

CONFORMED COPY

LOAN NUMBER 4604 - BR

Loan Agreement

(Fiscal and Financial Management  
Technical Assistance Project)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 20, 2001

LOAN NUMBER 4604 - BR

LOAN AGREEMENT

AGREEMENT, dated December 20, 2001, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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 the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) 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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this

Agreement.

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

(a) "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, consultants' services and training activities referred to in Section 2.02 of this Agreement;

(c) "Fiscal Responsibility Law" means the Borrower's Complementary Law (Lei Complementar) No. 101, dated May 4, 2000, which establishes public finance norms regarding fiscal management responsibility at the federal, state and municipal levels;

(d) "MF" means Ministério da Fazenda, the Borrower's Ministry of Finance;

(e) "MF-MP Arrangement" means the arrangement referred to in Section 5.01 (b) of this Agreement;

(f) "MP" means Ministério do Planejamento, Orçamento e Gestão, the Borrower's Ministry of Planning, Budget and Management;

(g) "PCUs" means the units referred to in Section 3.03 of this Agreement;

(h) "PPA" means Plano Plurianual, the Borrower's multi-annual expenditure plan approved by law for a four-year period, which includes, inter alia, measurable physical targets, and actions to achieve such targets, in respect of the several programs under such plan;

(i) "Project Management Report" means any of the reports prepared in accordance with Section 4.02 of this Agreement;

(j) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(k) "STN" means Secretaria do Tesouro Nacional, the Borrower's Treasury Secretariat in MF.

## 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 eight hundred eighty thousand Dollars (\$8,880,000).

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, consultants' services and training activities required for 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.

Section 2.03. The Closing Date shall be December 31, 2005 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 per cent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan

Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge 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.

Section 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of the LIBOR Base Rate and the LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

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

Section 2.09. For purpose 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: (a) the Borrower's Secretary of the National Treasury, and any person he or she may designate in writing, are designated as representatives of the Borrower with respect to any such action under Parts B and E of the Project; and (b) the Borrower's Minister of Planning, Budget and Management, and any person he or she may designate, are designated as representatives of the Borrower with respect to any such

action under Parts A, C and E of the Project.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Parts A and C of the Project, through MP, Parts B and D of the Project, through MF, and Part E of the Project, through MP and MF jointly, all with due diligence and efficiency and in conformity with appropriate administrative, fiscal management and financial practices and the provisions of the MF-MP Arrangement, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods 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, through MP and MF, shall establish and maintain, during Project implementation, one unit for each of said ministries (the PCUs); each headed by a Project coordinator and with the necessary staffing and assistance required for: (i) managing and coordinating the carrying out of their respective Project activities; (ii) serving as liaison between such ministries, the Bank and any other entity involved in Project implementation; and (iii) consolidating reports and information on their respective components of the Project, including Project financial management, procurement and disbursement activities.

Section 3.04. The Borrower shall furnish to the Bank reports by an independent information technology expert or firm on the carrying out of Part D of the Project during the period preceding the date of each such report, as follows:

(a) a first report, not later than three months after the completion of such report or twelve months after the date of this Agreement;

(b) a second report, not later than 12 months after the date of delivery of the first such report to the Bank; and

(c) a third report, not later than 12 months after the date of delivery of the second such report to the Bank.

Section 3.05. The Borrower shall:

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

(b) review with the Bank, on the 24th month after the Effective Date, or such later date as the Bank shall request, the progress achieved in the carrying out of the Project during the period preceding the date of such review, based on the monitoring and evaluation activities referred to in paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said review.

### ARTICLE IV

#### Financial Covenants

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

(b) The Borrower shall:

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower, through MF and MP, shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than one year after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which to:

- (i) (A) set forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) show separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explain variances between the actual and previously forecast

implementation targets; and

- (iii) set forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

#### ARTICLE V

##### Effectiveness; Termination

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

(a) the PCUs have been established as provided in Section 3.03 of this Agreement, and the Bank has been furnished with evidence that the PCUs have assistance, satisfactory to the Bank, to carry out the procurement activities under their respective Project components; and

(b) an administrative arrangement (convênio), satisfactory to the Bank, has been entered into between MF and MP for purposes of defining the respective roles of MF and MP, and the procedures for cooperation between them, in the carrying out of the Project.

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

Section 5.03. The date March 22, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Facsimile:

(011-55-61) 412-1740

With copies to:

Ministério do Planejamento, Orçamento e Gestão  
Secretaria de Assuntos Internacionais  
Esplanada dos Ministérios, Bloco "K" - 5 andar

70040-906 Brasília, D.F.  
Brazil

Facsimile:  
(011-55-61) 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:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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 the city of Brasília, Brazil, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Suely Dib Sousa e Silva  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Antonio Rocha Magalhães  
Authorized Representative

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

##### A. General

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods:		100% of foreign expenditures,
(a) under Parts A and C of the Project	588,200	100% of local expenditures (ex- factory-cost) and
(b) under Part B of the Project	2,141,800	80% of local expenditures for other items procured locally

(2)	Consultants' services and training:		100%
	(a) under Parts A and C of the Project	3,035,000	
	(b) under Part B of the Project	2,744,000	
	(c) under Part E of the Project	282,200	
(3)	Front-end fee	88,800	Amount due pursuant to Section 2.04 of this Agreement
	TOTAL	8,880,000	

2. For the purposes of this Schedule, the term:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower;

(b) "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower; and

(c) "training" includes travel costs and per diems of trainees, and costs of course materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$100,000, may be made on account of payments made for expenditures incurred within twelve months after the date of this Agreement but not earlier than February 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for training, and for expenditures under contracts for the purchase of goods and consultants' services that are not subject to prior review by the Bank pursuant to Section I, Part D.2, and Section II, Part D.2, of Schedule 4 to this Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

#### B. Special Account

1. The Borrower shall 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) until the Bank shall have received (i) the first Project Management Report and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals 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 made on the basis of Project Management Reports or 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 sub-paragraph (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 this Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$880,000 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 or amounts 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 Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all 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. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. 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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$1,960,000.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower in establishing and modernizing fiscal and financial management tools to implement the Borrower's fiscal reform program described in the letter sent by the Borrower to the Bank on December 20, 2000, which aims to improve: (a) aggregate fiscal performance through improved public debt management, incentives, and implementation of laws and regulations concerning fiscal responsibilities at the federal, state and municipal levels; (b) the

use of public resources through better allocation and technical efficiency of expenditures; and (c) the core financial systems that underpin (a) and (b) above, in order to strengthen the foundations for improved growth, poverty reduction and public service delivery.

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: PPA

Provision of technical assistance to strengthen the PPA processes, allocative efficiency and budget integration through: (a) strengthening of the link between planning and budgeting functions, and studies to improve existing applicable legislation; (b) improvement of PPA's program evaluation methodologies, including feedback mechanisms for policy and program formulation and budget resource allocation; (c) identification of information needs, elaboration of action plans and systems development for selected ministries of the Borrower and executors of actions under PPA programs to improve management of PPA programs and availability of PPA information; and (d) strengthening of the capability and commitment of PPA program managers and key government officers involved in PPA program implementation through training and dissemination of PPA best practices.

Part B: Debt Management

Provision of technical assistance to raise STN's public debt management procedures to world's best practices through:

(a) development of a debt management institutional and analytical framework consisting of: (i) development of analytical debt management framework and unified unit procedures (ii) development of debt management objectives and guidelines; (iii) development of an analytical framework for strategic debt and risk management; (iv) development of debt funding strategies; and (v) implementation of appropriate security, control and internal audit systems and procedures; and

(b) upgrading of information technological systems and analytical tools through: (i) identification and development of new systems; (ii) establishment of a unified information system; (iii) equipping of STN's office for strategic debt analysis with requisite analytical software and hardware; (iv) identification and integration of required information available in other systems; and (v) provision of training for STN's debt management staff.

Part C: Fiscal Responsibility Law

Provision of technical assistance to strengthen the Borrower's public sector capability to comply with the Fiscal Responsibility Law and related regulations, including: (a) design and carrying out of a training program for, and dissemination of information to, federal, state and municipal officials responsible for providing reports required by such Law; (b) strengthening of the capacity of the federal, state and municipal entities responsible for consolidating and evaluating reports submitted pursuant to such Law, including provision of equipment, development and implementation of required software, and provision of training; and (c) development and implementation of a civil society outreach program to build support for such Law, and assure transparency of procedures.

Part D: SIAFI 21

Development of a system to upgrade and modernize the Borrower's existing integrated core financial management system (known as SIAFI), for purposes of improving budget and cash management and accounting capabilities of the Borrower's budget spending units, and incorporating the new fiscal management framework introduced by the PPA, the Fiscal Responsibility Law and the Borrower's new public debt management practices.

Part E: Project Management

Provision of technical assistance for Project management and coordination activities, including monitoring, evaluation, and reporting of financial, procurement, and disbursement activities.

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The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each February 15 and August 15 beginning February 15, 2007 through February 15, 2016	445,000
on August 15, 2016	425,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines

and paragraph 5 of Appendix 1 thereto.

2. In the procurement of goods pursuant to paragraph 1 of this Part B, the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto, regarding preference for domestically manufactured goods, shall apply to goods manufactured in the territory of the Borrower. For purposes of the Guidelines, the term "duties and other related import taxes" includes the Borrower's Freight Surcharge for the Renewal of the Merchant Marine (Adicional ao Frete para a Renovação da Marinha Mercante), established by Decree Law 1.142 of December 30, 1970, as amended to December 31, 1987, or any other tax, levy or charge that, in the reasonable opinion of the Bank, may substitute it, in whole or in part, after January 1, 1988.

Part C: Shopping or Pregão

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount of \$300,000 equivalent, may be procured under contracts awarded on the basis of: (a) either national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, and a standard request for quotations acceptable to the Bank; or (b) the procedures known as "pregão," set forth in the Borrower's Decreto No. 3555, of August 8, 2000, as amended by Decreto No. 3693, of December 20, 2000.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Such plan shall be updated every six months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Procurement of all goods shall be undertaken in accordance with such procurement plan (as updated from time to time) as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to the contracts for goods to be awarded pursuant to the provisions of Part B above.

(b) The following procedures shall apply to the first two contracts to be awarded pursuant to the provisions of Part C above:

- (i) prior to the selection of any supplier, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

The procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to the review by the Bank of any contract not governed by the provisions of paragraph 2 above.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines), and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

The services of a consulting firm to carry out a study on development of a debt management institutional and analytical framework in STN shall be procured under a contract awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Consulting firms' services in connection with the management information systems under the PPA may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

The services of a logistics consulting firm to organize seminars under Part A of the Project, estimated to cost less than \$50,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines, and the provisions of paragraph 3 of Appendix 1 thereof.

4. Single Source Selection

Consulting firms' services under Parts C (a) and B (b) (v) of the Project may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Consultants' services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, costing in the aggregate not more than \$2,500,000, 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, and the provisions of paragraph 3 of Appendix 1 thereof.

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. Such plan shall be updated every six months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as

shall have been approved by the Bank, 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 \$100,000 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 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 the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that with respect to the employment of individual consultants for the PCU, costing less than \$50,000 equivalent per contract, the terms of reference for their respective assignments shall be furnished to the Bank for its prior review and approval.

