

CONFORMED COPY

LOAN NUMBER 7383 - BR

Loan Agreement

(Road Transport Project - PREMEF)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 3, 2007

LOAN NUMBER 7383 – BR

LOAN AGREEMENT

AGREEMENT, dated December 3, 2007, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower is undertaking an initiative to reduce logistics costs (*Programa de Reducao de Custos Logisticos*) in the road, port and rail sectors, including a federal road rehabilitation and maintenance program (the Program). The Program aims at improving the condition of the Borrower's paved road network and thus, reducing road transport costs and facilitating growing passengers' movements, such Program estimated to cost two billion Dollars (\$2,000,000,000) over the period from 2005 through 2012 and to cover, *inter alia*, rehabilitation of about 25,000 kilometers of road sections in the Borrower's territory;

(B) the first phase of the Program, to be carried out during the period from 2005 through 2009, is estimated to cost about one billion two hundred million Dollars (\$1,200,000,000) and will cover, *inter alia*, rehabilitation of about 15,000 kilometers of road sections (the First Phase of the Program);

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms part of the First Phase of the Program, has requested the Bank to: (i) support the Project by reimbursing part of the expenditures for civil works incurred by the Borrower in carrying out the Project; and (ii) assist in the financing of other Project costs, including those for technical assistance; and

(D) 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. (a) Except as otherwise provided in (b) below, the “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank, dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(i) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(ii) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive.”

(b) Notwithstanding the provisions of Section 1.01. (a) of this Agreement, Articles III and IV of the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) (the 2007 General Conditions), as well as the definitions set forth in the Appendix of the 2007 General Conditions of the terms used in said Articles III and IV, constitute an integral part of this Agreement with respect to Article II and Schedule III of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions, in the 2007 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) “ACL” means *Assessoria de Cadastro e Licitações*, DNIT’s Procurement Department;

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

(c) “Catalogues of Technical Solutions” means the two sets of technical solutions for road rehabilitation works, issued by DNIT through the *Instrução de Serviço* No. 11 dated September 16, 2003 and the *Instrução de Serviço* No. 5 dated December 9, 2005”;

(d) “Disbursement Period” means each twelve month period referred to in paragraph 4 of Schedule 1 to this Agreement;

(e) “DNIT” means *Departamento Nacional de Infraestrutura de Transportes*, the Borrower’s National Department for Transport Infrastructure;

(f) “DNIT Management Group” means the group established by DNIT’s *Portaria* No. 1.530 dated November 24, 2005, to provide support in the implementation and coordination of the First Phase of the Program;

(g) “DNIT SBD” means the standard bidding document to be used for biddings to be undertaken according to Law 8666 Procedures under the First Phase of the Program, which was approved by DNIT on November 7, 2005, as such document may be amended with the agreement of the Bank;

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

(i) “ICB Procedures” means the procurement procedures set out in Section II of the Procurement Guidelines;

(j) “Indigenous People Development Framework” means the document entitled *Diretrizes para Projetos de Atendimento aos Povos Indígenas afetados por Empreendimentos Rodoviários*, dated November 2005, and approved pursuant to *Instrução de Serviço* No. 5, issued by DNIT on November 7, 2005, which sets forth the principles and policies that apply to the preparation and carrying out of any indigenous peoples

development plan that may be required under the Project, in accordance to the policies of the Borrower's National Foundation for Indigenous People (FUNAI);

(k) "Input-based Contract" means a road rehabilitation contract, the supervision of which is undertaken on the basis of inputs;

(l) "Inter-Ministerial Working Group" means the group referred to in Section 3.01 (b) (ii) of this Agreement;

(m) "Law 8666 Procedures" means the open national competitive bidding procedures (*concorrência pública*) set forth in the Borrower's Law No. 8666, of June 6, 1993, as amended, which governs the bidding procedures and contracts of the public administration entities, such procedures applicable to contracts for civil works under Part A of the Project, pursuant to Section II B of Schedule 4 of this Agreement;

(n) "Management Firm Contract" means the contract referred to in Section 3.04 (a) (i) of this Agreement;

(o) "MT" means *Ministério dos Transportes*, the Borrower's Ministry of Transport;

(p) "Output-based Contract" means a road rehabilitation and maintenance contract, the supervision of which is undertaken on the basis of outputs;

(q) "Pilot Investment Project" means the series of strategic investment projects selected by the Borrower, for which the related expenditures, over the 2005-2007 period, are excluded from the Borrower's fiscal adjustment targets, as defined in the budget guidelines law N° 11178, dated September 20, 2005 (*Lei de Diretrizes Orcamentarias*), for the year 2006, as updated annually by the Borrower;

(r) "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits", issued by the Bank in May 2004;

(s) "Procurement Plan" means the Project Implementation Entities' procurement plan, dated December, 2005, covering the initial 18 month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(t) "Project Implementation Entity" means DNIT, STN, MT or ANTT, and "Project Implementation Entities" means all of them together;

(u) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the Loan Account referred to in paragraph 6 of Schedule 1 to this Agreement;

(v) “Resettlement Framework” means the Borrower’s document entitled *Diretrizes para Reassentamento Involuntário*, dated November 2005, and approved pursuant to *Instrução de Serviço* No. 5, issued by DNIT on November 7, 2005, which contains the principles and policies that apply to the preparation and carrying out of any resettlement action plan that may be required under the Project;

(w) “Review Period” means each twelve month period referred to in Section 3.06 (c) of this Agreement, during which compliance with the conditions set forth in the chart in paragraph 4 of Schedule 1 to this Agreement will determine the adjustable Loan disbursement percentage applicable to the immediately subsequent Disbursement Period for purposes of disbursement Category (1) (b) set forth in the table in paragraph 1 of said Schedule;

(x) “R\$” means Brazilian *reais*, the Borrower’s currency; and

(y) “STN” means *Secretaria do Tesouro Nacional*, the Secretariat of the National Treasury in the Borrower’s Ministry of Finance.

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 five hundred one million two hundred fifty thousand Dollars (\$501,250,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 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:

- (a) in respect of Part A of the Project as reimbursement for part of the expenditures incurred by the Borrower, for civil works contracts bid under Law 8666 Procedures or ICB procedures as the case may be;
- (b) in respect of Parts A and B of the Project to finance part of the expenditures incurred by the Borrower, under contracts not procured

under Law 8666 Procedures, for: (i) civil works contracts, and (ii) expenditures in respect of the reasonable cost of goods and services required under the Project; and

- (c) 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 2007 General Conditions.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish, after having received a request from the Borrower through its Ministry of Finance, to extend the Closing Date. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one quarter of one percent (0.25%) 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 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 2007 General Conditions.

Section 2.06. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

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

Section 2.08. (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 the Appendix (19) of the 2007 General Conditions, and shall be effected in accordance with the provisions of Article IV of the 2007 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 2007 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.

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: (i) through DNIT, carry out Parts A and B.3 of the Project; (ii) through STN, carry out Part B.1 of the Project; (iii) through MT, carry out Part B.2 of the Project; and (iv) through ANTT, carry out Part B.4 of the Project, all with due diligence and efficiency and in conformity with appropriate engineering, road rehabilitation and maintenance, administrative, financial, environmental and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower shall:

- (i) through the Project Implementation Entities, carry out the Project in accordance with the principles and recommendations, as applicable, set forth in: (A) the Resettlement Framework; (B)

the Indigenous People Development Framework; and (C) the environmental manual, submitted by DNIT to the Bank on April 20, 2005, which provides for the norms and procedures for prevention, reduction or mitigation of the environmental impacts of works under the Project; and

- (ii) establish, and thereafter maintain, an inter-ministerial working group comprising, *inter alia*, representatives of the Borrower's Ministries of Finance, Planning, Budget and Management, and Transport, and the Presidency's Civil Office (*Casa Civil*), to assist the Borrower in ensuring the efficient execution of the Project, in a coordinated manner, among the Project Implementation Entities.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, non-consultants' services and consultants' services required for the Project shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through the Project Implementation Entities, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) The Borrower, through the Project Implementation Entities, shall: (i) submit to the Bank, for its prior review and approval, all proposed terms of reference for consultants' services to be financed out of the proceeds of the Loan, and any proposed method of selection of consulting firms estimated to cost less than \$200,000 per contract; and (ii) in the employment of consultants' services, use the terms of reference approved by the Bank.

Section 3.03. The Borrower shall, through each Project Implementing Entity, maintain, within each Project Implementing Entity, a unit responsible for the management and supervision of the respective Parts of the Project under the responsibility of such Project Implementing Entity, each such unit to have functions, responsibilities and structure satisfactory to the Bank as shall be required to ensure an efficient execution of the Project, and to have staff in adequate numbers as shall be necessary to carry out its activities, all with qualifications, experience and terms of reference satisfactory to the Bank.

Section 3.04. (a) In order to strengthen DNIT's overall capacity to manage the First Phase of the Program, the Borrower, through DNIT, shall:

- (i) maintain, during the first two years of the execution of the First Phase of the Program, a project management consulting firm, under a contract satisfactory to the Bank (the Management Firm Contract), to assist DNIT in the management, implementation and supervision of the First Phase of the Program, and to provide support to DNIT in administrative, technical and financial matters related to the carrying out of Part A of the Project, including support to at least 10 DNIT regional offices through the establishment by the management consulting firm of 5 of its own regional offices; and
- (ii) maintain the DNIT Management Group;

(b) The Borrower, through DNIT, shall exercise its rights and comply with its obligations under the contract referred to in paragraph (a) (i) above in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

(c) Upon the termination of the contract referred to in paragraph (a) (i) above, the Borrower, through DNIT, shall continue to take all measures, satisfactory to the Bank, that may be required to ensure an efficient execution of the First Phase of the Program by DNIT.

Section 3.05. The Borrower, through DNIT, shall prepare the designs for works under the First Phase of the Program on the basis of the Catalogues of Technical Solutions.

Section 3.06. The Borrower, through DNIT, shall:

(a) maintain, during the Project's implementation period, a Program monitoring system, satisfactory to the Bank, to enable DNIT to monitor on an on-going basis all Program procurement, payment and contract management data; and

(b) review with the Bank, in February 2008 or when disbursements from the Loan Account have reached an amount equal to 50% of the Loan amount, whichever occurs first, the progress achieved in the carrying out of the First Phase of the Program during the period preceding the date of such review, based on the monitoring and evaluation activities referred to in paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the First Phase of the Program and the

achievement of the objective thereof, based on the conclusions and recommendations of the said review;

(c) not later than April 30 of each year during Project execution, prepare a report for submission to the Inter-Ministerial Working Group, and the Bank: (i) evaluating the performance in the execution of the First Phase of the Program, and progress in improving the Program's planning, execution and monitoring; (ii) identifying the main constraints to further improve the Program's efficiency; and (iii) certifying compliance or lack thereof, for verification by the Bank, with each of the events set forth in the chart in paragraph 4 of Schedule 1 to this Agreement for the twelve month period immediately preceding said date (the Review Period);

(d) not later than July 31 of each year during Project execution, submit to the Inter-Ministerial Working Group and the Bank, the draft of the planned road maintenance and rehabilitation activities (including preparation of designs, undertaking and supervision of civil works) to be carried out under the First Phase of the Program during the following year, and the corresponding budget proposed thereof; and

(e) take into account the Inter-Ministerial Working Group's and the Bank's comments on such report, draft plan and budget when finalizing the First Phase of the Program's budgetary proposal for the year in question.

Section 3.07. The Borrower, through MT, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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, a plan designed to ensure the continued achievement of the objective of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the Project Implementation Entities, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (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, through DNIT, 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) 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 paragraph 6 of Schedule 1 to this Agreement, as the case may be, are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.06 (c) of this Agreement, the Borrower, through DNIT,

shall 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 Project, both cumulatively and for the period covered by said report, showing separately, in the case of items for Part B of the Project and of civil works covered by the Borrower's budget line reserved for external financing (as indicated in Section 4.04 (b) of this Agreement), funds provided under the Loan and explains, again in the case of said Part B and said civil works, variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall: (i) cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; and (ii) include the list of all contracts for works to be carried out under the First Phase of the Program. 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.

Section 4.03. Project expenditures, if resulting from contracts procured in accordance with the Law 8666 Procedures, will be covered initially by the Borrower's own resources (other than those accounted under the budget lines mentioned in Section 4.04 below), and reimbursed by the Bank in accordance to the percentages mentioned in Schedule 1.

Section 4.04. Project expenditures, if resulting from contracts procured other than in accordance with the Law 8666 Procedures, will be covered: (a) in part by the Borrower's budget line reserved for domestic counterpart financing, and reimbursed by the Bank out of the Loan proceeds; and (b) the remainder by the Borrower's budget line reserved for external financing, and financed by the Bank out of the Loan proceeds. The part being covered by the Borrower's external financing budget line will be equal to 10% of said expenditures in the case of civil works, and 100% of said expenditures in the case of goods, non-consultants' services, consultants' services and training.

ARTICLE V

Effectiveness; Termination

Section 5.01. 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 5.02. The date April 6, 2008, 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: (55-61) 3412-1740

With copies to:

Ministério da Fazenda
Secretaria do Tesouro Nacional
Esplanada dos Ministérios, Bloco "P", Anexo "B"
70048-900 Brasília, D.F.
Brazil
Facsimile: (55-61) 3412-1469

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5º andar
70040-906 Brasília, D.F.
Brazil
Facsimile: (55-61) 3225-4022

Departamento Nacional de Infraestrutura de Transporte
SAN Quadra 3, Edifício Núcleo dos Transportes
Bloco A, 4º andar
70040-902 Brasília, D.F.
Brazil
Facsimile: (55-61) 315-4050

Ministerio dos Transportes
Secretaria-Executiva
Esplanada dos Ministerios, Bloco "R", 5º andar
70044-900 Brasilia, D.F.
Brazil

Facsimile: (55-61) 3311-7843
(55-61) 3311-7845

Agencia Nacional de Transportes Terrestres – ANTT
SBN. Quadra 2, Bloco C, 13o. Andar
70040-020 Brasilia, D.F.
Brazil

Facsimile: (55-61) 3410-1859

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:
248423 (MCI) or
64145 (MCI)

Facsimile:
(202) 477-6391

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Suely Dib de Sousa e Silva
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Alexandre V. Abrantes
Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Loan**

1. The table below sets forth:
- (a) the Categories of items to be paid by the Borrower and reimbursed out of the proceeds of the Loan in each Category, pursuant to the provisions of Section 2.02 (a) of this Agreement;
 - (b) the Categories of items to be financed out of the proceeds of the Loan in each Category, pursuant to the provisions of Section 2.02 (b) of this Agreement; and
 - (c) the percentages of expenditures so to be reimbursed or financed in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	<u>% of Expenditures for which Loan Account Withdrawals can be Made</u>
(1) Works under Part A of the Project		
(a) carried out under Output-based Contracts	232,000,000	100%
(b) carried out under Input-based Contracts	200,000,000	From 70% to 85% (subject to the provisions of paragraph 4 of this Schedule)
(2) Goods, non-consultants' services, consultants' services and training under Part B of the Project	30,000,000	100%
(3) Front-end fee	1,253,125	Amount due pursuant to Section 2.04 of this Agreement
		% of

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	<u>Expenditures for which Loan Account Withdrawals can be Made</u>
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(5) Unallocated	<u>37,996,875</u>	
TOTAL	<u>501,250,000</u>	

2. For the purposes of this Schedule, the term "training" means 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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$95,000,000, may be made in respect of Categories (1) (a) and (1) (b) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but not earlier than one year from the date of this Agreement, subject, in the case of expenditures under Category (1) (b), to the adjustment of the percentages of expenditures for which such withdrawal can be made as detailed in paragraph 4 below.

4. The percentages of expenditures for which withdrawals can be made out of the Loan Account in respect of Category 1 (b) set forth in the table in paragraph 1 of this Schedule shall be adjusted once at the beginning of every period of twelve months (the Disbursement Period) during the execution of the Project, starting by not later than May 31, 2007, as indicated and subject to the realization of the events set out in the chart below. Each such periodic adjustment will use 70% as the base upon which the adjustment is made, and shall not, at any time, result in a percentage exceeding 85% or falling below 70%. The relevant percentage thus set for each Disbursement Period shall apply to Loan withdrawal requests received by the Bank during said Disbursement Period. The Bank shall promptly notify the Borrower of any such adjustment of the percentages of expenditures for which withdrawals can be made.

	Adjustment in %
--	-----------------

<u>Events</u>	of Expenditures for which Withdrawals <u>can be Made</u>
First recruitment of personnel, including at least 120 staff with transport analyst functions, has been authorized by the Borrower's Ministry of Planning, Budget and Management as part of DNIT's plan for personnel and wages (<i>Plano de Cargos e Salários</i>), and such authorization remains in force during the relevant Review Period as verified by the Bank.	+3
At least 100 new transport analyst functions have been filled in DNIT and remain as such during the relevant Review Period as verified by the Bank.	+3
The Borrower's budget provides sufficient available resources (in terms of <i>valores empenhados*</i>) for the First Phase of the Program during the relevant Review Period as verified by the Bank.	+1.5 for a Disbursement Period for whose Review Period at least R\$700 million is available in the budget on an annualized basis
	+1.5 (additional to the previous +1.5) for a Disbursement Period for whose Review Period at least R\$900 million is available in the budget on an annualized basis
DNIT has, each month over a continuous four-month period during the relevant Review Period, submitted a map of the federal road network, satisfactory to the Borrower, through MT, and the Bank, identifying all Program works being planned and underway, as well as progress in the execution of such works.	+2
As part of the Program, DNIT has prepared, and submitted to the Inter-Ministerial Working Group, a bridge rehabilitation action plan for the federal road	+2

network,** satisfactory to the Borrower and the Bank, and such plan remains in force during the relevant Review Period as verified by the Bank.	
The average period of time between publication of bidding document and contract award dates for the 20 contracts of highest value under the First Phase of the Program, which are signed during the relevant Review Period, is below 180 days as verified by the Bank.	+2
The average period of time between contract signing and start of work dates for the 20 contracts of highest value under the First Phase of the Program, which have start dates during the relevant Review Period, is below 180 days as verified by the Bank.	+2
The average period of time, during the relevant Review Period, between the date of signing of works' bills (<i>medições</i>) under the Program and the recording of the works' bills in DNIT's <i>Sistema de Medições</i> is below 60 days as verified by the Bank.	+2
As verified by the Bank, works under Program contracts are fully executed in a timely manner, as measured by determining the percentage of contracts fully performed, during the relevant Review Period, within the initial contract implementation period specified in the contract.	+2 for a Disbursement Period for whose Review Period said percentage of fully performed contracts is above 15%
As verified by the Bank, DNIT's human resource management proposal (referred to in Part B 3 (e) (iii) of the Project) with respect to recruitment practices and procedures to be used by DNIT to employ qualified public sector personnel, has been completed and has been submitted to the Inter-Ministerial Working Group, through MT.	+1.5

* "*valores empenhados*" means the amounts assigned in the Borrower's budget for specific expenses (budgetary commitments).

** The action plan will include data on condition of all bridges on main federal roads, cost estimates of related rehabilitation works, agreements reached within the Borrower's planning/execution structure, contractual arrangements and financing for such works.

5. The Bank may require withdrawals from the Loan Account in respect of expenditures to be made on the basis of statements of expenditures for: (a) works costing less than US\$20,000,000 equivalent per contract; (b) goods or non-consultants' services costing less than \$100,000 equivalent per contract; (c) consulting firms' services costing less than \$100,000 equivalent per contract; (d) individual consultants' services costing less than \$50,000 equivalent per contract; and (e) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

6. 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 FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements).

7. Withdrawals made from the Loan Account as set forth in the table in paragraph 1 above shall be reflected in the Borrower's budgetary system as indicated in Sections 4.03 and 4.04 of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to stimulate higher economic growth by reducing road transport costs in the Borrower's territory.

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: Road Rehabilitation and Maintenance

Carrying out of road maintenance and/or rehabilitation works under the First Phase of the Program provided that:

(a) Input-based Contracts or Output-based Contracts bid prior to January 31, 2006 must have been: (i) signed after January 1, 2001; and (ii) awarded under Law 8666 Procedures or under ICB Procedures acceptable to the Bank;

(b) works will not be included in the Project if the respective contract has been awarded under a bidding process where a bidder has been disqualified because of the application of: (i) Section 14.2 or 14.3 of the DNIT SBD, based on criteria considered by the Bank as non-material for purposes of disqualification of a bidder; or (ii) Article 48, II, paragraph 1, of Law 8666 referred to in Section 1.02 (m) of this Agreement, which allows the rejection of a bid if the offered price is below a certain limit;

(c) in case any national or international financing institution or agency other than the Bank shall have provided funding (or agreed to provide funding), or the Bank shall have provided funding (or agreed to provide funding) other than under the Loan, in connection with part of the expenditures for such works, such part of the expenditures will not be considered as eligible for allowing withdrawal of Loan proceeds under the Project;

(d) Input-based Contracts and Output-based-Contracts bid on or after January 31, 2006 must have been awarded using the DNIT SBD or the standard bidding document, referred to in paragraph 2.12 of the Procurement Guidelines, for ICB Procedures for works, as the case may be;

(e) bidding processes for works must have been carried out by ACL, or a regional unit of DNIT certified by ACL as capable of carrying out procurement in accordance with the provisions of this Agreement; and

(f) such works have been carried out in conformity with the frameworks and manual referred to in Section 3.01 (b) (i) of this Agreement (even if the works were carried out before the date of any of said frameworks or manual), when applicable.

Part B: Technical Assistance

Provision of technical assistance, which will include provision of consultants' services, supply of computer hardware and software, and training, as follows:

1. Provision of assistance to STN in: (a) designing and implementing a system to evaluate and monitor public investment programs, including, *inter alia*, those included under the Pilot Investment Project; (b) designing and implementing a system to evaluate and monitor the fiscal impact of public investment programs, including concessions and public-private partnerships; (c) undertaking studies to identify opportunities to improve efficiency of public expenditures; and (d) conducting training of staff of the Borrower's federal agencies to disseminate such studies' recommendations.

2. Provision of assistance to MT in: (a) elaborating and implementing the Borrower's strategy to proceed with transfer of federal road sections of local interest to the Borrower's states; (b) strengthening the capacity of MT's department in charge of evaluating proposals for concessions and public-private partnerships (*Departamento de Outorga*), through the elaboration and implementation of a strengthening plan, and the undertaking of the necessary technical and financial studies for a first set of pilot public-private partnerships; and (c) providing training to staff in the following areas: structuring of public-private partnerships, transport economics, strategic planning, and improvements to quality of public spending.

3. Strengthening of DNIT's institutional capacity in:

(a) the social and environmental area, by: (i) improving DNIT's social and environmental assessment and mitigation procedures in the transport sector, and DNIT's capacity to supervise the execution of mitigation measures; (ii) applying such revised procedures on a pilot basis; (iii) supporting the set-up of procedures for the carrying out of strategic environmental assessments; and (iv) streamlining environmental concerns in planning, execution and monitoring stages of transport sector activities;

(b) the procurement and financial management areas, by: (i) streamlining, updating and monitoring procedures, (ii) modernizing information systems; (iii) improving bidding documents and bid evaluation procedures; and (iv) providing training to DNIT staff;

(c) the internal audit area, through: (i) the provision of computer equipment; (ii) staff training; and (iii) undertaking of Project specific analysis by contracted experts;

(d) the information management area, by modernizing, computerizing and integrating DNIT's information systems, and expanding the use of computerized systems at the level of DNIT's regional offices, to allow regular availability of physical and financial information related to all DNIT's activities, and to track the evolution of DNIT's performance indicators;

(e) the human resources management area, by: (i) preparing and carrying out in-depth training programs for new staff; (ii) refreshment training programs for existing staff; and (iii) proposing recruitment practices and procedures to ensure that DNIT has access to, and can effectively employ, qualified personnel, including through the transfer of those already employed in other public agencies and entities; and

(f) the technical area, by: (i) elaborating and implementing a bridge maintenance and rehabilitation program; (ii) undertaking road condition and traffic data collection; (iii) introducing and disseminating more cost-efficient concepts such as output-based contracts and value-engineering; (iv) training technical staff in reviewing technical designs and undertaking supervision; and (v) contracting technical audit services.

4. Provision of assistance to ANTT in: (a) further strengthening ANTT's regulatory framework; (b) completing and consolidating ANTT's information and management systems, with the addition or strengthening of systems to manage human resources, international road transport, and supervision of road concessions; (c) structuring ANTT's regional offices; (d) establishing performance indicators to measure ANTT's efficiency; (e) preparing and carrying out in-depth training programs for new staff, and refreshment training programs for existing staff; and (f) undertaking preparatory studies aimed at increasing private sector involvement in the management of the paved federal road network, by identifying opportunities for, and structuring concessions with and without public subsidies.

The Project is expected to be completed by December 31, 2009.

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>Principal Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each 15 of June and 15 of December	
beginning June 15, 2011 through June 15, 2022	4.17 %
on December 15, 2022	4.09 %

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. General

A. All goods, works and non-consultants' services shall be procured in accordance with the provisions of Section I of the Procurement Guidelines, and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines or Consultant Guidelines, as the case may be, unless otherwise defined in this Agreement.

Section II. Particular Methods of Procurement of Goods, Works and Non-Consultants' Services

A. ICB Procedures. Except as otherwise provided in Parts B, C and D of this Section, contracts shall be awarded on the basis of ICB Procedures. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Law 8666 Procedures. Works estimated to cost less than \$20,000,000 equivalent per contract shall be procured in accordance with Law 8666 Procedures and using the DNIT SBD.

C. National Competitive Bidding. Goods and non-consultants' services estimated to cost less than \$500,000 equivalent may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions, using bidding documents, satisfactory to the Bank, in a standardized form for the Project:

(i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Procurement Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(ii) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national circulation in Brazil;

(iii) the arrangements, under the invitation to bid, for joint-ventures (*consórcios*) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

(iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

(v) 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.

D. Shopping. Goods and non-consultants' services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments costing \$100,000 equivalent or less per contract and which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less \$200,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to the Bank's Prior Review: (a) each contract for goods, works and non-consultants' services procured on the basis of ICB Procedures; (b) the first three contracts for goods, works or non-consultants' services procured on the basis of National Competitive Bidding; (c) the first two contracts for goods or non-consultants' services procured by each Project Implementation Entity on the basis of Shopping procedures; and (d) each contract for consulting firm's services estimated to cost the equivalent of \$200,000 or more. In addition, 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 qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.