

CONFORMED COPY

LOAN NUMBER 4251-BR

Loan Agreement

(Rural Poverty Alleviation Project - Paraíba)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

STATE OF PARAÍBA

Dated February 16, 1998

LOAN NUMBER 4251-BR

LOAN AGREEMENT

AGREEMENT, dated February 16, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE OF PARAÍBA (the Borrower).

WHEREAS (A) Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee certain obligations of the Borrower in respect of the Loan as set forth in the Guarantee Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territory of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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

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

(b) "Civil Association" means a civil association (associação civil) duly established in the Borrower's territory in accordance with the Guarantor's laws, and which meets the criteria set forth in the Operational Manual (as hereinafter defined) for participating in the Project;

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

(d) "Council Agreement" means any of the agreements referred to in Section 3.01 (c) (ii) of this Agreement;

(e) "FUMAC Grant" means a grant in an amount equivalent to not 75% of the cost of a Community Subproject approved by a Municipal Council (as hereinafter

defined) and made or proposed to be made by the Borrower out of the proceeds of the Loan to a Civil Association in a Municipality (as hereinafter defined), for the financing of such Community Subproject pursuant to the terms of the Operational Manual (as hereinafter defined);

(f) "Grant" means any of a FUMAC Grant or a Pilot Grant or a PAC Grant (the latter two as hereinafter defined);

(g) "Grant Agreement" means any of the agreements to be entered into between SEPLAN (as hereinafter defined) and a Civil Association providing for a PAC Grant (as hereinafter defined) or a FUMAC Grant;

(h) "Implementation Plan" means the plan for the overall implementation of the Project set forth in Schedule 6 to this Agreement;

(i) "MIS" means the Project monitoring and information system, satisfactory to the Bank, to provide information on the Project implementation, which shall include, inter alia, information on the Performance Indicators (as hereinafter defined);

(j) "Model Forms" means the set of model draft agreements satisfactory to the Bank, including standard drafts of Council Agreements, Grant Agreements and Pilot Grant Agreements, set forth in the Operational Manual (as hereinafter defined);

(k) "Municipal Council" means a municipal council, composed mainly of representatives of communities and local organizations and including a representative of the PCU (as hereinafter defined), as provided in the Operational Manual (as hereinafter defined);

(l) "Municipality" means any of the municipalities set forth in Schedule 7 to this Agreement and any other municipality that may be added to such list from time to time by agreement between the Bank and the Borrower;

(m) "Operational Manual" means the manual, satisfactory to the Bank, describing the criteria and procedures for the Project implementation and including the Model Forms, as the same may be amended from time to time by agreement between the Bank and the Borrower;

(n) "PAC Grant" means a grant in an amount equivalent to 75% of the cost of a Community Subproject approved and made or proposed to be made by the PCU (as hereinafter defined) out of the proceeds of the Loan to a Civil Association for the financing of such Community Subproject pursuant to the terms of the Operational Manual;

(o) "PCU" means the Project coordinating unit, under the Borrower's SEPLAN (as hereinafter defined), established pursuant to the Borrower's Decree No. 18,392 of March 7, 1995;

(p) "Performance Indicators" means the set of performance indicators, to be used for purposes of monitoring the progress of the Project, set forth in Schedule 6 to this Agreement, and any other additional performance indicator that may be agreed from time to time by the Bank and the Borrower for such purposes;

(q) "Pilot Grant" means a grant in an amount equivalent to not 75% of the cost of a Community Subproject approved and made or proposed to be made by a Municipal Council, under a Pilot Grant Agreement, out of the proceeds of the Loan to a Civil Association for the financing of such Community Subproject pursuant to the terms of the Operational Manual;

(r) "Pilot Grant Agreement" means any of the agreements to be entered into between a Municipal Council and a Civil Association providing for a Pilot Grant;

(s) "SEPLAN" means the Borrower's Secretariat of Planning; and

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of sixty million Dollars (\$60,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by the Borrower under Grants to meet the reasonable cost of works, goods and services required for Community Subprojects (under Part A of the Project) in respect of which the withdrawal from the Loan Account is requested; and (ii) 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 B and C of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or 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 June 30, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SEPLAN, with the assistance of the Municipal Councils, with due diligence and efficiency and in conformity with appropriate social, administrative, agricultural, environmental, financial and engineering practices, and in accordance with the Operational Manual, the Implementation Plan and the Approved POAs, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend, abrogate, suspend, waive or fail to enforce the Operational Manual or any provision thereof.

(b) For the purposes of carrying out the Project, the Borrower shall, through SEPLAN, maintain during Project implementation, the PCU with responsibilities, structure and functions satisfactory to the Bank.

(c) The Borrower shall, through SEPLAN:

(i) enter into Grant Agreements, whenever appropriate for the carrying out of the Project, such agreements to be made in accordance with the terms of the respective draft set forth in the Model Forms;

(ii) enter into Council Agreements with Municipal Councils providing for: (A) the terms and conditions for the participation of the relevant Municipal Council in the Project; and (B) the obligation of such Municipal Council to enter into Pilot Grant Agreements which shall be made in accordance with the terms of the respective draft set forth in the Model Forms, and, to exercise its rights and comply with its obligations under the Pilot Grant Agreements in such a manner as to protect the interests of the Municipal Council, the Borrower and the Bank and to accomplish the purposes of the Loan, and not to assign, amend, abrogate, waive or fail to enforce the Pilot Grant Agreements or any provision thereof; and

(iii) exercise its rights and comply with its obligations under the Council Agreements and the Grant Agreements in such a 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, waive or fail to enforce the Council Agreements and the Grant Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall:

(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 objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than 12 months after the Effective Date, a base-line study perfil de entrada on the Project;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by a date 24 months after the Effective Date or when disbursements from the Loan Account shall have reached 50% of the amount of the Loan, whichever is earlier, a report integrating 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 objectives thereof during the period following such date;

(d) review with the Bank (the mid-term review), by a date 24 months after the Effective Date or when disbursements from the Loan Account shall have reached 50% of the amount of the Loan, whichever is earlier, or such later date as the Bank shall establish by notice to the Borrower, the report referred to in paragraph (c) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(e) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by a date 12 months after the Effective Date, a study evaluating the performance of the Civil Associations in the carrying out of procurement activities under Part A of the Project; and

(f) review with the Bank, by a date 12 months after the Effective Date, or such later date as the Bank shall establish by notice to the Borrower, the study referred to in paragraph (e) of this Section, and, thereafter, implement the recommendations of such study after incorporating the Bank's comments thereon.

Section 3.04. The Borrower shall:

(a) in the month of October of each year during the carrying out of the Project, prepare and furnish to the Bank the proposed annual operating plans and budget, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor; and

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

Section 3.05. The Borrower shall:

(a) in each month during the carrying out of the Project, beginning in the second month after the Effective Date, prepare utilizing the MIS and furnish to the Bank a report on the disbursements under the Project during the previous month, of such scope and detail as the Bank shall request; and

(b) in the months of March and September of each year during the carrying out of the Project, prepare utilizing the MIS and furnish to the Bank a report on the implementation of the Project, of such scope and detail as the Bank shall request, which shall include, inter alia, information on the carrying out of Community

Subprojects and their results.

Section 3.06. The Borrower shall:

- (a) in the month of March of each year during the carryig out of the Project, beginning in 1999, furnish to the Bank the recommendations of a study, to be carried out under terms of reference satisfactory to the Bank, on the cost structure and results of Community Subprojects, including physical performance evaluation and cost comparisons;
- (b) review with the Bank the results and recommendations of such study; and
- (c) take or cause to be taken all such action which shall have been agreed by the Bank and the Borrower during the review referred to in paragraph (b) above, as shall be necessary for the efficient execution of Community Subprojects, such action to be taken in a manner and within a timetable agreed upon during such reviews.

Section 3.07. The Borrower shall:

- (a) in the twenty fourth month after the Effective Date, furnish to the Bank the results and recommendations of a study (the graduation study), to be carried out under terms of reference satisfactory to the Bank, for the development of the criteria for regulating the cases, and corresponding terms and conditions, in which Civil Associations may remain as beneficiaries under the Project;
- (b) review with the Bank the results and recommendations of such study; and
- (c) take or cause to be taken all such action which shall have been agreed by the Bank and the Borrower during the review referred to in paragraph (b) above, as shall be necessary for the efficient execution of Community Subprojects, such action to be taken in a manner and within a timetable agreed upon during such review.

Section 3.08. For the purposes of Section 9.08 of the General Conditions, the Borrower shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project, of the departments or agencies of the Borrower or other entities responsible for the carrying out of the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts, and the audit thereof as the Bank shall from time to time reasonably request.

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

(a) of this (i) maintain, or cause to be maintained, in accordance with paragraph Section, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained, 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### 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 Borrower has adopted the Operational Manual in form and substance satisfactory to the Bank;

(b) that the Borrower has adopted a work program for an introductory information campaign about the Project in the territory of the Borrower satisfactory to the Bank; and

(c) that this Agreement has been duly registered by the Guarantor's Central Bank.

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

Section 5.03. The date May 18, 1998 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Secretary of Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:



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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For the Borrower:

Secretaria de Estado de Planejamento  
Avenida João da Mata, s/no.  
João Pessoa - Paraíba  
58.015-020  
Brazil

With copy to:

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

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gobind T. Nankani

Authorized Representative

STATE OF PARAÍBA

By /s/ José Targino Maranhão

Authorized Representative

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Grants		75% of the cost of the

respective Community  
Subproject

(a)	FUMAC Grants	33,200,000	
(b)	Pilot Grants	5,300,000	
(c)	PAC Grants	14,700,000	
(2)	Consultants' services and training for Parts B and C of the Project	5,300,000	100%
(3)	Administrative Costs:		
(a)	incremental operational costs	200,000	20%
(b)	Project supervision and monitoring costs	800,000	50%
(4)	Unallocated	500,000	
	TOTAL	60,000,000	

2. For the purposes of this Schedule the term "Administrative Costs" means the incremental operational costs and the supervision and monitoring costs of the Project incurred by the PCU under Part C of the Project, excluding expenditures for salaries and related benefits and training.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$6,000,000, may be made on account of payments made for expenditures before that date but after May 9, 1997 or a date twelve months before the date of this Agreement whichever is later;

(b) payments under a Grant unless the respective Grant Agreement or Pilot Grant Agreement, as the case may be, shall have been entered into between the parties thereto; and

(c) payments under a Grant for a Community Subproject costing more than the equivalent of \$50,000, unless the Bank shall have approved such Community Subproject.

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 works costing less than the equivalent of \$100,000; (b) for services of individual consultants under contracts not exceeding \$50,000 equivalent; and (c) for services of consulting firms under contracts not exceeding \$100,000 equivalent, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower's efforts to alleviate rural poverty in the Municipalities by: (a) providing basic social and economic infrastructure, and employment and income generating opportunities for the rural poor; (b) supporting rural community groups in planning and implementing their own investment subprojects; (c) intensifying current efforts to create social capital in

poor rural areas; and (d) leveraging revenue mobilization at the community and municipal levels.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Community Subprojects

Financing of small scale community investments consisting, inter alia, of: (a) infrastructure investments such as rural water supply, electrification, local road improvements and construction of small bridges; (b) social investments such as construction of day care centers, and rehabilitation of schools and health posts; and (c) other investments such as small-scale community agro-processing, purchase of agricultural equipment and minor irrigation schemes.

Part B: Institutional Development

1. Carrying out of a basic introductory capacity building program for Municipal Councils.
2. Provision of training for the PCU and Municipal Councils.
3. Provision of technical assistance and training for participating communities in, inter alia, community mobilization and organization, preparation of Community Subprojects, and operation and maintenance of such Community Subprojects.
4. Carrying out of workshops and seminars for Municipal Councils and Civil Associations, to exchange views and disseminate information and experience with respect to the carrying out of the Project.
5. Carrying out of studies to analyze the Borrower's fiscal policies and management, including the effect of such policies on the rural poor, and to define measures for addressing identified constraints.

Part C: Project Administration

Support to the overall Project implementation, coordination and supervision including, inter alia:

1. the operation of the PCU and its field offices related to Project implementation;
2. the establishment and operation of the MIS;
3. the carrying out of information campaigns within the Borrower's territory to disseminate information about the Project; and
4. the carrying out of Project evaluation studies, including, inter alia, performance reviews and impact evaluations.

\* \* \*

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning on August 1, 2003 through February 1, 2013	3,000,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in Parts B.2, B.3 and B.4 hereof, goods and works financed by Grants under Part A of the Project shall 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 in accordance with this Part B.1, bidding documents in a standardized form for the Project shall be used.

2. National Shopping

Except as provided in Part B.4 hereof, goods financed by Grants under Parts A, B and C of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$1,600,000, may be procured 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.

3. Procurement of Small Works

Except as provided in Part B.4 hereof, works financed by Grants under Part A of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount equivalent to \$2,000,000, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

4. Community Participation

Goods and works, financed by Grants under Part A of the Project for Community Subprojects of up to \$50,000 equivalent, to be procured by a Civil Association, may be procured in accordance with procedures acceptable to the Bank as provided in paragraph 3.15 of the Guidelines (including direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines) as detailed in the Operational Manual.

Part C: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract to be awarded pursuant to the provisions of Part B.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

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

Part D: Special Provisions

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

1. 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.

2. 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.

3. 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.

4. The invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices.

5. 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.

## 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 (the Consultant Guidelines) and the following provisions of this Section.

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

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

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

#### 1. Least-cost Selection

Services for tasks that meet the requirements set forth in paragraph 3.6 of the Consultant Guidelines and are estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

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

#### 2. Prior Review

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

Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$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.

## SCHEDULE 5

### Special Account

#### 1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 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 an amount equivalent to \$4,000,000, or such other amount as the Bank shall establish, to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$9,000,000.

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 a deposit or deposits 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 in 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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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.



SCHEDULE 6

Implementation Plan and Performance Indicators

For purposes of this Schedule, the term "beneficiaries" means the members of an Association and any other person receiving a direct benefit from the results of the implementation of a Community Subproject.

Part A: Implementation Plan

Activities	Completed by
First training activity offered to:	
-Civil Associations	5 months after the Effective Date
-communities (mobilization)	3 months after the effective Date
-Municipal Councils	6 months after the Effective Date
-PCU	1 month after the Effective Date
Preparation of annual program of training assistance of Project implementation	October of each year and technical
Information campaign launched	1 month after the Effective Date
10 standard designs of Community Subprojects made	1 month after the Effective Date
Evaluation studies:	
-physical performance reviews completed	March of each year of Project implementation, beginning in 1999
-mid-term implementation review	24 months after the Effective completed Date or when disbursements from the Loan
Account shall reached 50% of the amount of the Loan, whichever is earlier	have
-impact evaluation completed:	
*baseline	12 months after the Effective Date
*final	December of 2003
-graduation study completed	24 months after the Effective Date

Part B: Performance Indicators

(PART B WAS DONE IN COLUMNS)

SCHEDULE 7

Municipalities

Aguiar  
 Gurjão  
 Cacimba de AreiaAlagoa  
 Grande

Igaracy  
Caicara  
Alagoinha  
Ingá  
Cajazeirinhas  
Algodão de andaíra  
Itaporanga  
Camalaú  
Amparo  
Itatuba  
Capim  
Araçagi  
Jericó  
Carrapateira  
Araruna  
Juazeirinho  
Catingueira  
Areia de Baraúnas  
Juripiranga  
Caturité  
Aroeiras  
Lagoa  
Condado  
Baia da Traição  
Lagoa Seca  
Congo  
Baraúnas  
Livramento  
Coxixola  
Barra de Santana  
Lucena  
Cubati  
Bayeux  
Malta  
Cuité de Mamanguape  
Belém do Brejo do Cruz  
Manaíra  
Curral de Cima  
Boa Ventura  
Mari  
Damião  
Bom Jesus  
Massaranduba  
Diamante  
Bonito de Santa Fé  
Matinhas  
Duas Estradas  
Borborema  
Maturéia  
Esperança  
Brejo dos Santos  
Montadas  
Frei Martinho  
Cabaceiras  
Monteiro  
Guarabira  
Cachoeira dos Índios  
Natuba  
Santa Cruz  
Nova Floresta  
Soledade

