

**COMFORMED COPY**

**LOAN NUMBER 7122 - BR**

# **Loan Agreement**

**(Third School Improvement Project-Fundescola IIIA)**

**between**

**FEDERATIVE REPUBLIC OF BRAZIL**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated October 25, 2002**

**LOAN NUMBER 7122 - BR**

**LOAN AGREEMENT**

AGREEMENT, dated October 25, 2002 between FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: the Bank is providing support to the Borrower's School Improvement Program (the Fundescola Program), the overall mission, concept, and objectives of which were presented to the Bank by the Borrower's Ministry of Education in October, 1997;

WHEREAS: the Fundescola Program was designed to be implemented in three parts, namely Fundescola I (the First School Improvement Project), Fundescola II (the Second School Improvement Project), and Fundescola III (the Third School Improvement Project);

WHEREAS: Fundescola I, which was financed through Loan 4311-BR, has been satisfactorily completed;

WHEREAS: the Bank is currently providing support for Fundescola II through Loan 4487-BR;

WHEREAS: (A) the Bank has received from the Borrower a letter dated March 8, 2001, which letter describes the Borrower's strategies and objectives with respect to the third part of the Fundescola Program (Fundescola III);

(B) the Borrower has requested that the Bank support Fundescola III through a series of loans to the Borrower over a period of approximately eight years;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project constitutes the first phase of Fundescola III (Fundescola IIIA), has requested the Bank to assist in the financing of the Project; 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 first phase of Fundescola III 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, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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) “Annual Implementation Program” means each program referred to in Section 3.09 (e) of this Agreement;

(b) “Annual Work Plan” means *Plano de Trabalho Anual* (PTA), each plan prepared by the relevant COEP (as hereinafter defined), to be approved by DGP (as hereinafter defined) and containing the actions recommended by the corresponding Participating Municipalities (as hereinafter defined) and Participating States (as hereinafter defined) to be financed by the Project;

(c) “Center-West, North and Northeast Regions” means those geographic regions of the Borrower, excluding the Federal District, defined in the MOIP (as hereinafter defined);

(d) “COEP” means *Coordenação Estadual Executiva do Programa*, the Fundescola Program’s state-based executive coordination unit, as described in the Project’s operational manual, established in each of the secretariats of education in the Participating States (as hereinafter defined);

(e) “DGP” means *Direção Geral do Programa*, the Fundescola Program’s central coordination unit, established pursuant to MEC’s *Portaria* Number 172, dated March 4, 1998, and superceded by *Portaria* Number 1784, dated August 9, 2001;

(f) “EDSECS” means the Participating States’ (as hereinafter defined) and/or Participating Municipalities’ (as hereinafter defined) secretariats of education;

(g) “Financial Monitoring Report or FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “FNDE” means *Fundo Nacional de Desenvolvimento da Educação*, the National Fund for Education Development, established pursuant to the Borrower’s Law Number 5,537, dated November 21, 1968, and Decree-Law Number 872, dated September 15, 1969;

(i) “FNDE Arrangements” means the financial and administrative arrangements set forth in CD/FNDE’s Resolution number 12, dated April 19, 1999 issued by FNDE’s Deliberative Council;

(j) “Forum” means a collective body in a Participating Microregion (as hereinafter defined) comprised of the secretary of education of the Participating State (as hereinafter defined), the mayors of the Participating Municipalities (as hereinafter defined) from that Microregion, and the state representative of UNDIME (as hereinafter defined);

(k) “GDE” means *Grupo de Desenvolvimento da Escola*, the School Development Group, which is a municipal-based unit composed of technical staff from the secretariats of education of Participating Municipalities (as hereinafter defined) that provides technical assistance to municipal schools implementing the Project;

(l) “Implementation Letter” means the letter of even date herewith from the Borrower –through MEC- (as hereinafter defined) to the Bank setting forth the Project monitoring indicators;

(m) “MEC” means *Ministério da Educação*, the Borrower’s Ministry of Education, or any successor thereto;

(n) “Microregion” means a geographic region of a state, as established pursuant to *Resolução* IBGE Number 51 dated July 31, 1989;

(o) “Minimum Operational Standards” means the essential inputs and human resources needed for schools to function adequately and offer children the opportunity to learn, such standards to be prepared on the basis of the guidelines and checklist set forth in the MOIP (as hereinafter defined);

(p) “MOIP” means *Manual de Operações e Implementação do Projeto*, the operational manual referred to in Section 3.03 (a) of this Agreement;

(q) “Operating Agreement” means any of the agreements referred to in Section 3.08 of this Agreement;

(r) “Participating Microregion” means a Microregion located in a Participating State (as hereinafter defined) and comprised of Participating Municipalities (as hereinafter defined);

(s) “Participating Municipality” means any of the municipalities located in a Participating Microregion which benefits from the Project;

(t) “Participating School” means a school that meets the eligibility criteria set forth in the MOIP, located in any Participating Microregion (as hereinafter defined), to carry out relevant Project activities;

(u) “Participating State” means any of the Borrower’s States of the Center–West, North and Northeast Regions in which the Project shall be carried out;

(v) “Participation Agreement” means any of the agreements referred to in Section 3.05 of this Agreement;

(w) “PGS” means *Plano de Gestão da Secretaria*, the Participating States’ and Participating Municipalities’ education secretariats System Management Plan, which is the instrument for strengthening the institutional capacity of the municipal and/or state secretariat of educations, in order to improve the effectiveness of their schools and to reduce disparities in school quality;

(x) “School Council Strengthening Subproject” means a set of investments to be carried out by UE’s (as hereinafter defined), and included in Part C.2 of the Project, which is designed to finance, *inter alia*, educational materials, equipment, school supplies, and services to benefit Participating Schools;

(y) “School Development Plan” means the multi-year plan, prepared by a Participating School that meets the agreed selection criteria, which follows the implementation procedures, establishes the specific education improvement targets, and identifies the inputs and activities, including Schooling Improvement Subprojects (as hereinafter defined) necessary for the achievement of such targets, all as set forth in the MOIP;

(z) “Schooling Improvement Subproject” means a set of investments to be carried out by a Participating School and included in Part B.2 of the Project, which is designed to achieve agreed education improvement targets specified in the relevant School Development Plan, through, *inter alia*, the financing of didactic materials, training, and learning kits;

(aa) “School-Managed Rehabilitation Subproject” means a set of investments to be carried out by a Participating School and included in Part A.1 of the Project, which is designed to reduce disparities in school quality specified in the relevant School Development Plan, through, *inter alia*, the financing of rehabilitation of school sanitary facilities, improvement of school space used by students, school security, structural integrity and school operation conditions;

(bb) “SPA” means *Sistema de Planejamento e Acompanhamento*, the Project’s computerized planning, monitoring and financial management system responsible for, *inter alia*, providing all necessary information for the preparation of Financial Monitoring Reports;

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

(dd) “Technical Assistance Agreement” means any of the agreements referred to in Section 3.06 of this Agreement;

(ee) “UE” means *Unidade Executora*, the School Council, a private entity vested with legal personality, composed by representatives from the school community, that participate actively and systematically in the administrative, financial and pedagogical management of the school, established in order to manage funds on behalf of the schools they represent; and

(ff) “UNDIME” means *União Nacional de Dirigentes Municipais de Educação*, the National Association of Municipal Education Managers.

## **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 one hundred eighty two million eight hundred thousand Euros (EUR182,800,000), 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, in respect of the front-end fee referred to in Section 2.04 of this Agreement, and in respect of any premium with regard to 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 and through MEC, open and maintain in Dollars a separate special deposit account (the Special Account) in a commercial 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 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 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: (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 June 1 and December 1 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 request 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 Minister of Education of the Borrower, and the person or persons designated in writing by such Minister, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. 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 MEC, with the assistance of the Participating States, and Participating Municipalities, all with due diligence and efficiency and in conformity with: (i) the MOIP; (ii) the relevant Annual Implementation Programs; (iii) the relevant Annual Work Plans; (iv) the relevant Operating Agreements; (v) the relevant Participation Agreements; (vi) the relevant Technical Assistance Agreements; and (vii) appropriate administrative, cultural, educational, environmental, financial, managerial, social, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project, in accordance with an operational manual (the MOIP), acceptable to the Bank, said operational manual to include, *inter alia*:

- (i) an institutional implementation plan of MEC for the management of the Project (including, *inter alia*, allocation of responsibilities within staff, and an overall plan of activities, budget, and time allocation for Project activities);
- (ii) detailed arrangements for the overall carrying out of the Project (including, *inter alia*, the procurement, financial management, and environmental guidelines to be followed during Project implementation by the Borrower, the Participating States, the Participating Municipalities, and the Participating Schools);

- (iii) a description of the Project's decision making bodies, (including, *inter alia*, COEP, DGP, Forum, GDE and UE and their corresponding responsibilities);
  - (iv) the instruments and procedures to be followed by the bodies described in paragraph (iii) above (including, *inter alia*, the Annual Implementation Program, the Annual Work Plan, and the guidelines and checklist for the preparation of Minimum Operational Standards);
  - (v) the selection criteria, implementation procedures and instruments necessary for the preparation and execution of activities under the Project referred to in Schedule 2 to this Agreement;
  - (vi) the Project's geographic scope, including its corresponding regions, the Participating Microregions and Participating Municipalities;
  - (vii) the procedures and selection criteria for the provision of Subprojects under Parts A.1, B.2, and C.2 of the Project; and
  - (viii) the model forms for the Operating Agreements, Participation Agreements and Technical Assistance Agreements.
- (b) Except as the Borrower, through MEC, and the Bank may otherwise agree in writing, the Borrower shall not amend, suspend, abrogate, waive or otherwise fail to enforce the MOIP or any provision thereof
- (c) In case of any conflict between the terms of the MOIP and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. (a) The Borrower shall operate and maintain within MEC, at all times during Project implementation, a Project coordination unit (the DGP) with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*: (i) assisting MEC in the overall coordination and carrying out of the Project; (ii) defining the main implementation strategies, systems, and instruments for the carrying out of the Project activities; (iii) preparing the relevant Project reports and the Annual Implementation Programs, and submitting such documentation to the Bank for approval; (iv) reviewing and approving the Annual Work Plans; and (v) maintaining the SPA.

(b) The Borrower shall ensure that the DGP is, at all times during Project implementation, headed by a general director and staffed with other professional and administrative staff, all in numbers, with qualifications and experience, and in an organizational structure acceptable to the Bank.

Section 3.05. For the purposes of the overall carrying out of the Project, the Borrower, through MEC, shall enter into an agreement, satisfactory to the Bank, with each Participating State and the Participating Municipalities of the respective Participating Microregion (the Participation Agreements) to govern the Participating States' and the Participating Municipalities' overall responsibilities in the carrying out of their corresponding activities under the Project, each such Participation Agreement to provide for, *inter alia*:

- (a) in the case of a Participating State:
  - (i) the establishment and maintenance, by the Participating State, until the completion of the Project, in each of the Project's Microregions, of the Forum with adequate structure and functions as set forth in the relevant sections of the MOIP, for the purposes of recommending to the DGP, following the selection criteria and procedures set forth in the MOIP, the activities to be financed under the relevant Annual Work Plan;
  - (ii) the establishment and maintenance by the Participating State, through its secretariat of education, of the COEP with adequate responsibilities, structure and functions as set forth in the relevant sections of the MOIP, for the purposes of, *inter alia*: (A) assisting each Participating State's school in the preparation of the corresponding School Development Plan; (B) monitoring School Council Strengthening Subproject, Schooling Improvement Subprojects, and School-Managed Rehabilitation Subprojects, of the Participating State's schools; (C) guiding the Participating State and the Participating Municipalities in the procurement of goods, works and services approved by DGP in the Annual Work Plan and enabling the sample-based independent procurement reviews of Subprojects under Parts A.1, B.2, and C.2 of the Project as per the procedures set forth in the MOIP; (D) certifying the expenditures related to the goods, works and services procured by the Participating State; (E) providing to the DGP information based on the SPA; and (F) assisting Participating Municipalities and Participating Schools in procurement processes and procedures and in maintaining separate records and accounts in respect of Project expenditures;

- (iii) the commitment of the Participating State in the provision of its local counterpart, as specified in the Annual Work Plans; and
- (iv) with respect to its Participating Schools, the commitment of the Participating State to ensure that said Schools comply with the guidelines, activities and mandate of the Annual Work Plans.

(b) in the case of a Participating Municipality, the establishment and maintenance, until the completion of the Project, through its secretariat of education, of the GDE, with adequate responsibilities, structure and functions as set forth in the relevant sections of the MOIP, for the purposes of, *inter alia*:

- (i) assisting each Participating Municipality's school in the preparation of the corresponding School Development Plan;
- (ii) monitoring School Council Strengthening Subprojects, Schooling Improvement Subprojects, School-Managed Rehabilitation Subprojects of the Participating Municipality's schools, and providing information to the DGP and COEP on the status of the implementation of such subprojects;
- (iii) assisting each Participating Municipality's school in procurement processes and procedures and in maintaining separate records and accounts in respect of Project expenditures;
- (iv) the commitment of the Participating Municipality in the provision of its local counterpart, as specified in the Annual Work Plans; and
- (v) with respect to its Participating Schools, the commitment of the Participating Municipality to ensure that said Schools comply with the guidelines, activities and mandate of the Annual Work Plans.

Section 3.06. The Borrower, through MEC, shall enter into an agreement (the Technical Assistance Agreement), satisfactory to the Bank, with each of the EDSECS as per the selection criteria set forth in the MOIP to provide for the implementation of the PGS.

Section 3.07. (a) (i) The Borrower shall exercise its rights and comply with its obligations under each Participation Agreement and each Technical Assistance

Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not amend the Agreements set forth in paragraph (a) (i) of this Section.

(b) In case of any conflict among the terms of any Participation Agreement, any Technical Assistance Agreement, the MOIP and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.08. Without limitation upon the provisions of Section 3.01 of this Agreement, and, for the purposes of providing funds for the Project, the Borrower shall, through MEC, enter into arrangements satisfactory to the Bank with FNDE (the FNDE Arrangements), such Arrangements to include, *inter alia*, the obligation of FNDE, whenever required during Project implementation, to enter into an agreement consistent with the corresponding model form set forth in the MOIP (the Operating Agreement), with each Participating State and each Participating Municipality or other municipality located in a Participating State, as the case may be, each of such agreements to require strict compliance with the relevant Annual Work Plan, and to govern the respective parties' corresponding responsibilities in the carrying out of eligible activities under the Project.

Section 3.09. Throughout the course of Project implementation, and without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through MEC, shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter and the data produced by the monitoring and evaluation studies referred to in Part C.3 (b) of the Project, 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, each April 30 during each year of Project implementation, starting with the report due not later than April 30, 2003 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 calendar year preceding the date of presentation of the 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 following calendar year;

(c) review with the Bank, within sixty days (60) of receipt of such report, or such later date as the Borrower and the Bank shall agree, the pertinent reports referred to

in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said reports and the Bank's views on the matter;

(d) carry out an in-depth review (the Mid-Term Review), jointly with the Bank, by May 31, 2004, or such later date as the Bank shall agree, on the progress achieved in the implementation of the Project; and

(e) in the month of December during each year of Project implementation, furnish to the Bank an annual program, satisfactory to the Bank, (the Annual Implementation Program) describing the Project activities to be carried out during the next calendar year (including, *inter alia*, School Council Strengthening Subprojects, Schooling Improvement Subprojects and School-Managed Rehabilitation Subprojects), including the cost thereof, and, thereafter, carry out the Project in accordance with the terms of such Annual Implementation Program and this Agreement.

Section 3.10. For the purposes of Section 9.07 of the General Conditions and Section 1.01 of this Agreement and without limitation thereto, the Borrower, through MEC, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability 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 within the DGP maintain 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 of the Borrower's fiscal years 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 (6) 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 financial statements, records and accounts and the report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning 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 3.09 of this Agreement, the Borrower shall prepare and

furnish to the Bank a Financial Monitoring Report (FMR), 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 semester 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 semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the MOIP has been approved by the Bank; and
- (b) that at least 10 Participation Agreements have been entered into between the parties thereto.

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 to be furnished to the Bank, namely, that the Loan has been validly registered by the Borrower's Central Bank.



Section 5.03. The date January 25, 2003 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 Minister of Finance 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 Borrower:

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

Facsimile:

(55-61) 226-2502

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

With copies to:

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

Ministério da Educação  
Direção Geral do Programa Fundescola  
Via N1 Leste, Pavilhão das Metas,  
70150-900, Brasília - D.F.  
Brasil

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, D.F. as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Mauricio Cardoso Oliva  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinod Thomas  
Acting Regional Vice President  
Latin America and the Caribbean

**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 Euros)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods (except as covered by Categories (3) and (4) below)		
(a) For the Borrower	7,400,000	100% of expenditures except for taxes
(b) For the Participating States and Participating Municipalities	10,200,000	100% of foreign expenditures and 19% of local expenditures
(2) Consultant's services and Training (except as covered by Category (3), below)		
(a) For the Borrower	22,600,000	100%
(b) For the Participating States and Participating Municipalities	3,000,000	30%
(3) Goods, works and services for Subprojects under Parts A.1, B.2, and C.2 of the Project	131,986,000	50%
(4) Administrative Expenses	4,300,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euros)</u>	<u>% of Expenditures to be Financed</u>
(5) Fee	1,828,000	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(7) Unallocated	<u>1,486,000</u>	
TOTAL	<u>182,800,000</u>	

2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Training” means reasonable expenditures (other than those for consultants’ services) incurred by the Borrower to finance transportation costs and per-diem of participants and rental of training facilities and equipment under the Project; and

(d) the term “Administrative Expenses” means operational costs (which would not have been incurred absent the Project) related to the management and supervision of the Project, including maintenance and supplies, communication services and spare parts for office equipment and vehicles.

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 the amount of EUR18,300,000 may be made in respect of Category (3) set forth in the table in

paragraph 1 of this Schedule on account of payments made within twelve months prior to the date of this Agreement, but in no case prior to July 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts for goods costing less than \$350,000 equivalent each; (b) under contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (c) under contracts for the employment of individual consultants costing less than \$50,000 equivalent each; and (d) for Training as set forth in Category (2), and for Subprojects and Administrative Expenses as set forth in Categories (3) and (4) of the table in paragraph 1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to assist EDSECS reduce quality disparities across their primary schools and increase the effectiveness of such schools.

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: Raising Primary Schools to Minimum Operational Standards

1. Helping EDSECS reduce disparities in school quality by disseminating the Minimum Operational Standards and financing the School-Managed Rehabilitation Subprojects.
2. Providing basic school furniture and equipment to Participating Schools.
3. Providing reading books for schools implementing the Fundescola Program's pedagogical models and designs referred to in Part B.3 of the Project.

#### Part B: Establishing a School Development Process

1. Providing of training and technical assistance to EDSECS and their schools to support schools' preparation, implementation, and monitoring of School Development Plans.
2. Financing Schooling Improvement Subprojects, and providing training and technical assistance to EDSECS and their schools to support schools' implementation and monitoring of their Schooling Improvement Subprojects.
3. Developing, testing and implementing pedagogical models and designs aimed at improving student learning, and training and providing technical assistance to EDSECS and their schools to support schools' implementation and monitoring of these models and designs.

#### Part C: Strengthening the Educational Sector

1. Strengthening of the management capacity of EDSECS to improve the effectiveness of their schools and reduce disparities in school quality.

2. Promoting public engagement in the education process and parent participation in school governance through the financing of School Council Strengthening Subprojects.

3. Support for overall Project coordination, evaluation, supervision and implementation, including, *inter alia*:

(a) the strengthening of the capacity of the DGP to comply with its responsibilities referred to in Section 3.04 (a) of this Agreement; and

(b) the carrying out of Project studies designed to improve the implementation, impact, monitoring, evaluation and sustainability of the Fundescola Program.

\* \* \*

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



### SCHEDULE 3

#### Amortization Schedule

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</u> <u>(Expressed as a %)</u>
On each June 1 and December 1 Beginning December 1, 2007 through December 1, 2013	7.14 %
On June 1, 2014	7.18 %

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 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 Section I of this Schedule, as applicable.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of Contracts

(i) To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$ 350,000 equivalent;

(ii) the Borrower shall cause the DGP and the Participating States to follow the procurement plan set forth in the MOIP and the following provisions:

(A) contracts shall be awarded to the lowest evaluated bidder, and the lowest bidder should not be disqualified without sound reasons therefore;

- (B) during Project implementation and for a period of two (2) years after the Closing Date, records and information pertaining to the bidding and award of contracts shall be maintained by the Participating States, and DGP as the case may be;
- (C) the prior non-objection of the Bank shall be required for all deviations from the procurement plan set forth in the MOIP; and
- (D) each Participating State shall enable the carrying out of reviews of its procurement actions by the DGP.

(b) Preference for Domestically Manufactured Goods

In the procurement of goods pursuant to paragraph 1 of this Part B, 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 Borrower. For purposes of the Guidelines, the term custom duties and other import taxes includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (*Adicional ao Frete para a Renovação da Marinha Mercante – AFRMM*), established by Decree Law Number 1.142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or in part, after January 1, 1988.

(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) Goods estimated to cost \$100,000 equivalent or more per contract, but less than \$350,000 equivalent per contract in an aggregate amount of \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. In the procurement of goods and works under this Part C.1, bidding documents in a standardized form for the Project and acceptable to the Bank shall be used.

(b) Without limitation to any other provisions set forth in this Schedule or the Guidelines, the following shall apply to the procurement of goods to be undertaken pursuant to 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;
- (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;
- (vi) during Project implementation and for a period of two (2) years after the Closing Date, records and information pertaining to the bidding and award of contracts shall be maintained by the Participating States and DGP, as the case may be;
- (vii) the prior non-objection of the Bank shall be required for all deviations from the procurement plan set forth in the MOIP; and
- (viii) each Participating State shall enable the carrying out of reviews of its procurement actions by the DGP.

2. Shopping

Goods estimated to cost less than \$100,000 equivalent per contract 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.

3. Community Participation

Goods and works required for Parts A.1, B.2, and C.2 of the Project shall be procured in accordance with procedures acceptable to the Bank, which procedures may include:

(a) direct contracting;

(b) procurement of goods under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines; and

(c) procurement of works under lump-sum, fixed price contracts awarded on the basis of quotations obtained from at least 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, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works 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 procured under Part B.1 of this Section; and (b) the first contract for goods in each Participating State estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$350,000, 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 and 3 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 the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Consultant services under Parts B.1, B.3, and C.3 (b) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Individual Consultants

Consultants' services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$15,000,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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



apply, provided however, that the terms of reference for such contracts and any single-source selection of consulting firms shall be subject to the Bank's prior approval.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), and (4) 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 \$16,000,000 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.