps and Interest	0	Amount due under Section



Rate Collars	2.09 (c) of
_____	this Agreement
TOTAL	12,120,000
	=====

2. For the purposes of this Schedule, the term:
  - (a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;
  - (b) "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower; and
  - (c) "training" includes reasonable costs of travel and per diems of trainees, training materials, and other training related expenditures other than consultants' services.
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 \$1,200,000, may be made on account of payments made for expenditures incurred within twelve months prior to the date of this Agreement; and
  - (b) payments under the Project component or components that shall be carried out by a Coordinating Unit other than those referred to in Section 5.01 (b) of this Agreement, unless such Coordinating Unit has been established or designated and its respective financial management system referred to in Section 4.01 (a) of this Agreement has been established as provided therein.
4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) consulting firms' services costing less than \$100,000 equivalent per contract; (c) individual consultants' services costing less than \$50,000 equivalent per contract; and (d) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.
5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMRs and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the

Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account 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.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank at any time is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed \$2,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in preparing and implementing the next phase of the Program.

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 objective:

#### Part A: MF

1. Support for first activities to implement the modernization strategy of the Borrower's customs (as such strategy is described in the Borrower's letter delivered to the Bank on January 2, 2004), including a strategic plan for customs' modernization, re-engineering of customs' procedures, integration of customs' systems, and improvements in Customs' security. (Beneficiary Entity: SRF)
2. Carrying out of studies for: (a) the efficient development of financial markets and studies for improved enforcement of creditor rights; and (b) simplification of procedures for opening and closing of firms. (Beneficiary Entity: SPE)
3. Support for SEAE's institutional restructuring, including the definition and implementation of an action plan for the restructuring and strengthening of SEAE's economic regulation area, and provision of on-the-job training to SEAE's staff. (Beneficiary Entity: SEAE)
4. Support for SUSEP's institutional development, and the continued improvement in the regulation, supervision and oversight of the insurance sector, including a diagnosis and plan of action aimed at improved institutional performance, continued adoption of international standards and best practices, the modernization of procedures, staff training and improvements in information technology infrastructure. (Beneficiary Entity: SUSEP)

#### Part B: MJ

1. Improvement of SDE's capacity to implement activities related to the Bankruptcy Framework, including institutional strengthening, studies, workshops and seminars to build awareness of such Framework in the legal community, and the establishment of appropriate accompanying court procedures. (Beneficiary Entity: SDE)



2. Support for SDE to improve the efficiency of administrative processes of trust and anti-competitive behavior cases, including technical assistance and supply of computer hardware and software to modernize and expand SDE's system for case management, and to identify and recommend changes in procedures. (Beneficiary Entity: SDE)

3. Carrying out of studies for the design of improvements to the capacity of the judicial system to resolve economic disputes in the public and private sectors, and to enforce property rights and contracts. (Beneficiary Entity: MJ's Secretariat of Judicial Reform)

4. Support for the strengthening of CADE's capacity to handle anti-trust cases, including the structuring of its information system, implementation of the first phase of such system expansion through supply of computer hardware and software, review of CADE's technical analysis procedures and recommendation of measures for their improvement, and provision of training to CADE's staff in anti-trust international best practices. (Beneficiary Entity: CADE)

Part C: MT

1. Support for the development of MT's integrated, long-term planning and project financing capacity. (Beneficiary Entity: MT's Secretariat of National Transport Policies)

2. Support to the Borrower's efforts to define and undertake the actions required to complete the reform of the Borrower's ports. (Beneficiary Entity: MT's Secretariat of Administration)

3. Support for the strengthening of DNIT's capacity to manage the federal road network. (Beneficiary Entity: DNIT)

4. Support for the strengthening of ANTT's institutional capacity and for improvement of the regulatory framework in the road, railways, and interstate and international bus transportation sectors. (Beneficiary Entity: ANTT)

5. Support for the strengthening of ANTAQ's institutional capacity and for improvement of the regulatory framework for ports and water transport. (Beneficiary Entity: ANTAQ)

Part D: MCT

1. Support for the strengthening of MCT's capacity to improve the efficiency of public expenditures in the science and technology sector, as well as the implementation and dissemination of current actions related to the Bill of Law No. 3476/2004 sent to the

Borrower's Congress on May 5, 2004, which provides for incentives for technological innovation and technological and scientific research in the productive sectors. (Beneficiary Entity: MCT's Executive Secretariat)

2. Support for the strengthening of MCT's institutional capacity to structure and manage the clean development mechanism in Brazil. (Beneficiary Entity: MCT's Secretariat for Strategic Scientific Development Policies)

3. Support for MCT's efforts in fostering development of poor communities by providing access to computers and the internet to groups of small producers. (Beneficiary Entity: MCT's Secretariat for Social Inclusion)

4. Support for MCT's efforts in fostering the development of nanotechnology industry in Brazil. (Beneficiary Entity: MCT's Secretariat for Strategic Development Policy)

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

### SCHEDULE 3

#### Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each January 15 and July 15	
beginning July 15, 2009 through July 15, 2019	4.55%
on January 15, 2020	4.45%

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: (a) 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 (b) 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

##### Part A: General

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

##### Part B: International Competitive Bidding

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.

##### Part C: Other Procurement Procedures

#### 1. National Competitive Bidding

Goods, estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents acceptable to the Bank. Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement to be undertaken pursuant to this Part C.1:

(a) Contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.

(b) Whenever required by the Bank, the invitation to bid shall be advertised for at least three consecutive days in a newspaper of wide circulation in Brazil.

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

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

(e) The purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.

## 2. Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$500,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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. Such plan shall be updated every twelve-month period during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Procurement of all goods shall be undertaken in accordance with such procurement plan (as updated) as shall have been approved by the Bank, and with the provisions of said paragraph 1.

#### 2. Prior Review

(a) With respect to each contract to be awarded pursuant to the provisions of Parts B and C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract to be awarded by each Coordinating Unit in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Bank shall receive a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Bank shall receive a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for complex, highly specialized assignments or assignments which can be carried out in substantially different ways shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for assignments of a standard or routine nature, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services for which the need for preparing and evaluating competitive procedures are not required, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants, costing not more than \$3,300,000 equivalent in the aggregate, for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines: (a) shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; or (b) may be procured on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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 twelve-month period 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) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$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 estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of the candidates, or the qualifications and experience of the



candidate in the case of sole-source selection, as well as the 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.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part D, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided that the terms of reference for, and the proposed method of selection of, consulting firms shall be furnished to the Bank for its review and approval.