

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7327-BR

Loan Agreement

(Bahia State Integrated Project: Rural Poverty – *Projeto de Combate a Pobreza no Interior da Bahia “PRODUZIR II”*)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF BAHIA

Dated December 14, 2005

Public Disclosure Authorized

LOAN NUMBER 7327-BR

LOAN AGREEMENT

AGREEMENT, dated December 14, 2005, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF BAHIA (the Borrower).

WHEREAS (A) 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), have requested the Bank to assist in the financing of the Project;

(B) 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); 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended, through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

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

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their

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

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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:

(a) "Approved POA" means each approved annual operating plan referred to in Section 3.04 (b) of this Agreement;

(b) "Area A Grants" means grants to be made by the Borrower to finance Community Subprojects in the 100 Municipalities with the lowest HDI-M;

(c) "Area B Grants" means grants to be made by the Borrower to finance Community Subprojects in Municipalities other than the Municipalities referred to in (b) above;

(d) "CAR" means *Companhia de Desenvolvimento e Ação Regional*, the Borrower's development agency for regional activities;

(e) "Community Association" means a civil association formed by members of a community (*associação civil*) duly established in the Borrower's territory in accordance with the Guarantor's laws, and which meets the criteria set forth in the Operational Manual for participating in the Project;

(f) "Community Subproject" means any investment referred to in Part A of the Project to be carried out by a Community Association utilizing the proceeds of a Grant, and which meets the criteria set forth in the Operational Manual;

(g) "Eligible Categories" means categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(i) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(j) “FUNAI” means *Fundação Nacional do Índio*, the National Indian Foundation established by the Guarantor’s Decree No. 564, dated June 08, 1992 and pursuant to the Guarantor’s Law No. 5371 of December 5, 1967;

(k) “Grant” means an Area A Grant or an Area B Grant;

(l) “Grant Agreement” means any of the agreements to be entered into between the Borrower and a Community Association providing for a Grant;

(m) “HDI” means the Borrower’s human development index, which is measured by the Guarantor’s *Instituto de Pesquisas Econômicas Aplicadas* – (IPEA) on the basis of the indicators for health, education and income in the Borrower’s territory;

(n) “HDI-M” means the human development index of a Municipality, which is measured by *Fundação João Pinheiro* on the basis of the indicators for health, education and income in such Municipality’s territory;

(o) “MIS” means the Project monitoring and information system referred to in Section 3.03 (a) of this Agreement;

(p) “Municipal Council” means a municipal council, composed mainly of representatives of communities and local organizations in a Municipality, as provided in the Operational Manual;

(q) “Municipality” means any municipality in the Borrower’s territory which is eligible to receive a Grant pursuant to the criteria set forth in the Operational Manual;

(r) “Operational Manual” means the manual referred to in Section 3.01 (b) (iii) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(s) “Procurement Plan” means the Borrower’s procurement plan, dated October 30, 2004, covering the initial 18 month period of implementation of Parts B and C of the Project, as the same shall be updated from time to time in accordance with the

provisions of Section 3.02 of this Agreement, to cover succeeding 18 month periods (or longer) of implementation of Parts B and C of the Project;

(t) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement; and

(u) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty-four million three hundred fifty thousand Dollars (\$54,350,000) 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. 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, as well as in respect of the 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.

Section 2.03. The Closing Date shall be July 31, 2010, or such later date as the Bank shall establish, after having received evidence that the Guarantor has authorized the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date authorized by the Guarantor.

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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 said fee.

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

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

Section 2.07. Interest and other 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 amortization schedule set forth in 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through CAR with the assistance of the Municipal Councils and the Municipalities, with due diligence and efficiency and in conformity with appropriate social, administrative, agricultural, environmental, financial and engineering practices, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall carry out the Project in accordance with the provisions and/or recommendations of:

- (i) the Approved POA;
- (ii) the plan, furnished by the Borrower to the Bank on January 13, 2005, for the participation of indigenous peoples in the carrying out of Community Subprojects with the assistance of FUNAI; and
- (iii) a manual, satisfactory to the Bank (the Operational Manual), which shall contain the policies and procedures for the carrying out, monitoring and evaluation of the Project, including, *inter alia*: (A) the procedures for preparation, prioritization and approval of Community Subprojects, including environmental criteria and procedures for screening and management of such Subprojects, as provided in the environmental management plan furnished by the Borrower to the Bank on January 13, 2005, and the expected contribution of such Community Subprojects to a positive impact on the HDI; (B) the criteria for eligibility of Community Associations to participate in the Project; (C) the organization and membership of Municipal Councils; (D) the responsibilities and functions of the Municipal Councils in the selection of Community Associations and Community Subprojects; (E) the procedures and criteria for the provision of Area A Grants and Area B Grants, including, *inter alia*, the provision that Area A Grants shall be made in an aggregate amount equivalent to at least 40% of the total amount of the Grants; (F) the model form of Grant Agreements; (G) the Project procurement and financial management requirements and procedures; and (H) the

indicators to be used for Project monitoring and evaluation. In case of any inconsistency between a provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.

(c) The Borrower shall cause CAR, during Project implementation, to have responsibilities, structure and functions satisfactory to the Bank regarding the administration, supervision, monitoring and evaluation of the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan with respect to Parts B and C of the Project.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. The Borrower shall:

(a) maintain a Project monitoring and information system in CAR, satisfactory to the Bank (the MIS), to enable it to monitor and evaluate on an on-going basis, in accordance with the performance indicators set forth in the Operational Manual, the carrying out of the Project and the achievement of the objective thereof;

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

(c) review such report with the Bank promptly after its preparation, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.04. The Borrower shall:

(a) by October 30 of each year during Project implementation, 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 sources of funding therefor; and

(b) not later than 30 days after the approval of the Borrower's budget by its *Assembléia Legislativa* (Legislative Assembly), furnish to the Bank the approved annual operating plans and respective budget (Approved POA) referred to in paragraph (a) of this Section for each year in question.

Section 3.05. For the purposes of Section 9.07 (c) 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; and

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

Section 3.06. For the purposes of implementing Part A of the Project, the Borrower shall:

(a) after having selected a Community Subproject, enter into a Grant Agreement with a Community Association, in accordance with the terms and conditions set forth in the Operational Manual; and

(b) for those Community Subprojects estimated to cost more than the equivalent of \$50,000, request Bank's prior review and approval.

Section 3.07. Not later than 60 days after the date of this Agreement, the Borrower shall prepare an action plan, satisfactory to the Bank, for the implementation of an information campaign to disseminate information about the Project, including, *inter alia*, the guidelines for participation of Community Associations in the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, as part of the MIS in CAR, a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that the relevant statements of expenditure and reports referred to in Part A.5 of Schedule 1 to this Agreement, as the case may be, are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's reporting obligations set out in Section 3.03 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), 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 by 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 the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely: that the Borrower has adopted the Operational Manual.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Loan has been duly registered by the Guarantor's Central Bank.

Section 5.03. The date March 14, 2006 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 Planning 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	248423 (MCI) or	(202) 477-6391
Washington, D.C.	64145 (MCI)	

For the Borrower:

Companhia do Desenvolvimento e Ação Regional
Secretaria de Planejamento
Av. Luiz Viana Filho, 250
Centro Administrativo da Bahia
41745-000 Salvador, Bahia
Brazil
Facsimile: (55-71) 3371-0015

With copy to:

Secretaria do Planejamento
Av. Luiz Viana Filho, 250
Centro Administrativo da Bahia
41745-000 Salvador, Bahia
Brazil

Facsimile: (55-71) 3115-3945

Secretaria da Fazenda
Av. Luiz Viana Filho, 260
Centro Administrativo da Bahia
41745-000 Salvador, Bahia
Brazil

Facsimile: (55-71) 3115-8802

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

Facsimile: (55-61) 3225-4022

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe

Authorized Representative

STATE OF BAHIA

By /s/ Paulo Ganem Souto

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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) Grants:		72.5% of the expenditures for goods, works and services for a Community Subproject
(a) Area A Grants	18,760,000	
(b) Area B Grants	28,140,000	
(2) Consultants' services, training and goods under Parts B and C of the Project	4,900,000	100%
(3) Administrative costs:		
(a) incremental operational costs	400,000	20%
(b) Project supervision and monitoring costs	600,000	50%
(4) Fee	543,500	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>
(5) Premia for Interest Rate caps and Interest Rate Collars	-0-	Amount due under Section 2.09 (c) of this Agreement
(6) Unallocated	1,006,500	
TOTAL	<u>54,350,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “administrative costs” means: (i) the operational costs (which would not have been incurred absent the Project); and (ii) the supervision and monitoring costs of the Project incurred by CAR under Part C of the Project (excluding expenditures for salaries and related benefits and for training); and

(b) the term “Training” means expenditures (other than those for consultants’ services) incurred by the Borrower to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable) and rental of training facilities, materials and equipment under the Project.

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, except that withdrawals, in an aggregate amount not exceeding \$10,000,000, may be made on account of payments made within twelve months prior to the date of this Agreement, but in no case prior to October 29, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods or works costing less than the equivalent of \$100,000 per contract; (b) services of individual consultants and consulting firms costing less than the equivalent of \$50,000 and \$100,000 per contract, respectively; and (c) training and administrative costs.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first

such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may 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.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank at any time is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$5,400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase social and economic opportunities for the Municipalities' rural poor by improving their access to basic, social and economic infrastructure, and thus contributing to the Borrower's objective of increasing the HDI.

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 demand driven projects (the Community Subprojects) in about 407 Municipalities consisting, *inter alia*, of socio-economic infrastructure, education, health, cultural, environmental and other productive investments aimed at raising the Borrower's HDI, such investments to be identified by the relevant Community Associations.

Part B: Institutional Development

1. Provision of technical assistance and training for Community Associations to support, *inter alia*, organization and strengthening of such Associations, identification, preparation, and operation of Community Subprojects, and maintenance of the investments under such Community Subprojects.
2. Carrying out of capacity-building programs for Municipal Councils on responsibilities outlined in the Operational Manual, including assessment and supervision of Community Associations, participatory planning and the financial management of Community Subprojects, and environmental management of small Community Subprojects.
3. Provision of training and technical assistance to the staff of CAR on technical matters regarding preparation, execution and operation of Community Subprojects, including development of standard project designs, monitoring techniques and financial management.
4. Provision of training to technical staff of public and private entities associated with Project implementation on technical matters regarding preparation, execution and operation of Community Subprojects, including development of standard project designs, monitoring techniques and financial management.

5. Carrying out of workshops and seminars for Municipal Councils and Community Associations and other relevant agencies of the Borrower to exchange views and disseminate information and experience with respect to the carrying out of the Project among themselves and to facilitate integration of the Project's activities with other programs of the Borrower and the Guarantor for poverty reduction.

Part C: Project Administration

Support to the overall Project administration, supervision, monitoring and evaluation.

* * *

The Project is expected to be completed by January 31, 2010.

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, 2010 through November 15, 2021	4.17%
On May 15, 2022	4.09%

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

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

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

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

(b) Notwithstanding the provisions of sub-paragraph (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 sub-paragraph 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. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

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

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. National Competitive Bidding

Except as otherwise provided in Part B of this Section, goods, works and services (other than consultants' services) shall be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions, using bidding documents, satisfactory to the Bank, in a standardized form for the Project:

(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 2.52 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

(b) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national 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.

B. Other Procurement Procedures

1. Shopping

Goods, works and services (other than consultants' services) estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures, and a standard request for quotations acceptable to the Bank.

2. Community Participation

Goods, works and services (other than consultants' services) under Community Subprojects, costing less than \$50,000 equivalent per contract, may be procured in accordance with the procedures set forth in the Operational Manual for community participation.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments costing less than \$200,000 equivalent per contract and which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

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

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

3. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to the Bank's Prior Review: (a) each contract for goods, works and services (other than consultants' services) procured on the basis of National Competitive Bidding; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.