

CONFORMED COPY

LOAN NUMBER 7186-BR

Loan Agreement

(Bahia Education Project – Second Phase)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF BAHIA

Dated December 15, 2003

LOAN NUMBER 7186-BR

LOAN AGREEMENT

AGREEMENT, dated December 15, 2003, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF BAHIA (the Borrower).

WHEREAS (A) the Bank has received a letter from the Borrower, dated April 24, 2000, describing a program designed to improve the Borrower's educational system (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through two loans over a period of approximately six years to be utilized by the Borrower in the implementation of the Program;

(C) by an agreement dated February 12, 2001 between the Borrower and the Bank (the First Loan Agreement), the Bank granted to the Borrower a loan in a principal amount in various currencies equivalent to sixty-nine million six hundred thousand Dollars (\$69,600,000) (the First Loan) to assist in financing of the first phase of the Program (the First Phase Project);

(D) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms part of the second and last phase of the Program, have requested the Bank to assist in the financing of the Project;

(E) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the payment obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan);

(F) the Bank has received a letter from the Borrower, dated May 6, 2003 and supplemented by a letter dated June 10, 2003, describing a program designed to achieve an integrated development of the Borrower's economic and social sectors (the Integrated Development Program) and declaring the Borrower's commitment to the execution of such program; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

- (a) “COPE” means *Coordenação de Projetos Educacionais*, the Borrower’s agency for Coordination of Educational Projects established within SEC;
- (b) “DIREC” means *Diretorias Regionais de Educação*, any of the Borrower’s Regional Educational Directorates under SEC’s jurisdiction;
- (c) “Eligible Municipality” means any of the municipalities listed in the PIP;
- (d) “FMR” or Financial Management Report means each report prepared in accordance with Section 4.02 of this Agreement;
- (e) “Fundamental Education” means the education provided in Brazil from grades 1 through 8 (*ensino fundamental*), as described in Articles 21 and 32 of the Guarantor's Law No. 9394, dated December 20, 1996;
- (f) “Indigenous Peoples Development Plan” means the Borrower’s plan for benefiting indigenous peoples under the Project as set forth in the document furnished by SEC to the Bank on November 21, 2002;

(g) “Minimum Operational Standards” means the minimum standards established by the Borrower for the operation of classrooms in Fundamental Education schools, as set forth in the PIP;

(h) “Minimum Operational Standards Guidelines” means the guidelines for the implementation of minimal operational standards in public schools, issued by SEC and dated January 22, 2003, as such guidelines may be amended from time to time with the agreement of the Bank;

(i) “PDD” means any of the DIREC’s regional education development plans, as provided in the PIP, to complement activities developed under PDEs;

(j) “PDE” means any of the plans for the improvement of a Fundamental Education school or a Secondary Education school, as the case may be, prepared by a School Subproject Implementing Entity as provided in the PIP;

(k) “PDE Guidelines” means the guidelines for the implementation of PDEs in public schools, issued by SEC and dated January 22, 2003, as such guidelines may be amended from time to time with the agreement of the Bank;

(l) “Performance Indicators” means the indicators set forth in the PIP;

(m) “PIP” means the Project implementation plan, sent by the Borrower to the Bank on June 28, 2000, as revised on January 22, 2003, which contains, *inter alia*, the detailed procedures for the execution of the Project, including procurement and financial management requirements, screening requirements for environmental impact in the construction of schools, a construction manual with requirements for all construction under the Project, the Indigenous Peoples Development Plan, performance indicators to measure the progress of the Project and the achievement of its objectives, and the procedures and other requirements for the carrying out of School Subprojects, and the models of School Performance Agreements, as such plan may be amended from time to time with the agreement of the Bank;

(n) “School Grant” means any of the transfers of funds referred to in Section 3.01 (c) (i) of this Agreement;

(o) “School Performance Agreement” means any of the arrangements referred to in Section 3.01 (c) of this Agreement;

(p) “School Subproject” means any of the rehabilitation works to be carried out under Part A.1 of the Project, or any of the school improvement projects to be carried out under Part A.3 of the Project;

(q) “School Subproject Implementing Entity” means any state or municipal school with financial autonomy (a school which has a *caixa escolar*), which carries out a School Subproject;

(r) “SEC” means *Secretaria da Educação*, the Borrower’s Secretariat of Education;

(s) “Secondary Education” means the education provided in Brazil from grades 9 through 11 (*ensino médio*), as described in Articles 21 and 35 of the Guarantor’s Law No. 9394, dated December 20, 1996;

(t) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(u) “SUCAB” means *Superintendência de Construções Administrativas da Bahia*, the Borrower’s civil works agency.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to sixty million Dollars (\$60,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank on terms

and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. 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, 2006 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

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

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

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

Section 2.10. The Borrower's Secretary of Education and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

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 SEC, with the assistance of SUCAB in respect of Parts A.6 and B of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, educational, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) above, the Borrower shall carry out the Project in accordance with the PIP, the Performance Indicators, and the Indigenous Peoples Development Plan.

(c) For purposes of the carrying out of any School Subproject, the Borrower shall enter into arrangements with a School Subproject Implementing Entity (the School Performance Agreement), substantially in accordance with the model set forth in the PIP, providing, inter alia, for: (i) the terms and conditions of the transfer of funds (the School Grant) from the Borrower to such School Subproject Implementing Entity for the financing of the School Subproject; and (ii) the obligation of the School Subproject Implementing Entity to carry out the School Subproject in accordance with the provisions of the PIP and the PDE Guidelines or the Minimum Operational Standards Guidelines, as the case may be.

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. The Borrower shall maintain COPE, throughout Project implementation, with responsibility for the management, monitoring and evaluation of the Project and assisted, for purposes of the Project, by technical and professional staff, including a Project manager, a financial expert and three procurement experts, with qualifications and experience acceptable to the Bank.

Section 3.04. The Borrower shall, through SEC, during the execution of the Project:

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

(b) furnish to the Bank, not later than June 30 and December 31 of each year, commencing June 30, 2004, a progress report on the execution of the Project during the six-month period immediately preceding the date of each such report, said report to be of such scope and detail as the Bank may reasonably request and to include the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section; and

(c) review, jointly with the Bank, not later than July 31 and January 31 of each year, commencing July 31, 2004, the progress of the Project in the context of the Integrated Development Program, and the attainment of the Project objectives on the basis of the reports referred to in paragraph (b) of this Section and shall, thereafter, take all measures required to ensure the efficient completion of the Project and the

achievement of its objectives, based on the conclusions and recommendations of the said reports, and the Bank's views on the matter.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall, through SEC:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain in SEC a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements 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 auditing standards acceptable to the Bank, 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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.

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

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that this Loan has been validly registered with the Central Bank of Brazil.

Section 5.02. The date March 15, 2004, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the Secretary of Finance 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:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For the Borrower:

Secretaria da Fazenda
Av. Luís Viana Filho, 260 - Centro Administrativo da Bahia
2a. Avenida, 260
41520-300 Salvador, Bahia
Brazil
Facsimile: (55-71) 370-8802

With copies to:

Secretaria da Educação
Av. Luís Viana Filho – Centro Administrativo da Bahia
5a. Avenida, 550
41746-900 Salvador, Bahia
Brazil
Facsimile: (55-71) 371-5650

Secretaria do Planejamento, Ciência e Tecnologia
Av. Luís Viana Filho, 250 - Centro
Administrativo da Bahia
2a. Avenida, 250
41746-900 Salvador, Bahia
Brazil
Facsimile: (55-71) 370-3945

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco "K" - 5 andar
70040-906 Brasília, D.F.
Brazil
Facsimile: (55-61) 225-4022

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas

Authorized Representative

STATE OF BAHIA

By /s/ Paulo Ganem 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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works (except those under Categories (4), (5) and (6) below)	2,900,000	70%
(2) Goods (except those under Categories (4), (5) and (6) below)	23,100,000	70%
(3) Consultants' services (except those under Category (4) below)	8,600,000	70%
(4) School Grants	14,300,000	70% of the cost of goods, works, consultants' services and training financed by the respective School Grant
(5) Training (except those under Category (4) above)	400,000	70%
(6) Incremental operational costs	2,700,000	70%
(7) Front-end fee	600,000	Amount due under Section 2.04 of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(8) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(9) Unallocated	<u>7,400,000</u>	
TOTAL	<u>60,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "incremental operational costs" means reasonable costs incurred (which would not have been incurred absent the Project) in the daily implementation, management, monitoring and evaluation of the Project, such as costs of office supplies, communication services, maintenance of facilities and equipment, and staff per diem and transportation; and

(b) the term "training" means expenditures (other than consultants' services) incurred in connection with the provision of training under Parts A, C and D of the Project, including the reasonable travel cost and per diem of the trainees.

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

(a) expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$6,000,000, may be made on account of payments made for expenditures incurred within one year prior to the date of this Agreement, but not before December 31, 2002;

(b) any expenditures for goods, works and services also financed by the First Loan, until the proceeds of the First Loan have been fully disbursed or committed; and

(c) any expenditures under Parts C.2 and C.4 of the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under:

- (a) incremental operational costs, training and School Grants;
- (b) contracts for goods costing less than \$250,000 equivalent (except the first two contracts);
- (c) contracts for works (except the first two contracts to be procured in accordance with the provisions of Part C.1 (a) (ii) of Section I of Schedule 4 to this Agreement);
- (d) consulting firms' contracts costing less than \$200,000 equivalent; and
- (e) individual consultants' contracts 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 objectives of the Project are to improve the quality of Fundamental and Secondary Education services and to increase the access of students to Secondary Education schools, in the territory of the Borrower.

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: School Quality Improvement

1. Carrying out of a survey of the infrastructure and educational assets of the Borrower's Fundamental Education schools located in the Eligible Municipalities and upgrading of such schools, as necessary, to attain Minimum Operational Standards, including the provision of materials and equipment, and the carrying out of minor maintenance works (financed by School Grants) in order to bring such schools up to the Minimum Operational Standards.
2. Carrying out of PDEs in Fundamental Education schools which are located in the Eligible Municipalities and which enroll more than 200 students, and in all public Secondary Education schools in the territory of the Borrower, including the provision of technical assistance for: (a) training of selected school staff in the preparation of the PDEs; (b) mobilization of school personnel and the broader school community for the support of the PDEs; and (c) evaluation and monitoring of the implementation of the PDEs.
3. Provision of grants to School Subproject Implementing Entities for the financing of school improvement projects set forth in the corresponding PDEs, and consisting of acquisition of goods, carrying out of minor construction works, and provision of technical assistance.
4. Implementation of a program to strengthen the academic performance of over-age students and reduce age-grade distortions in Fundamental Education, through accelerated classes for over-age students, including the provision of technical assistance in teacher training and curriculum design.
5. Implementation of a curriculum and in-service training program for teachers, in particular in mathematics and Portuguese.

6. Construction of one school with at least six classrooms in the lands of the *Tupinamba de Olivença* indigenous people, and the establishment of Minimum Operational Standards in additional 38 classrooms of community schools of indigenous peoples, including the provision of teaching and learning materials to students and teachers in all such classrooms, the provision of computers in seven of such schools and training of teachers and school staff.

Part B: Expanding Access to Secondary Education

Construction of about 104 new classrooms for Secondary Education in underserved areas of the Borrower's territory.

Part C: Education Management Strengthening

1. Implementation of a student achievement assessment program for the Borrower's Fundamental Education schools.
2. Consolidation of a certification system for school principals and other specialized staff through, *inter alia*, training of such staff.
3. Monitoring of the implementation of PDDs and provision of technical assistance to DIRECs for achieving the goals set forth in their respective PDDs.
4. Implementation of a program designed to strengthen the management autonomy of Secondary Education schools.
5. Consolidation, at the school level, of the Borrower's information system for the management of the Borrower's education sector.

Part D: Project Management, Monitoring and Evaluation

1. Strengthening, through the provision of technical assistance and training, of the Borrower's capacity to develop integrated policies and to manage and monitor the Project.
2. Carrying out of studies to evaluate the impact of the Project.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15 Beginning November 15, 2008 through May 15, 2018	5%

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

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

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

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

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

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

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

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

SCHEDULE 4

Procurement

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 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

1. Except as 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.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) (i) Goods estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount of \$3,500,000 equivalent, may; and

(ii) works shall,

be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) In the procurement of goods and works under this Part C.1, bidding documents in a standardized form for the Project 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 and works to be undertaken pursuant to this Part C.1:

(i) 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;

(ii) 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;

(iii) 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;

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

(v) there shall not be, without the Bank's prior approval, issuance of any change order under a contract which would increase or

decrease by more than 15% the quantity of works or goods (and related services), as the case may be, without any change in the unit prices or other terms and conditions of such contract.

2. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount of \$3,000,000 equivalent (in the case of goods not included in School Subprojects), may be procured under contracts awarded on the basis of international or national shopping procedures, acceptable to the Bank, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, including as a form of such shopping, the bidding (*pregão*) procurement system set forth in the Guarantor's Law No. 10.520 of July 17, 2002.

3. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract under the School Subprojects or to be procured in the case of re-bidding of lots initially procured through national competitive bidding procedures under Part C.1 hereof, may 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 complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts in any 12-month period during the execution of the Project, the proposed procurement plan for the Project during such period 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 and works during such period 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: (a) each contract for goods estimated to cost \$250,000 equivalent or more; and (b) the first two contracts for works procured under Part C.1 (a) (ii) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for the Project, estimated to cost less than \$500,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for school surveys and impact evaluation studies under Parts A.1 and D.2 of the Project which are estimated to cost less than \$970,000 equivalent in the aggregate may be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding in the aggregate \$10,500,000 equivalent shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

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 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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 the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of \$6,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, 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.