

Public Disclosure Authorized

**CONFORMED COPY**

**LOAN NUMBER 7344-BR**

# **Loan Agreement**

**(Bahia Poor Urban Areas Integrated Development Project – Viver Melhor II)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**STATE OF BAHIA**

**Dated April 7, 2006**

Public Disclosure Authorized

**LOAN NUMBER 7344-BR**

**LOAN AGREEMENT**

AGREEMENT, dated April 7, 2006, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF BAHIA (the Borrower).

WHEREAS (A) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Borrower's Bahia Poor Urban Areas Integrated Development Project – Viver Melhor II (*Projeto de Desenvolvimento Integrado em Áreas Urbanas Carentes no Estado da Bahia – Viver Melhor II*) as such project is described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project, which is an integral part of the Borrower's development strategy;

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

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower 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 (as amended through May 1, 2004) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

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".

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:

(a) “Commitment Letter” means the *Termo de Adesão* to be delivered by a Municipality to the Borrower undertaking to collaborate with SEDUR and CONDER in the development of a Subproject;

(b) “CONDER” means *Companhia de Desenvolvimento Urbano do Estado da Bahia*, the Borrower’s Urban Development Company;

(c) “Eligible Categories” means categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(e) “Environmental Impact Assessment” means the Borrower’s assessment, dated April 14, 2005, of the Project environmental impacts, which identifies the existing environmental conditions and the potential direct and indirect environmental impacts from the carrying out of the Project, and recommends mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact;

(f) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(g) “Ministry of Finance” means *Ministério da Fazenda*, the Guarantor’s Ministry of Finance;

(h) "MIS" means the Project monitoring and information system referred to in Section 3.05 (a) of this Agreement;

(i) “Municipality” means the Municipalities of Salvador, Ilhéus, Itabuna, Feira de Santana, Juazeiro, Barreiras, Brumado, Teixeira de Freitas, and any other municipality in the Borrower’s territory that may be selected, with the agreement of the Bank, to benefit from the Project;

(j) "Operational Manual" means the manual referred to in Section 3.01 (b) (iii) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(k) “Participation Agreement” means any of the *Convênios de Participação* between CONDER (with the participation of SEDUR as the case may be) and either a Participating Municipality, a Participating Secretariat or a provider of public services in the Subproject area that provides for the participation of such entities in the carrying out of activities complementary to those under a Subproject, including operation and maintenance activities;

(l) “Participating Municipality” means any Municipality that has entered into a Participation Agreement;

(m) “Participating Secretariats” means the Borrower’s Secretariats of Labor and Social Protection, Public Security, Reduction of Poverty, Education, Health, and Urban Development, Planning, and Culture and Tourism;

(n) “PMU” means the Project management unit referred to in Section 3.03 (a) of this Agreement;

(o) “Procurement Plan” means the Borrower’s procurement plan, dated April 25, 2005, covering the initial 18 month period of implementation of the Project, 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 implementation of the Project;

(p) “Project Steering Committee” means the committee referred to in Section 3.03 (a) of this Agreement;

(q) “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.4 of Schedule 1 to this Agreement;

(r) “Resettlement Framework” means the document dated April 14, 2005, issued by CONDER, specifying the population resettlement policies, planning principles, institutional arrangements, procurement arrangements and design criteria that shall apply to the preparation and carrying out of the action plans for the resettlement of population under Subprojects;

(s) “Secretariat of National Treasury” means the *Secretaria do Tesouro Nacional*, the Guarantor’s Secretariat of National Treasury;

(t) “SEDUR” means *Secretaria de Desenvolvimento Urbano*, the Borrower’s Secretariat of Urban Development;

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

(v) “Subproject” means any project, selected in accordance with the provisions of the Operational Manual and approved by the Bank, to be carried out in poor communities of a Participating Municipality, and consisting of the activities described in Parts A and B of the Project; and

(w) “Transfer Agreement” means any of the *Termos de Cessão e Compromisso* between CONDER and either a Participating Municipality or a public service provider that provides for the transfer of the facilities acquired, purchased or created by CONDER under a Subproject to the relevant Participating Municipality or public service provider that will be responsible for the operation and maintenance of such facilities.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to SEDUR.

## **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 forty-nine million two hundred ninety-six thousand Dollars (\$49,296,000), 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, works 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 January 31, 2011, or such later date as the Bank shall establish, after having received evidence that the Ministry of Finance has authorized the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date authorized by the Ministry of Finance.

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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 May 15 and November 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, in each case with the prior no-objection of the Guarantor, through the Secretariat of National Treasury, 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 Part A.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 carry out the Project, including the Subprojects, through SEDUR (jointly with CONDER) and shall cause the Participating Municipalities to carry out Part C.2 (b) (ii) of the Project, all with due diligence and efficiency and in conformity with appropriate social, environmental, administrative, financial, engineering, and integrated urban development 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 Section 3.01 (a) of this Agreement, the Borrower shall cause:

- (i) the Project to be carried out in accordance with the provisions and recommendations of the Environmental Impact Assessment and the Resettlement Framework, when applicable;
- (ii) the contractors that will carry out civil works under the Project to perform their construction work in accordance with the environmental practices set out in the manual issued by the

Borrower on April 14, 2005, and incorporated into the Operational Manual; and

- (iii) the Project to be carried out in accordance with the provisions of a manual, satisfactory to the Bank (the Operational Manual), which shall contain the policies and procedures for the carrying out, monitoring and evaluation of the Project, including, *inter alia*: (A) the detailed criteria and procedures for selection and carrying out of Subprojects and the participation of Municipalities in the preparation and prioritization of Subprojects, including: (1) the delivery of the Commitment Letters; (2) the signing of Participation Agreements; (3) the preparation of a plan for Subproject implementation with the participation of the Participating Municipalities, Participating Secretariats and other stakeholders; (4) the coordination of the Subproject preparation process by CONDER with the participation of SEDUR; (5) the signing of an addendum to the Participation Agreements providing for the Subproject working plan; and (6) the signing of the Transfer Agreements; (B) the model forms of the Commitment Letters, the Participation Agreements and the Transfer Agreements; (C) the Project procurement and financial management requirements and procedures; (D) the indicators to be used for Project monitoring and evaluation; and (E) the functions, responsibilities, structure and key staff composition of the Project Steering Committee and PMU. In case of any inconsistency between a provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.

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 and to be financed out of the proceeds of the Loan 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 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.

Section 3.03. The Borrower shall, for purposes of Project implementation:

(a) maintain, during Project implementation, a steering committee to be responsible for overall guidance with respect to Project execution (the Project Steering



Committee), and a unit within SEDUR to be responsible for the general management of the Project (the PMU), such Project Steering Committee and PMU to have the composition, structure, responsibilities and functions as set out in the Operational Manual;

(b) take the necessary administrative measures, under terms and conditions satisfactory to the Bank, providing, inter alia, for the obligation of: (i) SEDUR to make available to CONDER the proceeds of the Loan and the Project counterpart funds whenever required by CONDER to carry out the Project as set forth or referred to in this Agreement; and (ii) CONDER to carry out the Project as set forth or referred to in this Agreement, and to provide SEDUR with all assistance required by SEDUR to comply with the Borrower's obligations under this Agreement;

(c) before initiating the carrying out of any Subproject, enter, through SEDUR, into arrangements satisfactory to the Bank with the relevant Participating Municipality providing for the transfer to such Municipality of the portion of the Loan proceeds allocated to finance the activities under Part C.2 (b) (ii) of the Project to be carried out by such Municipality, and the obligation of such Municipality to carry out such activities as set forth or referred to in this Agreement; and

(d) exercise its rights and comply with its obligations under the Participation Agreements, the Transfer Agreements and the agreements involving the transfer of loan proceeds related to the Project in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce its rights under such agreements or any provision thereof.

Section 3.04. (a) The Borrower shall submit each Subproject to the Bank for approval before submitting any application for the withdrawal of Loan proceeds from the Loan Account or before disbursing funds from the Special Account for the purpose of financing expenditures under the relevant Subproject.

(b) When presenting a Subproject to the Bank for approval, the Borrower shall furnish to the Bank an application, in form and substance satisfactory to the Bank, and in conformity with the relevant provisions of the Operational Manual, containing, inter alia: (i) a description of the Subproject and expenditures to be incurred therein; (ii) a detailed description of how the relevant Subproject meets the eligibility criteria set forth in the Operational Manual; (iii) a plan for the administration, operation and maintenance of the proposed Subproject; (iv) evidence that the Borrower holds the corresponding environmental permits required for the execution of the works planned under the proposed Subproject; (v) an environmental management plan, satisfactory to the Bank, for the Subproject, which shall be based on the Environmental Impact Assessment; (vi) when applicable, an action plan for resettlement of the population affected by the Subproject, to be prepared in accordance with the Resettlement Framework; and (vii) the

drafts of the Participation Agreements to be entered into in connection with the proposed Subproject.

(c) The Borrower shall carry out any Subproject in accordance with the terms and conditions approved by the Bank.

Section 3.05. The Borrower shall:

(a) maintain a Project monitoring and information system in SEDUR, satisfactory to the Bank (the MIS), to enable it to monitor and evaluate on an on-going basis, in accordance with the performance indicators set forth in the Operational Manual, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and yearly thereafter during Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review such report with the Bank promptly after its preparation, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.06. For the purposes of Section 9.07 (c) of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall, as part of the MIS, 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 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), 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
- (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 Part A.4 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 reporting obligations set out in Section 3.05 (b) of this Agreement, the Borrower 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 funds provided by the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

## **ARTICLE V**

### **Effective Date; 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 or opinions to be furnished to the Bank, namely that the Loan has been duly registered by the Guarantor's Central Bank.

Section 5.02. The date July 6, 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 Secretary (*Secretário*) of SEDUR 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 Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For the Borrower:

Secretaria de Desenvolvimento Urbano  
Av. Tancredo Neves, 450 - 34º Andar  
41820-020 Salvador, Bahia  
Brazil

Facsimile: (55-71) 3116-5705

With copy to:

Companhia de Desenvolvimento Urbano  
do Estado da Bahia  
Av. Edgar Santos, 936  
40210-720 Salvador, Bahia  
Brazil

Facsimile: (55-71) 3371-0856

Secretaria da Fazenda do Estado da Bahia - SEFAZ  
Av. Luis Viana Filho, 2ª Avenida, 260 – CAB  
41746-900, Salvador, Bahia  
Brazil

Facsimile: (55-71) 3115-2408

Secretaria do Planejamento do Estado da Bahia  
Av. Luis Viana Filho, 2ª Avenida, 250 – CAB  
41746-900, Salvador, Bahia  
Brazil

Facsimile: (55-71) 3115-3945

SEAIN - Secretaria de Assuntos Internacionais do  
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70040-906 Brasília, DF  
Brazil

Facsimile: (55-61) 3225-4022

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe

Authorized Representative

STATE OF BAHIA

By /s/ Paulo Ganem Souto

Authorized Representative

**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>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods and non-consultants' services	4,406,720	80%
(2) Works	36,056,040	54%
(3) Consultants' services and training	8,710,000	85%
(4) Front-end fee	123,240	Amount due under Section 2.04 of this Agreement
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
<b>TOTAL</b>	<u>49,296,000</u> =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$5,000,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 above on account of payments made within twelve months prior to the date of this Agreement; and (b) in



respect of payments made for expenditures under Category (2) set forth in paragraph 1 above, in respect of any Subproject, unless: (i) the Borrower, through SEDUR, has provided the Bank with the application and related information for such Subproject that are required pursuant to Section 3.04 (b) of this Agreement; and (ii) based on the application and related information provided for such Subproject under Section 3.04 (b) of this Agreement, the Bank has granted its written approval to such Subproject.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works costing less than the equivalent of \$5,000,000 per contract; (b) goods or non-consultants' services costing less than the equivalent of \$500,000 per contract; (c) consulting firms' services costing less than the equivalent of \$200,000 per contract; (d) individual consultants' services; and (e) training.

4. 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). 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.4 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 \$4,900,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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.4 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 reduce urban poverty in a sustainable manner in the poorest and most vulnerable sections of Salvador and certain other cities in the Borrower's territory by providing access to basic services and improved housing and social support services.

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: Urban Infrastructure

Urban upgrading of informal settlements, through: (a) the carrying out of urban infrastructure investments, such as urban drainage, roads, street paving, water supply and sewerage, solid waste management, home improvement and replacement housing, with impacts within the targeted communities; (b) the carrying out of macro-level infrastructure works with impacts within and beyond the target communities, such as road links to enhance citywide mobility, macro-drainage works and establishment of green areas and parks; (c) development of serviced land delivery and low-cost housing alternatives for the poor; and (d) preparation of the engineering designs required for the works referred to in (a), (b) and (c) above, and provision of technical assistance for on-site supervision and quality control of such works.

#### Part B: Social Services

Provision of social services, including the physical facilities required therefor, consisting of: (a) strengthening of local community-based organizations, support to governmental institutions, non-governmental organizations and community-based organizations providing key social services to local residents, development of income and employment generation activities, provision of health and environmental education services, direct support to families' survival strategies, promotion of, and support to, sport and cultural activities, and development of crime and violence prevention initiatives for enhanced security at local level; (b) refurbishment or construction of facilities and buildings required for the carrying out of such services, such as day-care centers, kindergartens, buildings for primary and secondary education classes and health care, and sport and professional training facilities; and (c) preparation of the architectural designs of such facilities and buildings.

Part C: Institutional Strengthening and Project Management

1. Carrying out of: (a) studies for the physical and social development of each community to be included in a Subproject; (b) local economic development studies for each such community; (c) studies of mechanisms to deliver home improvement, serviced land and appropriate housing alternatives to the poor; (d) design of organization, technical support and assistance to offer access to micro-credit lines; (e) other studies required for Project implementation; and (f) feasibility studies for a second stage of the Project.

2. Carrying out of the following activities: (a) studies and development and implementation of instruments for urban development in poor areas, including, *inter alia*, definition of poverty indicators for program monitoring, cost recovery studies and subsidy structures, and other related mechanisms; and (b) provision of technical assistance and capacity-building, including in-service training and provision of the necessary equipment therefor, to: (i) CONDER, SEDUR and Participating Secretariats to enable them to use the instruments developed and disseminated by the Project, and, in the case of the Participating Secretariats, to operate and maintain the services created by the Project; and (ii) the Participating Municipalities to enable them to use the instruments developed and disseminated by the Project and to operate and maintain the infrastructure created by the Project.

3. Provision of technical assistance for Project management, monitoring and evaluation, and for communication and public relations activities related to the Project.

\* \* \*

The Project is expected to be completed by July 31, 2010.

### 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</u> <u>(Expressed as a %)</u>
On each May 15 and November 15	
Beginning May 15, 2011 through May 15, 2022	4.17%
On November 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 "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (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.

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

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. 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 Guarantor.

#### B. Other Procurement Procedures

##### 1. National Competitive Bidding

Goods and non-consultants' services estimated cost less than \$500,000 equivalent per contract, and works estimated to cost less than \$10,000,000 equivalent per contract 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:

(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 2.52 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 in at least one newspaper of national circulation in Brazil;

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

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

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

2. Shopping

Goods and non-consultants' services estimated to cost less than \$100,000 equivalent per contract, and works estimated to cost less than \$350,000 may be procured under contracts awarded on the basis of Shopping procedures, and a standard request for quotations acceptable to the Bank.

3. Community Participation

Works under Subprojects costing less than \$150,000 equivalent per contract may be procured in accordance with the procedures for community participation as provided in paragraph 3.17 of the Procurement Guidelines and as set forth in the Operational Manual for community participation.

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 Procurement Procedures

1. Least-cost Selection. Services for assignments costing less than \$200,000 equivalent 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 than \$200,000 equivalent 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. 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

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.