

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7711-BR

# Loan Agreement

(Education Results and Accountability Project -  
*Projeto de Desenvolvimento da Educação e Gestão Pública no Estado de Pernambuco*)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

STATE OF PERNAMBUCO

Dated November 6, 2009

Public Disclosure Authorized

**LOAN AGREEMENT**

Agreement dated November 6, 2009, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the STATE OF PERNAMBUCO (“Borrower”). The Borrower and the Bank hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

- 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 one hundred and fifty four million Dollars, (\$154,000,000) (“Loan”), to assist in financing the cost of the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement: (a) in respect of Part 1 of the Project as financing (reimbursement and advances) for part of the Eligible Expenditures incurred by the Borrower under the Eligible Expenditure Programs; (b) in respect of Part 2 of the Project to finance (reimbursement and advances) the Eligible Expenditures incurred by the Borrower; and (c) in respect of the Front-End Fee referred to in Section 2.03 of this Agreement. The Borrower’s representative for purposes of taking any action required or permitted to be taken pursuant to this Section is its Secretary of Planning and Management.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, 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 withdrawn and outstanding 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 the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the 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 for 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 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower, through SEPLAG, shall carry out the Project with the assistance of SEE and SAD (in technical partnership with the *Instituto Ayrton Senna* and the *Fundação Roberto Marinho*, or any other Technical Partner acceptable to the Bank with respect to Part 1 of the Project), all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Legal Matter consists of the following: namely, that the Loan has been duly registered with the Central Bank of the Guarantor.
- 4.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 14, 2010.



**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is its Governor.
- 5.02. For the purposes of Section 10.01 of the General Conditions, the Borrower's Address is:

*Secretaria de Planejamento e Gestão*  
Rua da Moeda, 46  
Bairro do Recife  
50030-040 Recife, PE  
Brazil

Facsimile: (55-81) 3182-3904

With copies to:

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

Facsimile: (55-61) 3412-1740

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

Facsimile: (55-61) 3225-4022

- 5.03. The Bank's Address is:

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)

1-202-477-6391

AGREED at Brasilia, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Makhtar Diop

Authorized Representative

STATE OF PERNAMBUCO

By /s/ Danilo Jorge de Barros Cabral

Authorized Representative

## SCHEDULE 1

### Project Description

The objectives of the Project are to: (a) improve the quality, efficiency, and equity of public education; and (b) introduce management reforms that will lead to greater efficiency in the use of the Borrower's public resources in the education sector, all through the carrying out of interventions in SEPLAG, SEE and SAD.

The Project consists of the following parts:

#### Part 1: Improvement of Basic Education

(a) Carrying out the following programs of the Borrower, aimed at applying basic standards to Borrower's schools in all levels of education, which programs are identified with the respective Borrower's budget code numbers set out below:

Program	Budget Code Number
(i) Expansion and improvement of school network ( <i>Expansão e Melhoria da Rede Escolar</i> )	3314
(ii) Development of complementary actions for educational inclusion ( <i>Desenvolvimento de Ações Complementares de Inclusão Educacional</i> )	3319
(iii) Strengthening of school management ( <i>Fortalecimento de Gestão Escolar</i> )	3322
(iv) Maintenance of infrastructure of the Borrower's education network ( <i>Manutenção dos Imóveis da Rede Estadual de Ensino</i> )	3324
(v) Construction, rehabilitation and strengthening of school libraries ( <i>Construção, Adequação e Fortalecimento das Bibliotecas Escolares</i> )	3325
(vi) Implementation of technological standards in the educational regional offices and in the schools within the Borrower's network ( <i>Implantação de Padrão Tecnológico nas Gerências Regionais de Educação e Escolas da Rede Estadual</i> )	3327
(vii) Training of education professionals on new technologies ( <i>Atualização dos Profissionais da Educação em Tecnologia</i> )	3328
(viii) Provision of technological support to the Borrower's schools ( <i>Atendimento ao Ambiente Tecnológico da Rede Escolar</i> )	3330
(ix) Implementation of information technology laboratories ( <i>Implantação dos Laboratórios de Informática</i> )	3249
(x) Provision of books ( <i>Aquisição e Distribuição de Livros Didáticos</i> )	3255

(xi) Provision of learning materials and other student-related supplies ( <i>Fornecimento de Kit Escolar</i> )	3257
(xii) Provision of School Meals ( <i>Fornecimento de Merenda Escolar</i> )	3260
(xiii) Provision of School Transport ( <i>Fornecimento de Transporte Escolar</i> )	3262

(b) Carrying out the following program of the Borrower aimed at implementing a comprehensive literacy program that will cover students enrolled in the early years of basic education, as well as literacy tutors who will, in turn, train teachers, which program is identified with its respective Borrower's budget code number below:

<b>Program</b>	<b>Budget Code</b>
Literacy and regular education – Early years of fundamental education ( <i>Alfabetização e Ensino Regular – Anos Iniciais do Ensino Fundamental</i> )	2788

(c) Carrying out the following programs of the Borrower aimed at addressing age-grade distortion of overage students enrolled in basic and secondary education, which programs are defined with the respective Borrower's budget code numbers below:

<b>Program</b>	<b>Budget Code</b>
(i) Correcting age-grade distortion in fundamental education – early years ( <i>Correção de Fluxo Escolar do Ensino Fundamental – Anos Iniciais</i> )	2783
(ii) Correcting age-grade distortion in fundamental education – final years ( <i>Correção de Fluxo Escolar do Ensino Fundamental – Anos Finais</i> )	2784
(iii) Correcting age-grade distortion – secondary education ( <i>Correção de Fluxo Escolar - Ensino Médio</i> )	2786

(d) Carrying out the following programs of the Borrower aimed at upgrading and implementing a monitoring and evaluation system, as well as a student assessment system, in order to evaluate educational policies in the basic and secondary level, which programs are defined with the respective Borrower's budget code numbers below:

<b>Program</b>	<b>Budget Code</b>
(i) Development and implementation of Student Assessment, in fundamental education ( <i>Desenvolvimento de Avaliação Externa - SAEPE - do Ensino Fundamental</i> )	3533
(ii) Development and implementation of Student Assessment in secondary education	3534



Part 2: Public Sector Management Interventions

(a) Development of initiatives and carrying out of studies to modernize the Borrower's public sector through strengthening the performance of the Borrower's public procurement, public financial management and monitoring and evaluation capacities.

(b) Strengthening of education management through sector-specific activities and provision of technical assistance in the following areas: (i) results-based management; (ii) creation of incentives for teachers; (iii) school transportation; (iv) studies on school safety; and (v) Project impact evaluations.

(c) Provision of support for Project coordination, through the provision of technical assistance, financing of incremental operating costs, and provision of the necessary goods and equipment required for such coordination.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. For the purposes of implementing Part 1 of the Project, the Borrower, through SEE, shall enter into agreements (*acordos*) with each of the *Instituto Ayrton Senna* and the *Fundação Roberto Marinho* or any other Technical Partner acceptable to the Bank (the Technical Partnership Agreements), under terms and conditions acceptable to the Bank, setting forth their respective roles and responsibilities regarding the implementation of said Part 1 of the Project.
2. The Borrower shall exercise its rights under the Technical Partnerships Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of the Technical Partnership Agreements, or any of their provisions.
3. The Borrower shall maintain the Monitoring and Evaluation Committee created not later than four (4) months after the Effectiveness Date, to oversee the planning, implementation, monitoring and evaluation of all Project activities and provide recommendations based on the review of the Project Reports prepared for the Project. Said committee shall have membership and functions acceptable to the Bank, as described in the Project Operational Manual.
4. The Borrower shall ensure that, until the completion of the execution of the Project, the entities SEE, SAD and SEPLAG shall each have competent staff in adequate numbers with qualifications and experience satisfactory to the Bank, including the following key staff per entity: a Project coordinator, a procurement specialist and a financial management specialist.
5. The Borrower shall: (a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.
6. The EEPs will comply with the eligibility criteria and procedures set forth in the Project Operational Manual.
7. If, at any time, the Bank determines that any portion of the financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of Part 1 of the Project, was not supported by evidence of actual spending by the Borrower under said Eligible Expenditure Programs and/or by evidence of satisfaction of other

criteria set forth in this Agreement or in the Project Operational Manual, the Borrower shall promptly refund any such portion to the Bank as the Bank shall specify by notice to the Borrower.

8. The Borrower and the Bank may jointly review, once every year, the amounts assigned per budget code to the Eligible Expenditure Program detailed in Schedule 4 to this Agreement, and adjust, as necessary, in a manner satisfactory to the Bank.
9. The budget code numbers indicated in Part 1 (a) to (d) of Schedule 1 to the Loan Agreement shall conform to the Borrower's Budget Law. The Borrower and the Bank agree that such budget code numbers may change under the Borrower's Budget Law, provided however that there is no change in the corresponding Programs described in Part 1 (a) to (d) of Schedule 1 to the Loan Agreement and in the underlying activities to be financed by the Bank under such Programs.
10. The Borrower shall ensure that no construction of new schools or stand alone school libraries will be financed out of the proceeds of the Loan.

**B. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Project Operational Manual**

The Borrower shall carry out the Project in accordance with the provisions of a manual (the "Project Operational Manual") satisfactory to the Bank, said manual to include, *inter alia*: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the indicators to be used for Project monitoring and evaluation; (iii) the organizational structure of the Project (including the roles and responsibilities of SEPLAG, SEE, SAD, the Monitoring and Evaluation Committee, the *Instituto Ayrton Senna* and the *Fundação Roberto Marinho*, and any other Technical Partner acceptable to the Bank); (iv) the Project procurement and financial management requirements and procedures; (v) the Project's chart of accounts and internal controls; (vi) the format of: (A) the unaudited interim financial reports referred to in Section II. B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (vii) the terms of reference for carrying out the Project audits under Section II.B.3 of Schedule 2 to this Agreement; (viii) the detailed criteria for the monitoring of the Disbursement-Linked Indicators; (ix) the indicators, criteria and rules for a disbursement-based financing scheme for Part 1 of the Project; and (x) the EEPs budget for the life of the Project. In case of any inconsistency between any provision of the Project Operational Manual and this Agreement, the provision of this Agreement will prevail. Any amendment to the Project Operational Manual can occur only if acceptable to the Bank.

**Section II. Project Monitoring Reporting and Evaluation**

**A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual and agreed with the

Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than three months after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than three months after the Closing Date.
3. The Borrower shall, on a date to be agreed with the Bank, but in no case later than twenty-four (24) months after the Effective Date, carry out a review with the Bank on the overall progress in the execution of the Project and set out the measures and take any remedial action as a result of such review, as agreed with the Bank (the “Mid-term Review”).

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank, not later than one hundred and five (105) days after the end of the six month period ending on June 30 and December 31 each year, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works (including non-consultant services) required for the Project and to be financed under Parts 1 and 2 of the Project out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. Contracts under the Project awarded in accordance with Section II of the Procurement Guidelines or the Consultant Guidelines may draw upon diverse sources of funding for their financing, necessarily including Loan proceeds.
4. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to

the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works (including Non-Consultant Services)**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods and Works (including Non-Consultant Services).** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works (including non-consultant services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding (including in respect of goods, non-consultants services and works, <i>convite, tomada de preços</i> and <i>concorrência</i> set forth in the Guarantor’s Law No. 8.666 of June 21, 1993, as well as procurement in accordance with the method known as “ <i>pregão eletrônico</i> ”, as provided in the Guarantor’s Law No. 10520, of July 17, 2002, under “REDECOMPRAS”, the Borrower’s procurement portal, or any other e-procurement system approved by the Bank.), subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.
(b) Shopping.
(c) Direct contracting.

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Selection based on Consultant’s Qualifications.
(b) Quality-based Selection.
(c) Least Cost Selection.
(d) Selection under a fixed budget.
(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultants Guidelines for the Selection of Individual Consultants.
(f) Single Source Selection.

**D. Review by the Bank of Procurement Decisions**

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

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures, including EEPs, as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed</b>
(1) EEPs under Part 1 of the Project	150,000,000	50%
(2) Goods, Non-Consultant Services, Consultant’s Services, Training and Operating Costs under Part 2 of the Project	3,615,000	100%
(3) Premia for Interest Rate Caps and Collars	0	Amount due under Section 2.07(c) of this Agreement
(4) Front-end Fee	385,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>154,000,000</b>	

3. For the purposes of this Section the term: (a) “Training” means expenditures (other than for consultants’ services) incurred in connection with the carrying out of training, courses, seminars, and workshops under the Project, including the reasonable travel cost and per-

diem of the trainers and trainees, as well as training materials and scholarships; (b) “Non-Consultant Services” means printing and small technical services, logistics for training events and workshops; and (c) “Operating Costs” means recurrent costs under Part 2 of the Project, including: (i) equipment and computer maintenance, including hardware and software; (ii) communication costs and shipment costs (whenever these costs are not included in the cost of goods); (iii) office supplies and equipment; (iv) utilities; (v) travel and per diem costs for technical staff carrying out coordination, supervisory, and quality control activities; and (vi) and expenses related to audits other than consultants’ services.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$30,000,000 equivalent may be made for payments made up to twelve months prior to such date for Eligible Expenditure Programs under Category (1) for the first disbursement as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; and
  - (b) for payments made under Category (1) unless: the conditions referred to in the Project Operational Manual and in the additional instructions referred to in Section IV.A.1 of this Schedule (including compliance with the Disbursement-Linked Indicators, when applicable, referred to in Schedule 5 to this Agreement) have been met by the Borrower in form and substance satisfactory to the Bank.
2. If the Bank has:
  - (a) received partial evidence of compliance under the Disbursement-Linked Indicators referred to in Schedule 5 to this Agreement with respect to the disbursements under Category (1) (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank may, at its option, authorize that the unwithdrawn portion of the Loan resulting from this absence of evidence be carried forward to the subsequent withdrawals up to the Mid-term Review; and
  - (b) After the Mid-term Review, Disbursement-linked Indicators not achieved for withdrawal during the first disbursement period of each year will be carried forward to the immediately following withdrawal period. Disbursement-linked Indicator’s not achieved after the second withdrawal period will result in the cancellation of the corresponding amount.
3. The Closing Date is December 31, 2013. The Bank may consider granting an extension of the Closing Date if the Guarantor’s Ministry of Finance has informed the Bank that it agrees with such an extension.

### 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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date[, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each April 15 and October 15 Beginning April 15, 2014 through October 15, 2023	5%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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 sub-paragraph (a) of this paragraph, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the 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 Withdrawn Loan Balance is 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

### Eligible Expenditure Programs - 2008

<b>Budget Code</b>	<b>Minimum Amount to be spent by the Borrower in 2008 in Million Reais</b>
2232	<b>38.800</b>
2234	<b>43.600</b>
2237	<b>80.800</b>
2250	<b>34.300</b>
2251	<b>1.700</b>
2253	<b>1.500</b>
2254	<b>1.800</b>
2256	<b>2.000</b>
2788	<b>5.100</b>
2783	<b>1.730</b>
2784	<b>4.180</b>
2786	<b>14.200</b>
2259	<b>1.600</b>
2261	<b>500</b>

**Eligible Expenditure Programs - 2009-2012**

<b>Budget Code</b>	<b>Minimum Amount to be spent by the Borrower in 2009 in Million Reais</b>	<b>Minimum Amount to be spent by the Borrower in 2010 in Million Reais</b>	<b>Minimum Amount to be spent by the Borrower in 2011 in Million Reais</b>	<b>Minimum Amount to be spent by the Borrower in 2012 in Million Reais</b>
<b>3314</b>	41.900	45.250	48.870	48.870
<b>3260</b>	15.170	16.390	17.720	17.720
<b>3322</b>	103.480	111.760	120.700	120.700
<b>3324</b>	20.830	22.500	24.300	24.300
<b>3325</b>	1.840	1.990	2.140	2.140
<b>3327</b>	1.620	1.750	1.890	1.890
<b>3328</b>	1.950	2.100	2.270	2.270
<b>3330</b>	2.160	2.340	2.520	2.520
<b>2788</b>	5.470	24.720	31.960	31.960
<b>2783</b>	1.870	-	-	-
<b>2784</b>	4.510	4.870	-	-
<b>2786</b>	15.340	-	-	-
<b>3533</b>	1.720	1.850	2.000	2.000
<b>3534</b>	550	600	650	650
<b>3249</b>	17.000	-	-	-
<b>3255</b>	3.260	3.520	3.800	3.800
<b>3257</b>	17.840	19.270	20.830	20.830
<b>3262</b>	9.600	10.370	11.220	11.220
<b>3319</b>	1.170	1.260	1.370	1.370

## SCHEDULE 5

### Disbursement-Linked Indicators

Disbursement-linked Indicator	Approximately 6 months after the Effective Date	Approximately 18 months after the Effective Date	Approximately 30 months after the Effective Date	Approximately 42 months after the Effective Date
1. Number of the Borrower's system schools meeting basic standards.	21	121	221	221
2. Share of students in the Borrower's system certified as literate at the end of the first cycle of basic education.	59%	61%	63%	65%
3. Number of overage illiterate students in the lower fundamental education (grades 1 to 4) of Borrower's system certified as literate by the end of the school year.	19,251	20,000	20,000	20,000
4. Number of overage students in the lower fundamental education of the Borrower's system (grades 1 to 4) that are certified as accelerated or promoted by the end of the school year.	8,613	10,500	10,500	10,500
5. Number of overage students in the later years of fundamental education of the Borrower's system (grades 5 to 8), that are certified as accelerated or promoted by the end of the school year.		9,000	18,000	27,000
6. Number of overage students in the secondary education of the Borrower's system that are certified as having completed the education cycle by the end of the school year.	27,000	24,000	30,000	36,000
7. SAEPE assessment is applied at grades 2, 4 and 8 in all Borrower's schools, and applied in an increasing share in municipal schools.	SAEPE application on all students of 2 <sup>nd</sup> , 4 <sup>th</sup> and 8 <sup>th</sup> of fundamental education and 3 <sup>rd</sup> of secondary education in all Borrower's schools and in at least 80% of municipal schools.	SAEPE application to all students of 2 <sup>nd</sup> , 4 <sup>th</sup> and 8 <sup>th</sup> of fundamental education and 3 <sup>rd</sup> of secondary education from the Borrower's schools and in at least 90% of municipal schools.	SAEPE application to all students of 2 <sup>nd</sup> , 4 <sup>th</sup> and 8 <sup>th</sup> of fundamental education and 3 <sup>rd</sup> of secondary education from the Borrower's schools and in at least 90% of municipal schools.	SAEPE application to all students of 2 <sup>nd</sup> , 4 <sup>th</sup> and 8 <sup>th</sup> of fundamental education and 3 <sup>rd</sup> of secondary education from the Borrower's schools and in at least 90% of municipal schools.

<b>Disbursement-linked Indicator</b>	<b>Approximately 6 months after the Effective Date</b>	<b>Approximately 18 months after the Effective Date</b>	<b>Approximately 30 months after the Effective Date</b>	<b>Approximately 42 months after the Effective Date</b>
8. Dissemination of SAEPE information on school performance to parents.	Dissemination of SAEPE results to all State-level school parents, and 80% of municipal-level schools.	Dissemination of SAEPE results to all State-level school parents, and 80% of municipal-level schools.	Dissemination of SAEPE results to all State-level school parents, and 90% of municipal-level schools.	Dissemination of SAEPE results to all State-level school parents, and 90% of municipal-level schools.
9. Development and monitoring of an Action Plan of remedial measures (PDE) to improve teaching practices and other impediments to learning in the Borrower's system schools, satisfactory to the Bank, in response to results of students assessments.	50% of schools with PDE, including remedial measures under implementation and being monitored.	60% of schools with PDE, including remedial measures under implementation and being monitored.	80% of schools with PDE, including remedial measures under implementation and being monitored.	80% of schools with PDE, including remedial measures under implementation and being monitored.
10. Development and monitoring of the implementation of a strategic plan and derived action plans (updated yearly) for the education sector, satisfactory to the Bank, identifying priority activities and a hierarchy of management indicators to be incorporated into the budget cycle.		(1) Formal written review of education progress against indicators included in the <i>Programa de Modernização da Gestão Pública em Educação</i> (PMGPE); (2) updating of action plan including funding; (3) publication and wide dissemination of results.	(1) Formal written review of education progress against indicators included in the <i>Programa de Modernização da Gestão Pública em Educação</i> (PMGPE); (2) updating of action plan including funding; (3) publication and wide dissemination of results.	(1) Formal written review of education progress against indicators included in the <i>Programa de Modernização da Gestão Pública em Educação</i> (PMGPE); (2) updating of action plan including funding; (3) publication and wide dissemination of results.
11. Development and implementation of an action plan for the strengthening of financial management, satisfactory to the Bank, resulting from the application of PEFA Framework. (Implementation of the Borrower's e-fisco project management module will be used as a proxy of the implementation of the action plan).	.	Interim report on E-fisco consultancy is prepared.	E-fisco consultancy is completed.	Results of E-fisco consultancy are evaluated and disseminated.
12. Development and implementation of an action plan for the strengthening of		Interim report on E-procurement	E-procurement design is	Results of E-procurement

<p>procurement function, including its management, E-procurement system and other procurement procedures through the Web, resulting from the application of the OECD Indicators diagnostic.</p>		<p>consultancy is prepared.</p>	<p>completed and approved by SAD.</p>	<p>consultancy are evaluated and disseminated.</p>
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## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Disbursement-Linked Indicators” means, collectively, any of the indicators set forth in Schedule 5 of this Agreement.
5. “EEP” or “Eligible Expenditure Programs” means a set of defined expenditures for goods, works, consulting and non-consulting services and operating costs (including salaries) under the Program’s budget codes as specified in Part 1 of Schedule 1 to this Agreement.
6. “E-fisco” means the Borrower’s web-based financial management system created in January 2008, comprised by several integrated modules, including budgetary and financial execution modules which allow tracking the Borrower’s program expenditures against budget.
7. “E-procurement” means the Borrower’s newly created e-procurement system comprised by integrated modules aimed at publicizing information on procurement processes and award of contracts, providing procurement-related information to bidders and civil servants, and providing procurement statistical data to users.
8. “*Fundação Roberto Marinho*” means a non-profit civil organization constituted under the laws of the Guarantor and registered in the Guarantor’s State of Rio de Janeiro.
9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) and with the modifications set forth in Section II of t his Appendix.
10. “*Instituto Ayrton Senna*” means a civil non-profit organization created under the laws of the Guarantor and registered on the Guarantor’s State of São Paulo.
11. Mid-term review means the review referred to in Section II.A.3 of Schedule 2 to this Agreement.
12. “Monitoring and Evaluation Committee” means the committee referred to in Section I.A. 3 of Schedule 2 to the Loan Agreement, to be formally created by the Borrower’s Governor through a decree or other normative act of designation, and published in the Borrower’s Official Gazette.

13. “OECD Indicators” means baseline indicators and sub-indicators developed under the Bank and OECD/DAC initiative that focus on the legal and institutional framework and other key aspects of the procurement system, including bidding procedures, management and local capacity, dispute resolution and complaints review, anticorruption, and enforcement of laws, regulations and procedures.
14. “OECD/DAC” means Organization for Economic Cooperation and Development/Development Assistance Committee.
15. “PDE” means the Borrower’s School Development Plan (*Plano de Desenvolvimento da Escola*).
16. “PEFA Framework” means the Borrower’s Public Financial Management Performance Measurement Framework aimed at providing an integrated and harmonized approach for measuring and monitoring public financial management performance progress and supporting public financial management reform programs.
17. “PMGPE” means the Borrower’s program for modernization of public management and education (*Programa de Modernização da Gestão Pública em Educação*).
18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
19. “Procurement Plan” means the Borrower’s procurement plan for Part 2 of the Project, dated December 17, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
20. “Project Operational Manual” means the manual referred to in Section I.C of Schedule 2 to this Agreement.
21. “Reais” and “R\$” mean the currency of the Guarantor.
22. “SAD” means *Secretaria de Administração do Estado de Pernambuco*, the Borrower’s Secretariat of Administration.
23. “SAEPE” means the Borrower’s student assessment system (*Sistema de Avaliação Educacional de Pernambuco*).
24. “SEE” means *Secretaria Estadual de Educação*, the Borrower’s Secretariat of Education.
25. “SEPLAG” means *Secretaria de Planejamento e Gestão do Estado de Pernambuco*, the Borrower’s Secretariat of Planning and Management.
26. “Technical Partner” means any non-profit or governmental institution that, according to the Bank, meets the required criteria to participate in the implementation of Part 1 of the Project.



27. “Technical Partnership Agreements” means collectively the agreements to be entered into between the Borrower and the *Instituto Ayrton Senna* and the *Fundação Roberto Marinho* or any other Technical Partner, as referred to in Section I.A.1 of Schedule 2 to this Agreement.

## **Section II. Modifications to the General Conditions.**

1. Introduction to Section 2.05 and paragraph (a) of said Section of the General Conditions is amended to read as follows:

“The Borrower shall use the proceeds of the Loan or cause said proceeds to be used exclusively to finance (reimburse and advance) expenditures which, except as otherwise provided in the Loan Agreement, satisfy the following requirements:

(a) the payment is for the financing (reimbursement and advances) of the reasonable cost of goods, works, operating costs or services required for the Project, to be financed out of the proceeds of the Loan and procured, all in accordance with the provisions of the Legal Agreements; ”

2. Section 5.07 (b) of the General Conditions is amended to read as follows:

“The Borrower and the Project Implementing Entity shall maintain records adequate to record the progress of their Respective Parts of the Project (including its cost and the benefits derived from it), to identify the goods, works, operating costs and services financed (reimbursed and advanced) out of the proceeds of the Loan and to disclose their use in the Project, and shall furnish such records to the Bank upon its request.”

3. Paragraph 36 of the Appendix to the General Conditions is amended to read as follows:

“Eligible Expenditure” means an expenditure the payment for which meets the requirements of Section 2.05 and which is consequently eligible for financing (reimbursement and advances) out of the proceeds of the Loan.”