

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

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Cable Address: INTBAFRAD  
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July 17, 2003

Mr. Antonio Palocci Filho  
Minister of Finance  
Ministério da Fazenda  
Esplanada dos Ministérios-Bloco "P"- 8º andar  
70048-900, Brasília, D.F.  
Brazil

Dear Mr. Minister:

**Re: Loan No. 4292-BR (Second Water Sector Modernization  
Project- PMSS II) - First Amendment to the Loan Agreement**

Please refer to the Loan Agreement (the Loan Agreement) between the Federative Republic of Brazil (the Borrower) and the International Bank for Reconstruction and Development (the Bank), dated June 16, 1999, providing for a loan in the amount of one hundred fifty million Dollars (\$150,000,000) for the above-captioned Project. Whenever used in this letter, the several terms defined in the Loan Agreement shall have the respective meanings set forth therein.

Based on discussions held between the Borrower and the Bank during 2001, as reflected in recommendation (*recomendação*) No. 574 dated June 21, 2001 of the Borrower's *Comissão de Financiamentos Externos*, as well as notice (*ofício*) No. 039 dated July 12, 2001 of the Borrower's *Comissão de Financiamentos Externos*, and the letters received from the Borrower's *Procuradoria Geral da Fazenda Nacional* dated October 1 and 9, 2001, the Bank hereby proposes to amend the Loan Agreement as set forth in the Attachment to this letter. The proposed amendment also reflects the cancellation, effective on October 9, 2001, of the amount of one hundred twenty five million Dollars (\$125,000,000) from the Loan.

Please confirm your agreement with the foregoing, on behalf of the Borrower, by signing and dating the two originals of this letter and returning one fully signed original to us. The amendment set forth in this letter will become effective as of the first date written

above upon receipt by the Bank of (i) one original of this letter duly countersigned by the Borrower, and (ii) an updated Operational Manual (satisfactory to the Bank) reflecting the changes in the Project as per this amendment.

Sincerely,

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

/s/Vinod Thomas  
Director  
Brazil Country Management Unit  
Latin America and the Caribbean Region

**AGREED:**

**FEDERATIVE REPUBLIC OF BRAZIL**

By /s/Candice Lavocat Galvão Jobin  
Authorized Representative

Date: August 1, 2003

With copy to:

Mr. Guido Mantega  
Ministério do Planejamento, Orçamento e Gestão  
Secretaria de Assuntos Internacionais  
Esplanada dos Ministérios, Bloco "K" – 5º. andar  
70040-906, Brasília, D.F.  
Brazil

Mr. Olivio Dutra  
Ministério das Cidades  
Esplanada dos Ministérios, Bloco A, Sala 205 – Gabinete do Ministro  
70150-900, Brasília- D.F.  
Brazil

Mr. Demian Fiocca  
Ministério do Planejamento, Orçamento e Gestão  
Secretaria de Assuntos Internacionais  
Esplanada dos Ministérios, Bloco "K" – 5º. andar  
70040-906, Brasília, D.F.  
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Mr. Amaury Bier  
Executive Director  
World Bank  
1818 H Street N.W.  
Washington, D.C. 20433

**LOAN NUMBER 4292 - BR**

# **Loan Agreement**

**(Second Water Sector Modernization Project - PMSS II)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 16, 1999  
(as amended on July 17, 2003)**

**LOAN NUMBER 4292 - BR****LOAN AGREEMENT**

AGREEMENT, dated June 16, 1999 (as amended on July 17, 2003), between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) through a letter dated February 15, 2002 from the Borrower's Special Secretary of Urban Development of the Presidency to the Bank, the Borrower presented to the Bank its national water and wastewater policy (the National Water Policy) which indicates, inter alia, the Borrower's commitment to, and guidelines for, the introduction of reforms in the Borrower's water sector, as described in the National Water Policy; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I****General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. **Cancellation by the Bank.** If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a

beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled.”

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) “Institutional Reform Activity” means an activity selected by the Borrower and approved by the Bank, pursuant to the criteria and procedures set forth in the Operational Manual (as hereinafter defined), and referred to in Part A of the Project;

(b) “Operational Manual” means the Borrower’s manual dated January 22, 1998 (as amended from time to time upon agreement between the Borrower and the Bank) containing, inter alia, the operating procedures for the execution of the Project, and the criteria for the selection and procedures for the carrying out of Institutional Reform Activities;

(c) “Participating Municipality” means any of the Borrower’s Municipalities which benefit from the Project;

(d) “Participating State” means any of the Borrower’s States which benefit from the Project;

(e) “Participating Utilities” means any of the Borrower’s providers of water and sanitation services which benefit from the Project;

(f) “PMU” means the Project management unit established pursuant to Ministry of Planning and Budget’s *Portaria* No. 73 of December 11, 1997 and *Portaria* No. 70 of December 21, 2000; and

(g) “Project Monitoring Letter” means the letter dated February 12, 1998 (as amended on September 25, 2001), issued by the Borrower’s former Secretariat of Urban Policy of the Ministry of Planning and Budget to the Bank, setting forth the indicators and targets to be used in monitoring the progress of the implementation of the Project and in the evaluation of its results, as such letter may be amended from time to time by agreement between the Borrower and the Bank.

## 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, an amount equal to twenty five million Dollars (\$25,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be October 31, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $\frac{3}{4}$  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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the



initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.06 of this Agreement.

(iii) “LIBOR Base Rate” means for each Interest Period, the London interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six months’ notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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 Borrower's Minister of the Cities, and the person or persons designated in writing by such Minister, are designated as representatives 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 carry out the Project, through the Borrower's Minister of the Cities with the assistance of the Participating States, Participating Municipalities and Participating Utilities, as the case may be, with due diligence and efficiency and in conformity with: (i) the National Water Policy; (ii) the Operational Manual; and (iii) appropriate administrative, financial, engineering, environmental and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall maintain until the completion of the Project, the Project Management Unit (the PMU), with staffing, responsibilities and functions (including the terms of reference of its coordinator and managers) satisfactory to the Bank.

(c) In case of conflict between the provisions of the Operational Manual and the ones of this Agreement, the provisions of this Agreement shall prevail.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods- 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. Whenever a Participating State or Participating Municipality qualifies to benefit from an Institutional Reform Activity, the technical assistance under such Institutional Reform Activity shall be promptly provided, free of charge, by the Borrower to such Participating State or Participating Municipality.

Section 3.04. Whenever a Participating Utility qualifies to benefit from an Institutional Reform Activity, the technical assistance under such Institutional Reform Activity shall be provided, free of charge, by the Borrower to such Participating Utility .

Section 3.05. In the selection and carrying out of Institutional Reform Activities, the Borrower shall comply, inter alia, with the relevant provisions and specific procedures set forth in the Operational Manual.

Section 3.06. Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall:

(a) not later than December 31, 2002, contract consultants (in accordance with the relevant provisions of Schedule 4 to this Agreement) to evaluate, throughout Project implementation and based upon the corresponding eligibility criteria set forth in the Operational Manual, the progress achieved in reforming the institutional and regulatory framework of the Participating States, Participating Municipalities or the institutional organization of the Participating Utilities, as the case may be; and

(b) cause such consultants to report annually to the Bank, through the PMU, on the activities referred to in paragraph (a) above, including the provision of recommendations on specific corrective actions where required.

Section 3.07. Without limitation upon the provisions of Sections 9.01 (a) and 9.07 of the General Conditions, the Borrower shall:

(a) in the months of March and September of each year during Project implementation, furnish to the Bank reports on the progress in the implementation of the Project (the report to be presented in September to include the report or reports, as the case may be, referred to in Section 3.06 (b) of this Agreement) which shall take into consideration the indicators and targets set forth in the Project Monitoring Letter, and to be of such scope and in such detail as the Bank shall reasonably request; and

(b) during the first and the third quarters of each year during Project implementation, hold reviews with the Bank (the review to take place in the first quarter of the year 2004 to be the mid-term review), such reviews to be based on the applicable report referred to in paragraph (a) above, and, thereafter, take or cause to be taken all such action which shall have been agreed upon by the Borrower and the Bank, during the reviews referred to in this paragraph, as necessary for the efficient execution of the Project or the achievement of its objectives, such action to be taken in the manner and within the timetable agreed upon during such reviews.

Section 3.08. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, an analysis of the impact of the Project on the future development of the water and wastewater sector of the Borrower; and

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

#### 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 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 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, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, 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 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**

### **Representative of the Borrower; Addresses**

Section 5.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD            248423 (MCI) or            (202) 477-6391  
Washington, D.C.    64145 (MCI)

With copies to:

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

Ministério das Cidades  
Gabinete do Ministro  
Esplanada dos Ministérios, Bloco "A", sala 205  
70054-900Brasília - D.F.  
Brazil

**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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' Services under Institutional Reform Activities	17,000,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods and Consultants' Services under Part B of the Project	6,000,000	100% of foreign expenditures and 85% of local expenditures
(3) Unallocated	2,000,000	
TOTAL	<u>25,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for: (i) goods costing less than \$350,000 equivalent (other than the first two contracts for



goods to be awarded); (ii) services of consulting firms costing less than \$100,000 equivalent; and (iii) services of individual consultants costing less than \$50,000 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 improve the overall efficiency of the Borrower's water sector by, in particular, strengthening the sector regulations and increasing the private sector participation in the investment and management of the sector.

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: Institutional and Regulatory Reform**

Carrying out technical assistance projects, through the provision of consultants' services in support of water sector institutional and regulatory activities at the federal, state, municipal and utility levels, including inter alia the activities indicated below:

1. At the federal government level:
  - (a) formulation and implementation of national policies for the water and sanitation sector;
  - (b) elaboration of the legal and regulatory framework related to the provision of water and sanitation services, including the preparation and implementation of studies related to the proposition of laws, rules, guidelines, general procedures, parameters, and standards;
  - (c) national sector planning;
  - (d) preparation and implementation of studies with relevance to water and sanitation sector at the state, municipal and Participating Utilities level, such as studies regarding:
    - (i) demand;
    - (ii) costs, tariffs and subsidies;
    - (iii) market structure, competition and competitiveness;

- (iv) services provision assessments, including quality, efficiency and users' satisfaction; and
- (v) development of agencies, associations and consortia for service provision and regulation, such as micro-regional companies and state-wide regulators;
- (e) encouragement for the private sector participation in the provision of water services;
- (f) development of information systems and data bases for the water, sanitation and the solid waste sectors;
- (g) development and implementation of a utility rating data base and a *yardstick regulation system* (performance based comparison);
- (h) development of environmental management programs;
- (i) carrying out of training and capacity building programs, including the organization and promotion of, and the participation in, events of sector related interest; and
- (j) provision of support to activities and programs of sector related interest, including publications and dissemination of new technologies and methodologies.

2. At the state and municipal level:

- (a) formulation of water and sanitation policies and strategic planning;
- (b) elaboration of the legal and regulatory framework related to the provision of water and sanitation services; (c) establishment of, or support to, existing sector regulatory entities as the case may be, including the carrying out of capacity building activities and training of staff; (d) development and implementation of sector institutional reorganization and service provision reforms; and (e) activities included under Part A.1 above, related to the improvement and organization of the water sector as applicable to the state and municipal levels.

3. At the Participating Utilities level:

- (a) carrying out of activities to foster strategic planning, structural reorganization and development of corporate governance; (b) carrying out of technical and legal studies related to private sector participation in the provision of water services, including access to capital markets, preparation of bidding documents, procedures and concessions or other legal agreements, and assistance in the negotiations of water related agreements; (c) carrying out of environmental management programs; (d) provision of technical assistance for the preparation of water and sanitation investment plans and

projects; (e) carrying out of studies for technological updating and improvement of service operations and utility management; (f) carrying out of studies for technical, commercial, financial, accounting and information systems related to regulatory obligations; and (g) training of staff in connection to (or as required by) the activities listed in this paragraph.

Part B: Management and Promotion

Management of the implementation, coordination and supervision of Project activities, including, inter alia, the promotion and dissemination of Project experiences, through the provision of consultants' services and equipment.

\* \* \*

The Project is expected to be completed by December 31, 2005.

**SCHEDULE 3****Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each September 15 and March 15 beginning September 15, 2003 through March 15, 2013	1,250,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

## SCHEDULE 4

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

##### Part B: International Competitive Bidding

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

##### Part C: Other Procurement Procedures

#### 1. National Competitive Bidding

Goods estimated to cost \$100,000 equivalent or more but less than \$350,000 equivalent per contract, up to an aggregate amount of \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods under this Part C.1, standard bidding documents acceptable to the Bank shall be used.

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

(a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

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

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

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

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

## 2. Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$500,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

## Part D: Review by the Bank of Procurement Decisions

### 1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to: (i) each contract for goods awarded under Part B of Section I of this Schedule; (ii) the first two contracts for goods under Part C.1 of said Section I; and (iii) the first two contracts for goods under Part C.2 of said Section I; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.



### 3. Post Review

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

### Part E: Other

For purposes of the Guidelines, the term custom duties and other import taxes includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (*Adicional ao Frete para a Renovação da Marinha Mercante*), established pursuant to the Borrower's Decree-Law No. 1142 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 have substituted it -in whole or in part- after January 1, 1988, or may substitute it -in whole or in part- as of the date of this Agreement.

### Section II. Employment of Consultants

#### Part A: General

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

#### Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality-and cost-based selection of consultants.

#### Part C: Other Procedures for the Selection of Consultants

##### 1. Least-cost Selection

Services of a routine nature such as audits and the set-up of data bases estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

##### 2. Selection Based on Consultants' Qualifications

Services related to the carrying out of training and capacity building programs, estimated to cost less than \$100,000 equivalent per contract, may be procured under

contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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