

CONFORMED COPY

LOAN NUMBER 7246 - BR

Loan Agreement

(Integrated Municipal Project – Betim Municipality)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

MUNICIPALITY OF BETIM

Dated January 18, 2005

LOAN NUMBER 7246 - BR

LOAN AGREEMENT

AGREEMENT, dated January 18, 2005, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the MUNICIPALITY OF BETIM (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 project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) *Companhia de Saneamento de Minas Gerais (COPASA)*, a company controlled by the State of Minas Gerais which, *inter alia*, is the concessionaire of the water and sanitation services in the Borrower's territory, has agreed to provide funds for the financing of Part C of the Project and to undertake certain obligations related to the carrying out of Part C of the Project, as provided in the agreements referred to in Section 1.02 (b) and (c) of this Agreement;

(C) 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 (the General Conditions), constitute an integral part of this Agreement.

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

(b) “COPASA Complementary Project Activities Agreement” means the agreement entered into, on May 13, 2004, between COPASA and the Borrower providing, inter alia, for the following obligations of COPASA related to the Project: (i) to finance a program to promote access by the poor to sanitation connections in the Borrower’s territory, to repair the existing sewerage network in the Borrower’s territory, including the assessment of irregular sewerage connections (*ligações cruzadas*) to drainage and their regularization, and to upgrade COPASA’s quality control program to monitor industrial effluents discharged into the sewerage system in the Borrower’s territory and establish mechanisms for ensuring repairs; and (ii) to carry out the recommendations and actions under its responsibility as set forth in the Environmental Management Plan;

(c) “COPASA Provision of Funds Agreement” means the agreement, entered into, on December 19, 2003, between the State of Minas Gerais, COPASA and the Borrower, which provides for the collaboration between COPASA and the Borrower in the carrying out of Part C of the Project, including, inter alia, the obligation of COPASA to provide counterpart funds for the financing of Part C of the Project in an amount equivalent to \$12,000,000;

(d) “Eligible Categories” means categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(f) “Environmental Management Plan” means the plan, presented by the Borrower to the Bank on January 30, 2004, with the actions and recommendations to mitigate the environmental impacts of the carrying out of Part C of the Project;

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

(h) "PMU" means the Project management unit referred to in Section 3.04 (a) of this Agreement;

(i) "Report-based Disbursements" means disbursements made pursuant to the Borrower's option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(j) "SEMAS" means the Borrower's Secretariat of Social Assistance;

(k) "SEMEIA" means the Borrower's Secretariat of Environment; and

(l) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

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, the amount of twenty-four million seventy-five thousand Dollars (\$24,075,000), 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 fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Bank shall establish, after having received evidence that COFIEX has recommended the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date recommended by COFIEX.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of 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 February 15 and August 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 authorization of the Guarantor, through the Guarantor's Secretariat of 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.

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 with due diligence and efficiency and in conformity with appropriate social, administrative, environmental, financial, technical and engineering practices, and shall provide or cause to be provided, 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, in the Project implementation, carry out or cause to be carried out the recommendations and actions set forth in the Environmental Management Plan.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall exercise its rights and comply with its obligations under the COPASA Provision of Funds Agreement and the COPASA Complementary Project Activities Agreement 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. The Borrower shall:

(a) establish and maintain, within the Borrower's Secretariat of Planning, a unit (the PMU) responsible for the management and supervision of the Project, such unit to comprise an executive coordinator and three sector coordinators for procurement, financial management and institutional strengthening matters, and a procurement specialist, all with qualifications, experience and terms of reference satisfactory to the Bank. The PMU shall also include a representative of COPASA to serve as a liaison between COPASA and the Borrower for all Project matters of COPASA's interest; and

(b) not later than June 30, 2005, employ, in accordance with the provisions of Section II of Schedule 4 to this Agreement, a project management consulting firm to assist the PMU in the management and supervision of the Project, and to provide support to the PMU in administrative, technical and financial matters relating to the carrying out of the Project.

Section 3.05. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives of the Project;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2006, or when an amount equivalent to 50% of the Loan amount has been disbursed, whichever comes first, 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 said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives of the Project during the period following such date; and

(c) review with the Bank the report referred to in paragraph (b) of this Section, within thirty days after such report has been delivered to the Bank, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives of the Project, 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 and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six 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 establish and maintain a financial management system acceptable to the Bank, 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), (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 Part A.5 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 obligation set out in Section 3.05 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that COPASA shall have failed to perform any of its obligations under the COPASA Provision of Funds Agreement or the COPASA Complementary Project Activities Agreement, provided, however, that this

Section shall not apply if the Borrower provides evidence to the Bank that any such obligation may be complied with under alternative arrangements satisfactory to the Bank.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower, subject to the proviso in such Section 5.01.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the financial management system referred to in Section 4.01 of this Agreement has been established as provided therein.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Loan has been duly registered by the Guarantor's Central Bank.

Section 6.03. The date April 18, 2005, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Mayor of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

For the Borrower:

Prefeitura Municipal de Betim
Rua Professor Osvaldo Franco, 55 - Centro
32510-050 Betim, Minas Gerais
Brazil

Facsimile: (55-31) 3531-3499

With copy to:

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

Facsimile: (55-61) 225 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 Brasília, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative

MUNICIPALITY OF BETIM

By /s/ Carlaile de Jesus Pedrosa

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 <u>Dollars</u>)	% of Expenditures <u>to be Financed</u>
(1) Civil works	19,494,250	100% of foreign expenditures and 85% of local expenditures
(2) Goods	650,000	80%
(3) Consultants' services	3,500,000	84%
(4) Services under Part A.3 (c) of the Project	190,000	84%
(5) Front-end fee	240,750	Amount due under Section 2.04 of this Agreement
TOTAL	<u>24,075,000</u> =====	

2. For the purposes of this Schedule, the term:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for civil works supplied from the territory of any country other than that of the Guarantor; and

(b) "local expenditures" means expenditures in the currency of the Guarantor or for civil works supplied from the territory of the Guarantor.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower:

(a) for goods and works costing less than the equivalent of \$350,000 and \$5,000,000 per contract, respectively;

(b) for services of individual consultants costing less than the equivalent of \$50,000 per contract; and

(c) for services of consulting firms costing less than the equivalent of \$100,000 per contract.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the 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.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

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

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) 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 \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed \$6,500,000.

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

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the

Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

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

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in achieving a sustainable socio-environmental development, reducing poverty, and enhancing the quality of life 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 objectives:

Part A: Municipal Policies and Institutional Capacity Strengthening

1. Updating and implementation of the Borrower's long-term strategic development plan, by applying state-of-the-art approaches, including policy analysis of options and cost implications, proposals for alternative development goals related to fiscal performance, methodologies for stakeholder impact evaluation and consensus building, indicators and evaluation criteria for impact of policy actions, and detailed monitoring of financial performance, such plan to be drawn up in a participatory framework. The activities will include an updating of the Borrower's urban master plan (approved in December 1996, pursuant to the Borrower's Law No. 2963, as amended) and a review of major institutional, financial and territorial planning issues to be discussed in the context of the Belo Horizonte metropolitan area, with preparation of policy papers consisting of specific analysis on public expenditures reviews, selected fiscal and financial management issues, property tax policy and land regulation, cadastre and tax collection, territorial management and economic instruments for environmental management, policies to address regularization of illegal settlements, cost-effective programs to foster access to land and basic services, social development, including monitoring of the unified health service cadastre and applications for broader policy formulation, environmental management, including scope for economic instruments and payment for environmental services, consensus building for policy making, studies related to improved transparency, accountability, and information-sharing mechanisms in selected areas of the Borrower's government.

2. Strengthening of the Borrower's policies, regulation, and management capacity for a broad set of services provided by the Borrower, consisting of:

(a) an assessment of the Borrower's policy, regulation and management arrangements to assist in establishing an appropriate institutional and legal framework for the delivery of efficient services by the Borrower;

(b) establishment of an information system for institutional and public control to strengthen the Borrower's capacity to fulfill regulatory responsibility for local service provision and to enhance governance by giving public access to information on expected and achieved quality of local services. This will require an assessment of the quality of current municipal services, determination of contractually required quality of services, carrying out of user consultations, and establishment of benchmarks for service quality; and

(c) establishment of a technical cadastre of basic infrastructure to complement the Borrower's existing geographically referenced management database.

3. Strengthening of SEMEIA's institutional and technical capacity through:

(a) preparation and carrying out of an environmental management plan addressing issues such as policy instruments, financing mechanisms, administrative procedures, environmental database, transparency and public participation, and monitoring and evaluation mechanisms, and including actions to strengthen such Secretariat's technical capacity to carry out its licensing mandate;

(b) assistance to the Paraopeba River Basin Committee, responsible for the monitoring of the water quality of the Betim river, by expanding the geologic and geo-technical database of such Committee, expanding its cadastre of water users and pollution discharge, developing decision models for water withdrawal and discharge, and mapping land use and aptitude;

(c) improvement of SEMEIA's capacity to monitor the quality of industrial effluent discharge into water resources bodies; and

(d) design and implementation of an environmental education program to increase the Borrower's population's awareness of local environmental vulnerabilities and of measures to safeguard the environment.

Part B: Social Inclusion

1. Carrying out of the plan, presented to the Bank by the Borrower on January 30, 2004, for: (a) the resettlement of the population occupying the Betim river banks, which will be displaced as a result of the carrying out of Part C of the Project; (b) expropriation of the undeveloped lots of land in the area where such Part C will be carried out; (c) provision of legal and social assistance to the families being resettled; and (d) support to income generation activities for such families.

2. Strengthening of SEMAS' policies and programs through:

(a) the carrying out of studies and institutional enhancement activities, such as: (i) a risk and vulnerability assessment; (ii) impact evaluation of social policies and programs; (iii) an institutional capacity assessment; and (iv) a civil society and business sector assessment;

(b) financial support to the physical improvements of SEMAS' regional offices, including those for the social promotion known as "Salão de Encontro"; and

(c) an evaluation of the Guarantor's social safety net programs consisting of cash transfers to reduce poverty in the Borrower's territory (*Bolsa Família*), specifically their targeting criteria, gaps in coverage, duplication with the Borrower's cash transfer programs, allocation transparency and consistency, local management, and database efficiency.

Part C: Infrastructure and Urban Environmental Rehabilitation

Carrying out of investments for the environmental improvement of the Betim river basin by:

1. expanding basic infrastructure, consisting of about 42 kilometers of secondary sewerage network and sewerage interceptors, one sewage treatment plant with a capacity of about 500 liters per second, about 7,500 sewerage connections, about 15 kilometers of macro-drainage, about 18 kilometers of secondary roads improvements, and about 5 open-air flood regularization basins; and
2. protecting the water through the establishment of three urban parks (totaling about 30 hectares), and restoring riparian vegetation.

Part D: Project Management

Support to the overall Project implementation, coordination and supervision, including, *inter alia*, the establishment and operation of the PMU, supervision of civil works under the Project, and auditing of the Project financial statements.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each February 15 and August 15	
Beginning August 15, 2008 through August 15, 2021	3.57%
On February 15, 2022	3.61%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (a) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.
2. Bidders for works shall be pre-qualified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

Part B: International Competitive Bidding

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

Part C: National Competitive Bidding

1. Goods (including the services under Part A.3 (c) of the Project) and works, estimated to cost less than the equivalent of \$350,000 and \$5,000,000 per contract, respectively, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents acceptable to the Bank. Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement to be undertaken pursuant to this Part C:
 - (a) Contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.

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

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

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

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

2. Shopping

Goods and services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to pre-qualify or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods, works and the services under Part A.3 (c) of the

Project shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract to be awarded pursuant to the provisions of Part B of this Section, and the first two contracts for goods and for works and the contract for services under Part A.3 (c) of the Project to be awarded pursuant to the provisions of Part C of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

2. The short-list of consulting firms to be selected pursuant to the provisions of paragraph 1 above for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services of firms for supervision of works, auditing of Project accounts, and Project evaluation and monitoring may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services of firms, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants, costing in the aggregate not more than \$500,000 equivalent, for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) The procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more.

(b) With respect to each contract for the employment of an individual consultant, estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, and the terms of reference and terms of employment of the consultant shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contract.

3. Post Review

The procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract not governed by paragraph 2 of this Part D.