

Public Disclosure Authorized

CONFIRMED COPY

LOAN NUMBER 7234-BR

Loan Agreement

(Bolsa Familia Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 24, 2005

Public Disclosure Authorized

LOAN NUMBER 7234-BR

LOAN AGREEMENT

AGREEMENT, dated May 24, 2005, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated April 14, 2004, which describes the Borrower's policies, strategies and activities to strengthen the Borrower's *Bolsa Familia* Program (the BF Program);

(B) the Borrower has requested that the Bank support the Program through a series of two loans to the Borrower over a period of approximately four and a half years;

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

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower, for the purposes of the first phase of the Program, upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The text in Section 5.01 of the General Conditions which reads "(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)" is deleted in its entirety.

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

“Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation, manufacture,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

(c) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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

(a) “BF Account” means the account operated by the Financial Institution to deliver the BF Grants;

(b) “BF Grant Transfer” means the amount transferred, through a bank order (*ordem bancária*), by the Borrower to the BF Account as an advance to cover the costs of the BF Grants;

(c) “BF Law” means the Borrower’s Law No. 10.836 of January 9, 2004 as amended;

(d) “*Bolsa Familia* Beneficiary” or “BF Beneficiary” means any of the families referred to in Part A of the Project;

(e) “*Bolsa Familia Grant*” or “BF Grant” means any of the grants to be provided under Part A of the Project;

(f) “*Bolsa Familia Program*” or “BF Program” means the Borrower’s program for the assistance of poor families through the provision of cash transfers conditional on compliance of conditions referred to in the BF Law or pre-existing legislation (which include those in Schedule 6 to this Agreement);

(g) “Cadastre” means *Cadastro Único*, the Borrower’s cadastre established and operated under Presidential Decree 3877 of July 24, 2001, as a single beneficiary database to service all cash transfer programs;

(h) “Financial Institution” means *Caixa Econômica Federal*, the Borrower’s financial institution referred to in the BF Law as the financial institution which, under the terms of the Financial Institution Agreement, will make, as an agent of the Borrower, all payments for BF Grants under Part A of the Project;

(i) “Financial Institution Agreement” means the agreement entered into between the Borrower and the Financial Institution on January 2, 2004 and amended on March 31, 2004 and April 30, 2004, and any other agreement or amendment thereof whereby the Financial Institution will continue to make available to each BF Beneficiary the BF Grants in accordance with the provisions of this Agreement under terms and conditions to such effect, satisfactory to the Bank;

(j) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(k) “Fiscal Year” means the Borrower’s fiscal year which commences January 1;

(l) “Indigenous Peoples” means the indigenous peoples recognized as such by the Borrower’s *Fundação Nacional do Índio*, the National Indian Foundation operating pursuant to the Borrower’s Decree No. 4645, dated March 26, 2003, as eligible to benefit from the constitutional and other legal protection as indigenous peoples;

(m) “IPDP” means the indigenous peoples plan furnished to the Bank on May 25, 2004, prepared in consultations with Indigenous Peoples and *Quilombolas* for the carrying out of activities under Parts B, C, and D of the Project;

(n) “IPDP Cooperation Agreement” means the agreement or agreements referred to in Section 3.01 (c) of this Agreement;

(o) “MDS” means *Ministério de Desenvolvimento Social e Combate a Fome*, the Borrower’s Ministry of Social Development and for the Eradication of Hunger;

(p) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(q) “Performance Indicators” means the indicators set forth in the Operational Manual;

(r) “Procurement Plan” means the Borrower’s procurement plan, dated May 20, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(s) “*Quilombolas*” means the communities of African descendants referred to in Transitory Article 68 of the Borrower’s Constitution;

(t) “R\$” means *Real/Reais*, the Borrower’s currency; and

(u) “Special Account” means the account referred to in Section 2.02 (b) of 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, an amount equal to five hundred and seventy-two million two hundred thousand Dollars (\$572,200,000), 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. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement:

(i) in respect of Part A of the Project for expenditures made by the Borrower in respect of the BF Grant Transfers;

- (ii) in respect of Parts B, C, D and E of the Project for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan; and
- (iii) 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 (a) of the General Conditions.

(b) The Borrower may, for the purposes of Parts B, C, D and E of the Project open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that 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 such 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 commitment 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 request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. (a) The Secretary of the National Treasury, or any person or persons whom he/she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Part A of the Project.

(b) The Minister of MDS, or any person or persons whom he/she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Parts B, C, D and E of the Project.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project and, to this end, shall carry out the Project, through MDS, with due diligence and efficiency and in conformity with appropriate economic, technical, administrative, financial, social and environmental practices, and shall provide and cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall establish and thereafter maintain in MDS, during the implementation of the Project, an organizational structure for Project implementation with functions and responsibilities set forth in the Operational Manual, at all times headed by the Executive Secretary of MDS as its Project coordinator, and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank.

(c) The Borrower shall, through MDS, not later than December 31, 2005: (i) enter into an agreement or agreements (*termo de cooperação, parceria* or other legal form) with the Borrower's agencies concerned with Indigenous Peoples and *Quilombolas* as needed for the Implementation of the IPDP; or (ii) inform the Bank that no such agreements are needed for its implementation.

(d) The Borrower shall through MDS:

- (i) exercise its rights and carry out its obligations under the Financial Institution Agreement and the IPDP Cooperation Agreement; and
- (ii) except as the Bank shall otherwise agree, not assign, amend (except as set forth in Section 1.02 (i) of this Agreement), abrogate, suspend, waive, terminate or fail to enforce the Financial Institution Agreement or the IPDP Cooperation Agreement, or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts B, C, D and E of 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 carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*:

(a) the procedures for the carrying out, monitoring and evaluation of the Project (including the Performance Indicators) and the procurement and financial requirements thereof including the standard bidding documents to be used as per Schedule 4 to this Agreement;

(b) the organizational structure for Project implementation; and

(c) the criteria for identification, registration and selection of BF Beneficiaries; the requirements to be fulfilled by BF Beneficiaries as conditions for the provision of BF Grants (which shall include those set forth in Schedule 6 to this Agreement); the mechanisms for verification of compliance with BF Grant conditions; the detailed procedures for coordination and collaboration among the municipalities and other cooperating institutions, the Financial Institution, and other stakeholders in the carrying out of the Project.

In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Borrower shall through MDS:

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

(b) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and semiannually thereafter during the period of Project implementation, a report integrating the results of the 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 objectives thereof during the period following such date;

- (c) (i) review, with the Bank, within no more than two months after such report's preparation, the report referred to in paragraph (b) of this Section; and
- (ii) review with the Bank (the Mid-Term Reviews), not later than June 30, 2005 and March 30, 2006 in particular the progress made in the implementation of the First Conditions and Second Conditions referred in paragraph 4 of Schedule 1 to this Agreement;

(d) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.05. The Borrower shall through MDS carry out the IPDP and, if applicable, cause the parties to the IPDP Cooperation Agreements to cooperate in the carrying out of the IPDP, all in accordance with its terms.

Section 3.06. The Borrower shall not later than October 31, 2005 and October 31, 2006 carry out technical reviews under terms of reference and with a minimum coverage satisfactory to the Bank, to verify:

- (a) that the BF Beneficiaries are eligible for receiving the BF Grants as per the eligibility criteria of the BF Program;
- (b) that Grants are received by the BF Beneficiaries for which the BF Grant Transfers were made; and
- (c) that BF Beneficiaries are complying with the requirements of the BF Program and in particular those of Schedule 6 to this Agreement.

Section 3.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall through MDS:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before 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.

Section 3.08. The Borrower shall, through MDS, not later than October 31, 2006, furnish to the Bank baseline data and an accompanying report with an analysis of such data, satisfactory to the Bank, which will be used for the purposes of the evaluation of key outcomes and the impact of the program at municipal, community and family levels, to be carried out under Part C.4 of the Project, and shall, through MDS, carry out such evaluation in accordance with the terms of reference satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain in respect of the Project, 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): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or 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 made on the basis of statements of expenditure or statements of transfer as cited in paragraph 6 of Schedule 1 to this Agreement, 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: (A) such statements of expenditure or statement of transfer; and (B) the records and other evidence referred to in paragraph 3 (b) of Schedule 1 to this Agreement submitted during such fiscal year are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall prepare in respect of the Project, and furnish to the Bank, financial monitoring reports (including for Part A of the Project), in form and substance satisfactory to the Bank, which:

- (i) set forth sources and uses of funds for all the Project, both cumulatively and for the period covered by said report, showing separately in respect of Parts B, C, D and E of the Project, the funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describe 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) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMRs shall be furnished to the Bank not later than 45 days after the end of the first calendar semester 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 semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The technical reviews referred to in Section 3.06 of this Agreement fail to verify compliance with the conditions referred to in paragraphs (a), (b) and/or (c) of said Section.

(b) The Financial Institution shall have failed to perform any of its obligations under the Financial Institution Agreement without MDS having taken any action to succeed in reversing such breach of contract obligations.

Without limiting the rights contained in Section 6.02 of the General Conditions, it is understood that if the event specified in this paragraph (b) shall have occurred, the Bank may, by notice to the Borrower, choose to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures under Part A of the Project.

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 paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has adopted the Operational Manual;

(b) terms of reference for the financial audits referred to in Section 4.01 (b) of this Agreement have been approved by the Bank; and

(c) two procurement specialists, one financial manager, and two accountants with qualification and experience satisfactory to the Bank have been appointed or assigned to assist MDS in Project implementation.

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 provided for in this Agreement has been duly registered by the Borrower's Central Bank.

Section 6.03. The date August 22, 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. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Facsimile: 55-61-412-1740

With copy to MDS:

Ministério de Desenvolvimento Social e Combate à Fome
Esplanada dos Ministérios, Bloco C
70058-900 Brasilia DF
Brazil

Facsimile: 55-61-313-1728

With copy to:

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

Facsimile: 55 61 225-4022

For the Bank:

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

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

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Murilo Portugal Filho
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas
Authorized Representative

Witnessed by:

/s/ Patrus Ananias de Sousa
Minister of Social Development

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth:
 - (a) the Categories of items:
 - (i) to be paid by the Borrower and reimbursed out of the proceeds of the Loan in respect of Part A of the Project; and
 - (ii) to be financed out of the proceeds of the Loan in respect of Parts B, C, D and E of the Project;
 - (b) the allocation of the amounts of the Loan to each Category; and
 - (c) the percentage of expenditures for items to be reimbursed in respect of Part A of the Project or financed in respect of Parts B, C, D and E of the Project, in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be reimbursed in respect of Part A of the Project and to be financed in respect of Parts B, C, D and E of the Project</u>
(1) Goods for Parts B, C, D and E of the Project	3,500,000	100%
(2) Consultants' Services	10,100,000	100%
(3) Training and seminars under Parts B, C, D, and E of the Project	500,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be reimbursed in respect of Part A of the Project and to be financed in respect of Parts B, C, D and E of the Project</u>
(4) BF Grant Transfers	551,478,000	8% until the First Conditions have been met, 9% until the Second Conditions have been met, and 11% thereafter
(5) Incremental Operating Costs	500,000	100% until the aggregate amount disbursed under this Category reaches \$200,000; and 70% thereafter
(6) Front end fee	5,722,000	Amount due under Section 2.04 of this Agreement
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(8) Unallocated	400,000	
TOTAL	<u>572,200,000</u>	

2. For the purposes of this Schedule:

(a) the term “training” means expenditures (other than for consultants’ services) incurred in connection with the carrying out of training, seminars, and workshops under Parts B, C, D and E of the Project, including the reasonable travel cost and per-diem of the trainees;

(b) the term “incremental operating costs” means the following costs, to the extent they would not have been incurred absent the Project: (i) costs incurred by MDS for utilities, maintenance and consumable office supplies, and incidental costs associated with the Project; (ii) costs of operation of the telephone hotline referred to in Part D.3 (a) of the Project; and (iii) operating and maintenance costs for MDS’ management information system;

(c) the term “First Conditions” means the conditions set forth in paragraph 4 (a) of this Schedule; and

(d) the term “Second Conditions” means the conditions set forth in paragraph 4 (b) of this Schedule.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding: (i) \$105,000,000 in respect of Category (4); and (ii) \$2,850,000 in respect of Categories (1), (2), (3) and (5), both Categories as set forth in the table in paragraph 1 of this Schedule, may be made on account of payments made for expenditures incurred within twelve months before that date (but in no case incurred before January 1, 2004); and

(b) payments covered by Category (4) set forth in the table in paragraph 1 of this Schedule, in the event the Borrower shall have failed to furnish to the Bank by a date six months after the end of each Fiscal Year, together with the audits referred to in Section 4.01 (b) (i) of this Agreement, such documents and other evidence showing, to the satisfaction of the Bank, that at least 85% of the amounts disbursed by MDS to the BF Account as BF Grant Transfers were used for BF Grants withdrawn by their beneficiaries.

4. (a) Withdrawals, for payments covered by Category (4) set forth in the table in paragraph 1 of this Schedule, shall be made at the rate of 9% as of the date the Bank notifies the Borrower that the following conditions have been met in form and substance satisfactory to the Borrower and the Bank:

- (i) a Cadastre questionnaire shall have been developed by MDS;
- (ii) the instruments for implementation of the eligibility criteria for BF Beneficiaries have been revised by MDS;

- (iii) regulations and an operational manual for the Cadastre have been published in the MDS' webpage;
- (iv) MDS has furnished to the Bank terms of reference for the design of the management information system for the BF Program referred to in Part C of the Project;
- (v) MDS has finalized the inventory of existing partnerships between MDS and states and municipalities for the BF Program;
- (vi) MDS has furnished to the Bank terms of reference for the design, piloting and execution of the technical reviews of the BF Program referred to in Part C.3 (ii) of the Project;
- (vii) MDS has furnished to the Bank terms of reference for the baseline beneficiary survey of the BF Program;
- (viii) MDS has published in the MDS webpage the matrix of functional and institutional responsibilities of the BF Program; and
- (ix) MDS has designed BF Program information booklets for beneficiaries of the BF Program.

(b) Withdrawals, for payments covered by Category (4) set forth in the table in paragraph 1 of this Schedule, shall be made at the rate of 11% as of the date the Bank notifies the Borrower that the following conditions have been met in form and substance satisfactory to the Borrower and the Bank:

- (i) MDS has designed and implemented - on a pilot basis - the data collection strategy referred to in Part B of the Project;
- (ii) all detectable duplications in the Cadastre have been eliminated;
- (iii) at least MDS and 30% of the Borrower's municipalities have technical and electronic access to the Cadastre as users;
- (iv) a management and information system for the BF Program has been developed and started operating in MDS;

- (v) the technical reviews of the BF Program referred to in Part C.3 (ii) of the Project and in Section 3.06 of this Agreement have been developed and implemented - on a pilot basis - in at least 10 municipalities;
- (vi) the baseline BF Program beneficiary survey has been developed and implemented, on a pilot basis, in at least 10 municipalities;
- (vii) the system for verifying human capital conditionalities has been developed and implemented, on a pilot basis, in at least five municipalities; and
- (viii) MDS has distributed in all municipalities the BF Program Beneficiary information booklets.

5. 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 for Parts B, C, D and E of the Project under contracts of less than the equivalent of \$350,000 per contract;
- (b) for services of individual consultants for Parts B, C, D and E of the Project under contracts not exceeding \$50,000 equivalent per contract;
- (c) for services of consulting firms for Parts B, C, D and E of the Project under contracts not exceeding \$200,000 equivalent per contract; and
- (d) training and incremental operating costs.

6. The Bank may require withdrawals from the Loan Account for BF Grant Transfers to be made on the basis of statements of transfers, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the BF Program's ability to achieve its objective of reducing poverty and inequality and promoting human capital development by supporting:

- (a) a consolidation of conditional cash transfer programs and reductions in gaps and duplications in coverage;
- (b) a strengthening of the system for identifying the target population;
- (c) the development of a monitoring and evaluation system for the BF Program; and
- (d) a strengthening of the basic institutional functioning of the BF Program.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: BF Grants

Provision by the Borrower of grants (the *Bolsa Familia* Grants) to mothers or other designated family members to enable their families to access health, education and other services as provided in the BF Program and the Operational Manual.

Part B: Strengthening the System for Identifying the Target Population

Provision of technical assistance and carrying out training and seminars, to improve the mechanisms used to identify the target population of the BF Program and to overhaul the Cadastre, by, *inter alia*:

1. improving the strategic framework for the overall system, including conducting a study to identify other programs that could potentially use the Cadastre for eligibility determination;
2. revising the eligibility criteria for the BF Program and the questionnaire and data collection strategy for the Cadastre;

3. reducing administrative errors in the Cadastre; and
4. strengthening the technical and technological capacity of MDS to monitor, verify and use the Cadastre, as well as the capacity of municipalities and other cooperating institutions for carrying out data collection and beneficiary selection.

Part C: Developing a Monitoring and Evaluation System

Providing technical assistance and carrying out training and seminars, for the design and implementation of a monitoring and evaluation system for the BF Program, including, *inter alia*:

1. development of a strategy for the overall monitoring and evaluation system and support for capacity building in the MDS in this area;
2. the strengthening of the BF Program's management information system which would provide up-to-date information on program activities and outputs;
3. the development of instruments to monitor program processes to provide feedback on the quality of service delivery and BF program implementation, and to detect problems so that they can be corrected early, including: (i) inter-government processes; (ii) annual technical reviews ("quality control") to monitor BF Program processes (including verification of health and education conditionalities, the selection of beneficiaries, and payments); and (iii) support mechanisms for citizen oversight ("social control") which are respectful of the ethnic and socio-cultural specificities of the prospective beneficiaries; and
4. the development, carrying out and analysis of qualitative instruments and quantitative surveys to monitor and evaluate key outcomes and the impact of the program at the municipal, community and family levels.

Part D: Institutional Strengthening

1. Strengthening of the institutional and legal framework of the BF Program through the development of needed regulations, operational manuals, and other operational norms.
2. Strengthening BF Program management, including:

- (a) clarifying and strengthening institutional roles for the basic functioning of the program itself, such as information flows for the Cadastre, and systems for verifying conditionalities;
- (b) providing training and technical assistance on the system for verifying human capital conditionalities;
- (c) developing a strategy for operating the BF Program in remote areas;
- (d) defining mechanisms for inter-governmental partnerships to help in expanding the program, increasing the value of benefits, and/or expanding the coverage, and linking BF Program beneficiaries to complementary services; and
- (e) developing an inter-municipal information network to share good practices, experiences with implementing conditional cash transfers and the BF Program across municipalities.

3. Developing a communications and dissemination strategy, including:

- (a) establishing a telephone line with trained operators and guidelines to answer questions on the BF program and the Cadastre from the general public, BF Beneficiaries and government officials; and
- (b) designing, printing and disseminating information booklets for BF Beneficiaries (including information about benefits and conditionalities).

4. (a) Provision of technical assistance: (i) to review innovative international and local strategies and approaches for low income families growing out of poverty and gaining access to complementary programs and services; and (ii) to design criteria and procedures for the definition of any such strategies; and

- (b) carrying out of workshops, study tours and training as required for (a) above.

Part E: Project Management

Strengthening the implementation capacity of MDS through the provision of consultants' services and equipment required therefor.

* * *

The Project is expected to be completed by December 31, 2006.

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 November 15, 2009 through November 15, 2020	4.17%
On May 15, 2021	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: (i) 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 (ii) 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 under Parts B, C, D and E of the Project

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule. If the Borrower employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods and Services (other than 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 in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$350,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and the following additional provisions:

(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 in a newspaper of wide circulation in Brazil.

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

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

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

2. Shopping: Goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines, including, as a form of such shopping, the electronic bidding (*pregão eletrônico*) procurement system set forth in the Borrower's Law No. 10 of July 17, 2002.

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 in accordance with the provisions of Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Quality-based Selection: Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured

under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. 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 in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review: Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods and Services (other than Consultants' Services)

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods and services (other than consultants' services) procured on the basis of international competitive bidding.

(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the procedures set forth in paragraphs 2 (h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services

(a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by: (i) a firm estimated to cost the equivalent of \$200,000 or more; and (ii) an individual estimated to cost the equivalent of \$50,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and

approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review

1. With respect to each contract for goods or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$750,000 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 \$3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) 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 the records and accounts for the Special Account;

- (c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank (including, for example, the documents and other evidence referred to in paragraph 3 (b) of Schedule 1 to this Agreement), the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Requirements for Provision of BF Grants

1. The amount of BF Grants shall be:
 - (a) for BF Beneficiaries with income up to R\$50, a fixed amount of R\$50 and a variable amount of R\$15 per child aged 0 to 15, for a maximum of R\$95; and
 - (b) for BF Beneficiaries with income between R\$50 and R\$100, a variable amount of R\$15 per child aged 0 to 15 for a maximum amount of R\$45.

Notwithstanding the provisions of this paragraph 1, the amounts specified therein may be modified as proposed by the Borrower and agreed by the Bank.

2. To receive a BF Grant, the BF Beneficiary must comply with the following conditions, as shall be relevant for each such BF Beneficiary:
 - (a) pregnant women must undertake the required pre-natal visits;
 - (b) children aged 6 to 15 years must be enrolled in, and attend school; and
 - (c) children aged 0 to 6 years must have vaccines up to date,

all such conditions verified by the Borrower's Ministries of Education and Health, and supervised and monitored by MDS.