

CONFORMED COPY

LOAN NUMBER 3917-BR

Loan Agreement

(Rural Poverty Alleviation Project - Bahia)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF BAHIA

Dated July 16, 1995

LOAN NUMBER 3917 BR

LOAN AGREEMENT

AGREEMENT, dated July 16, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF BAHIA (the Borrower).

WHEREAS (A) Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee certain obligations of the Borrower in respect of the Loan; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territory of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Approved POA" means each approved annual operating plan referred to in Section 3.05.(b) of this Agreement;

(b) "Association" means a civil association (associacao civil) duly established in the Borrower's territory in accordance with the Guarantor's laws, and which meets the criteria set forth in the Operation Manual (as hereinafter defined) for participating in the Project;

(c) "Community Subproject" means a small-scale specific community investment to be carried out by an Association utilizing the proceeds of a Grant (as hereinafter defined) and which meets the criteria set forth in the Operational Manual (as hereinafter defined);

(d) "Council Agreement" means each of the agreements to be entered into between the PCU (as hereinafter defined) and an Independent Municipal Council (as hereinafter defined), providing for the terms and conditions for the participation of such Independent Municipal Council in the Project, including, inter alia, the making of Pilot Grants (as hereinafter defined) by such Independent Municipal Council;

(e) "FUMAC Grant" means a grant in an amount equivalent to at least 59% of a Community Subproject approved by a Municipal Council (as hereinafter defined) and made or proposed to be made by the PCU (as hereinafter defined) out of the proceeds of the Loan to an Association in a Municipality (as hereinafter defined), other than a Municipality in which an Independent Municipal Council (as hereinafter defined) has been established, for the financing of such Community Subproject pursuant to the terms of the Operational Manual (as hereinafter defined);

(f) "Grant" means any of a FUMAC Grant or a Pilot Grant or a PAC Grant (the latter two as hereinafter defined);

(g) "Grant Agreement" means each of the agreements in the terms of the respective Model Form (as hereinafter defined) to be entered into between: (i) an Independent Municipal Council (as hereinafter defined) and an Association providing for a Pilot Grant (as hereinafter defined); and (ii) PCU (as hereinafter defined) and an Association providing for a PAC Grant (as hereinafter defined) or a FUMAC Grant;

(h) "Implementation Plan" means the plan for the overall implementation of the Project set forth in Schedule 6 to this Agreement;

(i) "Independent Municipal Council" means a municipal council with capacity to receive and independently administer public funds, composed mainly of representatives of the communities and local organizations and including a representative of the PCU (as hereinafter defined), established within a Municipality (as hereinafter defined) pursuant to the Guarantor's laws and in accordance with the Operational Manual (as hereinafter defined);

(j) "MIS" means the Project monitoring and information system, satisfactory to the Bank, to provide information on the Project implementation, which shall include, inter alia, information on the Performance Indicators (as hereinafter defined), referred to in Section 5.01 (e) of this Agreement;

(k) "Model Forms" means the set of model draft agreements satisfactory to the Bank, including standard drafts of Council Agreements and Grant Agreements, set forth in the Operational Manual (as hereinafter defined);

(l) "Municipal Council" means a municipal council, composed mainly of representatives of the communities and local organizations and including a representative of the PCU (as hereinafter defined), established within a Municipality (as hereinafter defined), other than a Municipality in which an Independent Municipal Council (as hereinafter defined) has been established, pursuant to the Operational Manual (as hereinafter defined);

(m) "Municipality" means any of the municipalities set forth in Schedule 7 to this Agreement and any other additional municipality that may be agreed from time to time by the Bank and the Borrower;

(n) "Operational Manual" means the manual, satisfactory to the Bank, describing the criteria and procedures for the Project implementation and including the Model Forms, referred to in Section 5.01 (a) of this Agreement, as the same may be amended from time to time by agreement between the Bank and the PCU;

(o) "PAC Grant" means a grant in an amount equivalent to at least 59% of a Community Subproject approved and made or proposed to be made by the PCU (as hereinafter defined) out of the proceeds of the Loan to an Association for the financing of such Community Subproject pursuant to the terms of the Operational Manual;

(p) "PCU" means the Project coordinating unit, the Companhia de Desenvolvimento e Acção Regional, a public company owned by the Borrower;

(q) "PCU Agreement" means the agreement referred to in Section 3.01 (b) of this Agreement;

(r) "Performance Indicators" means the set of performance indicators set forth in Schedule 6 to this Agreement, and any other additional performance indicator that may be agreed from time to time by the Bank and the Borrower;

(s) "Pilot Grant" means a grant in an amount equivalent to at least 59% of a Community Subproject approved and made or proposed to be made by an Independent Municipal Council, under a Council Agreement, out of the proceeds of the Loan to an Association for the financing of such Community Subproject pursuant to the terms of the Operational Manual;

(t) "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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred five million Dollars (\$105,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 for: (i) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by the Borrower under Grants to meet the reasonable cost of goods and services required for Community Subprojects (under Part A of the Project) in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of services required for Parts B and C of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes 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 or 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 December 31, 2000 or such later date as

the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

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

Section 2.08. The Executive Director of the PCU 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause the PCU, under the provisions of the PCU Agreement, to carry out the Project, with the assistance of the Municipal Councils and of the Independent Municipal Councils, with due diligence and efficiency and in conformity with appropriate social, administrative, agricultural, environmental, financial and engineering practices, and in accordance with the Operational Manual, the Implementation Plan and the Approved POAs, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend, abrogate, suspend, waive or fail to enforce the Operational Manual or any provision thereof.

(b) For the purposes of carrying out the Project, the Borrower shall enter into an agreement with the PCU, satisfactory to the Bank (the PCU Agreement), whereby:

- (i) the Borrower shall transfer to the PCU, on a grant basis, the proceeds of the Loan;
- (ii) the PCU shall undertake to carry out the Project as set forth or referred to in this Agreement;
- (iii) the PCU shall undertake to enter into Council Agreements and Grant Agreements, as the case may be, whenever appropriate for the carrying out of the Project, such agreements to be made in accordance with terms of the respective draft set forth in the Model Forms;
- (iv) the PCU shall undertake to exercise its rights and comply with its obligations under the PCU Agreement, the Council Agreements and the Grant Agreements in such a manner as to protect the interests of the Borrower, the Bank and the PCU and to accomplish the purposes of the Loan and, except as the Bank and the Borrower shall otherwise agree, the PCU shall not assign, amend, abrogate, waive or fail to enforce the PCU Agreement, the Council Agreements and the Grant Agreements or any provision thereof.

(c) The Borrower shall exercise its rights and comply with its obligation under the PCU Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the PCU Agreement or any provision thereof.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions, the Borrower shall:

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

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

Section 3.04 The Borrower shall:

(a) maintain 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 12 months after the Effective Date, a base-line study (perfil de entrada) on the Project;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about a date 33 months after the Effective Date, 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; and

(d) review with the Bank, by a date three years after the Effective Date, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, 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 report and the Bank's views on the matter.

Section 3.05. The Borrower shall:

(a) in the month of October of each year during the carrying out of the Project, prepare and furnish to the Bank the proposed annual operating plans and budget, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective budgetary proposal.

(b) not later than 30 days after the approval of the Borrower's budget by its Assembleia Legislativa (Legislative Assembly), furnish to the Bank the approved annual operating plans and respective budget (Approved POA), detailing the Project activities to be carried out during the next succeeding year and the respective budgetary allocation.

Section 3.06. The Borrower shall:

(a) in each month during the carrying out of the Project, beginning in the second month after the Effective Date, prepare utilizing the MIS and furnish to the Bank a report on the disbursements under the Project during the previous month (disbursement report), of such scope and detail as the Bank shall request;

(b) in the months of January and July of each year during the carrying out of the Project, prepare utilizing the MIS and furnish to the Bank a report on the implementation of the Project during the previous six months (performance report), of such scope and detail as the Bank shall request, which shall include, inter alia, information on the carrying out of Community Subprojects and their results.

Section 3.07. The Borrower shall:

(a) in the twelfth month after the Effective Date, furnish to the Bank the results and recommendations of a study, carried out under terms of reference satisfactory to the Bank, on the cost structure and results of Community Subprojects, including physical performance evaluation, cost comparisons and procurement procedures assessment;

(b) review with the Bank the results and recommendations of such study; and

(c) take or cause to be taken all such action which shall have been agreed by the Bank and the Borrower during the review referred to in paragraph (b) above, as necessary for the efficient execution of the Project and the achievement of its objectives, such action to be taken in a manner and within a timetable agreed upon during such reviews.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project, of the departments or agencies of the Borrower or other entities responsible for the carrying out of the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts, and the audit thereof as the Bank shall 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, the Borrower shall:

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. 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) that the Borrower has adopted the Operational Manual in form and substance satisfactory to the Bank;

(b) that the PCU Agreement has been executed by the parties thereto;

(c) that all necessary acts, consents and approvals to be performed or given by the Guarantor, the Borrower or any agency thereof, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Guarantor and the Borrower to perform their respective obligations pursuant to the Guarantee Agreement and this Agreement, together with all necessary powers and rights in connection therewith, have been performed or given;

(d) that this Agreement has been duly registered by the Guarantor's Central Bank; and

(e) that the Borrower has adopted the MIS in form and substance satisfactory to the Bank.

Section 5.02. The following are specified as additional matters, 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:

(a) that this Agreement has been duly registered by the Guarantor's Central Bank; and

(b) that all necessary acts, consents and approvals, together with all necessary powers and rights in connection therewith, have been duly and validly performed or given and that no such other acts, consents or approval are required in order to authorize the carrying out of the Project and to enable the Guarantor and the Borrower to perform their respective covenants, agreements and obligations contained in the Guarantee Agreement and this Agreement, respectively.

Section 5.03. The date October 16, 1995 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary of the Secretariat of Planning, Science and Technology of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For the Borrower:

Secretaria do Planejamento, Ciencia e Tecnologia
Av. Luiz Viana Filho 250 - Conjunto SEPLANTEC
Centro Administrativo da Bahia / CAB
41745-000 Salvador, Bahia
Brazil

Telex:

(71) 7105

With copy to SEAIN:

Secretaria de Assuntos Internacionais -SEAIN
Ministerio do Planejamento e Orcamento
Esplanada dos Ministerios - Bloco K - 5o andar
70040-906 Brasilia, DF
Brazil

Telex:

(61) 1146

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ James D. Wolfensohn

President

STATE OF BAHIA

By /s/ Paulo Souto

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Grants		59% of the cost of the respective Community Subproject
(a) FUMAC Grants	45,400,000	
(b) Pilot Grants	9,000,000	
(c) PAC Grants	30,000,000	
(2) Consultants' services and training for Parts B and C of the Project	8,800,000	100%
(3) Administrative Costs	1,400,000	20%
(4) Unallocated	10,400,000	
TOTAL	105,000,000	

2. For the purposes of this Schedule the term "Administrative Costs" means the incremental operational costs of the PCU under Part C of the Project, excluding salaries and related benefits, consultants' services and training.

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;
- (b) payments made for a Grant unless the respective Grant Agreement shall have been entered into between the parties thereto; and
- (c) unless the Bank shall otherwise agree, payments for a Community Subproject estimated to cost more than the equivalent of \$50,000.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) under contracts for goods and works costing less than the equivalent of \$100,000; (ii) for services of individual consultants under contracts not exceeding \$50,000 equivalent; and (iii) for services of consulting firms under contracts not exceeding \$100,000 equivalent, 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 assist the Borrower's efforts to alleviate

rural poverty in the Municipalities by: (i) providing basic social and economic infrastructure, and employment and income generating opportunities; (ii) supporting rural community groups in planning and implementing their own subprojects; (iii) providing a safety net for the rural poor; and (iv) leveraging revenue mobilization at the community and municipal levels.

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: Community Subprojects

Financing of Community Subprojects through the provision of FUMAC Grants, Pilot Grants or PAC Grants.

Part B: Institutional Development

1. Carrying out of a basic introductory capacity building program for Municipal Councils and Independent Municipal Councils.
2. Provision of training for the PCU, Independent Municipal Councils and Municipal Councils.
3. Provision of technical assistance to participating communities, including, inter alia, community mobilization and organization, preparation of subprojects, and operation and maintenance of investments.
4. Carrying out of workshops and seminars for Municipal Councils, Independent Municipal Councils and Associations, to exchange experiences under the Project.

Part C: Project Administration

Support the overall Project implementation, coordination and supervision including, inter alia:

1. the operation of the PCU and its field offices related to Project implementation;
2. the establishment and operation of the MIS;
3. the carrying out of state-wide information campaigns to disseminate information about the Project; and
4. the carrying out of Project evaluation studies, including, inter alia, performance reviews and impact evaluations.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 2001 through September 15, 2010	5,250,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in Parts B.2, B.3 and B.4, goods and works financed by Grants under Part A of the Project shall be procured under contracts awarded in accordance with the provisions of paragraph 3.3 and 3.4 of the Guidelines. In the procurement of goods and works in accordance with this Part B.1, the Borrower shall use the relevant

model bidding documents acceptable to the Bank.

2. National Shopping for Goods

Except as provided in Part B.4 hereof, goods financed by Grants under Part A of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$16,500,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Except as provided in Part B.4 hereof, works financed by Grants under Part A of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$27,500,000, shall be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

4. Community Participation

Goods and works financed by Grants under Part A of the Project for Community Subprojects of up to \$50,000 equivalent and procured by an Association, may be procured in accordance with procedures acceptable to the Bank as provided in paragraph 3.15 of the Guidelines (including direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines) as detailed in the Operational Manual.

Part C: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract to be awarded pursuant to the provisions of Part B.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

Part D: Special Provisions

Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods and/or works to be undertaken pursuant to Part B.1 hereof:

1. 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.

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

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

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

5. 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.

Part E: Other

For purposes of this Schedule and the Guidelines the term custom duties and other import taxes includes the Guarantor's Freight Surcharge for the Renewal of the Merchant Marine (Adicional ao Frete para a Renovacao da Marinha Mercante - AFRMM), established by Decree Law 1.142 of December 30, 1970, as amended on December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or in part, after January 1, 1988.

Section II. Employment of Consultants

1. In order to assist the PCU in the carrying out of the Project, the Borrower shall cause the PCU to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall cause the PCU to employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 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 an amount equivalent to \$7,000,000 to be withdrawn from the Loan Account and deposited in 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 an amount equivalent to \$3,500,000 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 the equivalent of \$30,000,000.

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 a deposit or deposits 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 in 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; or

(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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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, 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

Implementation Plan and Performance Indicators

For purposes of this Schedule, the term "Beneficiaries" means the members of an Association and any other person receiving a direct benefit from the results of the implementation of a Community Subproject.

Part A: Implementation Plan

ACTIVITIES	COMPLETED BY
First training activity offered to:	
-Associations	May of 1996
-communities	July of 1996
-Municipal Councils	March of 1996
-Independent Municipal Councils	March of 1996
-PCU	February of 1996
Preparation of annual program of training and technical assistance	October of each year of Project implementation
Publicity campaign	
-preparation	December of 1995
-launching	February of 1996; and February 1998
No. of standard designs for infrastructure made (aggregate):	
-15 designs	December of 1995
-40 designs	December of 1996
Evaluation studies:	
-physical performance reviews	February of each year of Project implementation, beginning in 1977
-impact evaluation:	
-baseline	December of 1996
-mid-term	September of 1998
-final	May of 2001

Part B: Performance Indicators

1. Community Subprojects

No. of Community Subprojects implemented

- infrastructure
- social
- productive

No. of Beneficiaries (under Community Subprojects)

- Total
- % women
- women as % of productive Community Subprojects

No. of Associations
No. of Municipalities attended
No. of Municipal Councils established
No. of Independent Municipal Councils established

2. Institutional Development

No. of persons trained from:

-Associations
-communities
-Municipal Councils
-Independent Municipal Councils
-PCU

No. of courses, seminars and other training activities offered to:

-Associations
-communities
-Municipal Councils
-Independent Municipal Councils
-PCU

3. Project Administration

No. of publicity campaigns launched
No. of evaluation studies

SCHEDULE 7

Municipalities

Baixo Medio Sao Francisco Region

1. Campo Alegre de Lourdes
2. Casa Nova
3. Curaca
4. Juazeiro
5. Pilao Arcado
6. Remanso
7. Sento Se
8. Sobradinho

Chapada Diamantina Region

1. Abaira
2. Andaraí
3. Barra da Estiva
4. Boninal
5. Bonito
6. Boquira
7. Botupora
8. Brotas de Macaúbas
9. Caturama
10. Erico Cardoso
11. Ibicoara
12. Ibipitanga
13. Ibitiara
14. Ipupiara
15. Iramaia
16. Iraquara
17. Jussiape
18. Lençóis
19. Macaúbas
20. Mucuge
21. Nova Redenção
22. Novo Horizonte
23. Oliveira dos Brejinhos
24. Palmeiras
25. Paramirim
26. Piata
27. Rio de Contas
28. Rio do Pires

29. Seabra
30. Souto Soares
31. Tanque Novo
32. Utinga
33. Wagner

Irece Region

1. America Dourada
2. Barra do Mendes
3. Barro Alto
4. Cafarnaum
5. Canarana
6. Central
7. Gentio do Ouro
8. Ibipeba
9. Ibitita
10. Irece
11. Itaguacu da Bahia
12. Joao Dourado
13. Jussara
14. Lapao
15. Mulungu do Morro
16. Presidente Dutra
17. Sao Gabriel
18. Uibai
19. Xique-Xique

Litoral Norte Region

1. Acajutiba
2. Apora
3. Inhambupe
4. Ouricangas
5. Rio Real
6. Satiro Dias

Medio Sao Francisco Region

1. Barra
2. Bom Jesus da Lapa
3. Brejolandia
4. Buritirama
5. Carinhanha
6. Feira da Mata
7. Ibotirama
8. Iuiu
9. Malhada
10. Matina
11. Morpara
12. Muquem de Sao Francisco
13. Paratinga
14. Riacho de Santana
15. Serra do Ramalho
16. Sitio do Mato

Nordeste Region

1. Abare
2. Adustina
3. Agua Fria
4. Antas
5. Araci
6. Banzae
7. Biritinga
8. Cansancao
9. Canudos
10. Chorrocho
11. Cicero Dantas
12. Cipo
13. Conceicao Coite
14. Coronel Joao Sao
15. Crisopolis
16. Euclides da Cunha
17. Fatima
18. Gloria

19. Heliopolis
20. Itapicuru
21. Jeremoabo
22. Lamarao
23. Macurure
24. Monte Santo
25. Nordesteina
26. Nova Soure
27. Novo Triunfo
28. Olindina
29. Paripiranga
30. Paulo Afonso
31. Pedro Alexandre
32. Queimadas
33. Quijingue
34. Retirolandia
35. Ribeira do Amparo
36. Ribeira do Pombal
37. Rodelas
38. Santa Brigida
39. Santaluz
40. Sao Domingos
41. Serrinha
42. Sitio do Quinto
43. Teofilandia
44. Tucano
45. Uaua
46. Valente

Oeste Region

1. Angical
2. Baianopolis
3. Canapolis
4. Catolandia
5. Cocos
6. Coribe
7. Correntina
8. Cristopolis
9. Jaborandi
10. Santa Maria da Vitoria
11. Santa Rita de Cassia
12. Santana
13. Sao Desiderio
14. Sao Felix do Coribe
15. Serra Dourada
16. Tabocas do Brejo Velho

Paraguacu Region

1. Amelia Rodrigues
2. Anguera
3. Antonio Cardoso
4. Baixa Grande
5. Boa Vista do Tupim
6. Candeal
7. Capela do Alto Alegre
8. Coracao de Maria
9. Feira de Santana
10. Gaviao
11. Iacu
12. Ibiquera
13. Ichu
14. Ipecaeta
15. Ipira
16. Irara
17. Itaberaba
18. Itaete
19. Lajedinho
20. Macajuba
21. Mairi
22. Marcionilio Souza
23. Mundo Novo
24. Nova Fatima

25. Pe de Serra
26. Pintadas
27. Piritiba
28. Rafael Jambeiro
29. Riachao do Jacuipe
30. Ruy Barbosa
31. Santa Barbara
32. Santanopolis
33. Santo Estevao
34. Sao Goncalo dos Campos
35. Serra Preta
36. Tanquinho
37. Tapiramuta
38. Teodoro Sampaio
39. Terra Nova
40. Varzea da Roca

Piemonte Diamantina Region

1. Andorinhas
2. Antonio Goncalves
3. Caem
4. Caldeirao Grande
5. Campo Formoso
6. Capim Grosso
7. Filadelfia
8. Itiuba
9. Jacobina
10. Jaguarari
11. Miguel Calmon
12. Mirangaba
13. Morro do Chapau
14. Ourolandia
15. Pindobacu
16. Ponto Novo
17. Quixabeira
18. Sao Jose do Jacuipe
19. Saude
20. Senhor do Bonfim
21. Serrolandia
22. Umburanas
23. Varzea do Poco
24. Varzea Nova

Reconcavo Sul Region

1. Amargosa
2. Brejaes
3. Cabaceiras do Paraguacu
4. Castro Alves
5. Elisio Medrado
6. Governador Mangabeira
7. Itatim
8. Milagres
9. Muritiba
10. Nova Itarana
11. Santa Teresinha
12. Santo Amaro
13. Sapeacu
14. Ubaira
15. Varzedo

Serra Geral Region

1. Aracatu
2. Brumado
3. Cacule
4. Caetite
5. Candiba
6. Condeuba
7. Contendas do Sincora
8. Cordeiros
9. Dom Basilio
10. Guageru
11. Guanambi

12. Ibiassuce
13. Igapora
14. Ituacu
15. Jacaraci
16. Lagoa Real
17. Licinio de Almeida
18. Livramento do Brumado
19. Maetinga
20. Malhada de Pedras
21. Mortugaba
22. Palmas de Monte Alto
23. Pindai
24. Piripa
25. Presidente Janio

Quadros

26. Rio do Antonio
27. Sebastiao Laranjeiras
28. Tanhacu
29. Urandi

Sudoeste

1. Anage
2. Barra do Choca
3. Belo Campo
4. Boa Nova
5. Bom Jesus da Serra
6. Caatiba
7. Caetanos
8. Candido Sales
9. Caraibas
10. Cravolandia
11. Encruzilhada
12. Irajuba
13. Itaquara
14. Itirucu
15. Itororo
16. Jaguaquara
17. Jeque
18. Lafaiete Coutinho
19. Lajedo do Tabocal
20. Maiquinique
21. Manoel Vitorino
22. Maracas
23. Mirante
24. Planaltino
25. Planalto
26. Pocos
27. Ribeirao do Largo
28. Santa Ines
29. Tremedal
30. Vitoria da Conquista

