

CONFORMED COPY

LOAN NUMBER 7324-BR

Loan Agreement

(Human Development Technical Assistance Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 26, 2006

LOAN NUMBER 7324-BR

LOAN AGREEMENT

AGREEMENT, dated October 26, 2006, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower is implementing a program of actions, objectives and policies designed to achieve structural adjustment of its human development policies (the Program) and has contracted from the Bank a loan in an amount of five hundred five million fifty thousand Dollars (the Human Development Programmatic Loan) in support of the Program during the execution thereof;

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

WHEREAS (C) the Borrower, through its Ministry of Education, will finance out of its own resources the portion of the Project to be carried out by such Ministry; and

WHEREAS (D) the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower, in support of the Project, 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 modifications 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:

“Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on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 Preamble to this Agreement and in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Eligible Categories" means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(c) "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(d) "IBGE" means *Fundação Instituto Brasileiro de Geografia e Estatística*, the Borrower's Institute of Geography and Statistics established pursuant to the Borrower's Decree-Law No. 161 of February 13, 1967, operating in accordance with Law No. 5878 of May 11, 1973 and its by-laws approved by Decree No. 4740 of June 13, 2003 published in the Borrower's Official Gazette on June 16, 2003;

(e) "IBGE Agreement" means the agreement to be entered into between the Borrower and IBGE pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the IBGE Agreement;

(f) "IBGE Unit" means the Project implementation unit to be maintained by IBGE pursuant to Section 3.01 (b) (ii) of this Agreement;

(g) “INEP” means *Instituto Nacional de Estudos e Pesquisas Educacionais*, the Borrower’s National Institute for Education Research;

(h) “MEC” means the Borrower’s Ministry of Education;

(i) “MoH” means the Borrower’s Ministry of Health;

(j) “MoH Unit” means the Project implementation unit to be maintained by MoH pursuant to Section 3.01 (b) (i) of this Agreement;

(k) “Operational Manual” means the manual, issued by MoH and IBGE on June 1, 2005, and referred to in Section 3.03 of this Agreement;

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

(m) “PIUs” means collectively the MoH Unit and the IBGE Unit;

(n) “Procurement Plans” means the procurement plans prepared by IBGE and MoH, both dated May 31, 2005, covering the initial 18 month period (or longer) of implementation of Parts A and C of the Project respectively, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(o) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(p) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(q) “Social Statistics Committee” means the committee referred to in Section 3.01 (c) (ii) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity in respect of Part A of the Project shall be deemed as a reference to IBGE.

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 eight million Dollars (\$8,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2009, 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 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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 January 15 and July 15 in each year.

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

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

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

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

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

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.11. (a) The Minister of Health and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the

purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Part C of the Project.

(b) The President of IBGE and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of Part A of the Project.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project and, to this end shall:

- (i) carry out Part B of the Project through MEC;
- (ii) carry out Part C of the Project through MoH; and
- (iii) cause IBGE to carry out Part A of the Project,

all with due diligence and efficiency and in conformity with appropriate economic, administrative, financial, environmental and social practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall, during the implementation of the Project:

- (i) maintain in MoH; and
- (ii) cause IBGE to maintain,

Project implementation units (PIUs) with functions and responsibilities satisfactory to the Bank.

(c) The Borrower shall enter into an agreement with IBGE, under terms and conditions satisfactory to the Bank, to set forth their respective responsibilities in the implementation and coordination of Part A of the Project, including IBGE's obligation to

establish and maintain: (i) the IBGE Unit; and (ii) a social statistics committee, with powers and responsibilities satisfactory to the Bank, to monitor and evaluate the statistical information demands of other governmental agencies.

(d) The Borrower shall:

- (i) exercise its rights and carry out its obligations under the IBGE Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the IBGE Agreement or any provision thereof; and
- (ii) cause IBGE to carry out its obligations and exercise its rights under the IBGE Agreement, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts A and C of 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 Plans.

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

(c) MEC shall furnish to the Bank for its technical comments the terms of reference of the consultants to be employed for purposes of Part B of the Project.

Section 3.03. The Borrower shall:

- (a) carry out Part C of the Project through MoH; and
- (b) cause IBGE to carry out Part A of the Project,

in accordance with an operational manual, said manual to include, *inter alia*, the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial and disbursement requirements thereof and the Performance

Indicators). In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Borrower shall through MEC and MoH, and cause IBGE to:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date and biannually thereafter during the period of Project implementation, three reports, one each for MEC, MoH and IBGE, comprising the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

- (c) (i) review with the Bank, within no more than two months after each such report's preparation, the reports referred to in paragraph (b) of this Section; and
- (ii) 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 report and the Bank's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall:

- (i) establish and maintain in MoH for Part C of the Project; and
- (ii) cause IBGE to establish and maintain in respect of Part A of the Project,

financial management systems, including records and accounts, and prepare financial statements (of the respective agencies) in accordance with

consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to their respective parts of the Project.

- (b) The Borrower shall through MoH, and cause IBGE to:
 - (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 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 made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall through MoH, and cause IBGE to:
 - (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 such reports and statements of expenditure 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 progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall, through MoH in respect of Part C of the Project and cause IBGE in respect of Part A of the Project, to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. (a) Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that IBGE shall have failed to perform any of its obligations under the IBGE Agreement.

(b) Without limiting the rights contained in Section 6.02 of the General Conditions, it is understood that if any event specified in paragraph (a) of this Section shall have occurred, the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures under Part A of the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of

this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower and IBGE without the Borrower having taken any action to remedy the situation.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Loan provided for in this Agreement has been duly registered by the Borrower's Central Bank.

Section 6.02. The date January 26, 2007 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.11 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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, DF
Brazil

Facsimile: 55-61-412-1740

With copy to:

Ministério da Saúde
Secretario Executivo
Esplanada dos Ministérios – Bloco “G”, Sala 305
70058-900 Brasilia, DF
Brazil

Facsímile: 55-61-226-9737

Ministerio de Educação
Secretario Executivo
Esplanada dos Ministérios, Bloco “L”, Sala 700
70047-900 Brasilia, DF
Brazil

Facsímile: 55-61-2104-9168

IBGE
Diretoria de Pesquisas
Av. Republica do Chile 500, 10º Andar, Centro
20.031-170 Rio de Janeiro, RJ
Brazil

Facsímile: 55-21-2142-0039

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais
Esplanada dos Ministérios, Bloco K, 5º andar
70.040-906-Brasília – DF
Brazil

Facsímile: 55-61-225-4022

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Suely Dib de Sousa e Silva
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe
Authorized Representative

WITNESSED BY:

/s/ Jarbas Barbosa da Silva Júnior
Vice-Minister of Health

/s/ André Luiz de Figueiredo Lázaro
Deputy Vice-Minister of Education

/s/ Eduardo Pereira Nunes
President of IBGE

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) Goods and Non-Consulting Services, Consultants' Services, Training and Seminars, and Incremental Operational Costs for Part A of the Project	5,940,000	100%
(2) Goods and Non-Consulting Services, Consultants' Services, Training and Seminars, and Incremental Operational Costs for Part C of the Project	1,980,000	100%
(3) Front-End Fee	80,000	Amount due under Section 2.04 of this Agreement
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u><u>8,000,000</u></u>	

2. For the purposes of this Schedule:

(a) the term "incremental operational costs" means the reasonable non-consultants' costs incurred: (i) by the PIUs for maintenance and consumable office

supplies and materials; (ii) by IBGE for rental of facilities, rental of boats, planes and vehicles and other expenditures as needed for data collection and surveys; and (iii) by the PIUs' members for travel to supervise the Project, and participate in training events, none of which would have been incurred absent the Project; and

(b) the term "training" means the reasonable costs of: (i) travel, room, board and per diem incurred by trainees (other than PIUs' members) in connection with their training; (ii) the course fees charged by academic or other institutions; and (iii) logistic costs (incurred other than by consultants) associated with the carrying out of training and seminars.

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

(a) prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding \$1,500,000 may be made on account of payments made for expenditures twelve months before that date but after July 1, 2004;

(b) under Parts A and C of the Project until the respective PIUs have been established; and

(c) under Part A of the Project unless: (i) the IBGE Agreement has been executed on behalf of the Borrower and IBGE; and (ii) the Bank has received legal opinions from counsel to the Borrower and IBGE stating that the IBGE Agreement has been duly authorized or ratified by the Borrower and IBGE and is legally binding upon the Borrower and IBGE in accordance with its terms.

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, and non-consultants and consultants' services in respect of which prior review of contracts is not required in accordance with the provisions of Section IV (A) of Schedule 4 to this Agreement; and

(b) training and incremental operational costs,

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

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 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 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 \$800,000 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 assist the Borrower in developing its institutional capacity to monitor the progress and impact of its social policies as a critical step for performance-based management of such policies.

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: Strengthening Collection of Monitoring and Evaluation Data in the Social Sectors

Provision of technical assistance to enhance the Borrower's household surveys so as to provide strategic, comprehensive and integrated information for monitoring and evaluating the impact of its key social sector reforms and living conditions of the Brazilian population, including, *inter alia*:

1. establishment and operation of the Social Statistics Committee that will monitor and evaluate the statistical information demands of selected government agencies;
2. implementation of a household expenditure survey in 2007-2008, as well as strategic development, testing and yearly deployment of a simplified module of the household expenditure survey;
3. planning and testing for improvement of existing national household income and employment surveys including merging of the existing household income and employment surveys into one continuous survey;
4. inclusion of the rural areas of the Borrower's north region in the household survey to be carried out in 2005;
5. construction of poverty maps including the provision of the equipment and training required therefore;
6. design of recurring policy modules for household surveys for tracking indicators in the social sectors including the training required therefore; and

7. analytical research of the results of the 2002/03 household expenditure survey.

Part B: Strengthening Monitoring and Evaluation in the Education Sector

Provision of technical assistance to design and develop a ministry-wide information system to track and monitor key education programs, including, *inter alia*, the creation of mechanisms whereby INEP's and IBGE's data can be used in decision making and policy design processes in MEC.

Part C: Strengthening and Consolidation of Monitoring and Evaluation Functions in the Health Sector

Provision of technical assistance to establish a sustainable and institutionalized monitoring and evaluation system at the federal level, to strengthen monitoring and evaluation capacity at the state and municipal level, and to support evaluative research of health system reform, service delivery and public health programs, including, *inter alia*:

1. carrying out of an assessment of the monitoring and evaluation capabilities and activities at the federal, state and municipal level;
2. establishment of an institutional framework for monitoring and evaluation including identification of performance indicators, sources, methods, frequency and schedule of data collection, data analysis mechanisms and feedback and dissemination channels; and
3. carrying out of research studies to evaluate the quality, cost, system effectiveness, patient satisfaction and impact of the Borrower's health reforms and other research topics related thereto as the Bank may agree.

* * *

The Project is expected to be completed by June 30, 2009.

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 January 15 and July 15	
Beginning January 15, 2011 through January 15, 2022	4.17%
On July 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

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

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

SCHEDULE 4

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule. If the Borrower employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

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

A. International Competitive Bidding:

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$350,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and the following additional provisions:

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

(b) Whenever required by the Bank, the invitation to bid shall be advertised for at least one day in a newspaper of wide circulation in Brazil.

(c) The arrangements, under the invitation to bid, for a joint-venture (*consórcio*) 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.

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

2. Shopping: Goods, and non-consulting services for printing, minor technical services and communication equipment, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines, including, as a form of such shopping, the electronic bidding (*pregão eletrônico*) procurement system set forth in the Borrower's Law No. 10 of July 17, 2002.

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 in accordance with the provisions of Section II of the Consultant Guidelines. 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. Service Delivery Contractors: Services to be provided by survey crews under Part A of the Project may be procured in accordance with the provisions of paragraph 3.21 of the Consultant Guidelines on the basis of procedures acceptable to the Bank and set forth in the Operational Manual.
2. 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.
3. 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 in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review: The Procurement Plans shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

B. Post Review

1. With respect to each contract for goods or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.
2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.