Loan Agreement

(Ceará Multi-Sector Social Inclusion Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF CEARÁ

Dated October 18, 2005
AGREEMENT, dated October 18, 2005, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF CEARÁ (the Borrower).

WHEREAS (A) the Bank has received a letter from the Borrower, dated May 5, 2005, describing a program designed to strengthen social inclusion in the Borrower’s territory, while preserving fiscal sustainability (the Program), and declaring the Borrower’s commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower’s execution of the Program through two loans over a period of approximately six years to be utilized by the Borrower in the implementation of the Program;

(C) the Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which is the first phase of the Program, have requested the Bank to assist in the financing of the Project;

(D) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the payment obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

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

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the 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:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their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

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

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

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

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

(a) “CAGECE” means Companhia de Águas e Esgoto do Ceará, the Borrower’s water and sanitation company;

(b) “CREDEs” means the Borrower’s regional centers for education development (centros regionais de desenvolvimento da educação) under SEDUC;

(c) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

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

(e) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(f) “PPA” means Plano Plurianual, the Borrower’s budget and investment plan for calendar years 2004-2007, as approved by the Borrower’s Law No. 13423, of December 30, 2003;

(g) “Procurement Plan” means the Borrower’s procurement plan, dated February 16, 2005, covering the initial 18 month period of implementation of Part B of the Project, 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 implementation of Part B of the Project;

(h) “Program Expenditures” means the expenditures for the reasonable cost of goods, works, services and operational costs under the Borrower’s programs referred to in Part A of the Project, which are eligible to be financed by the Loan pursuant to Section 2.02 of this Agreement;
(i) “Reais” and “R$” mean the currency of the Guarantor;

(j) “Report-based Disbursements” means the modality of disbursement of funds from the Loan Account referred to in paragraph 4 (b) of Schedule 1 to this Agreement;

(k) “SAEB” means Sistema de Avaliação da Educação Básica, a learning evaluation system of basic education schools and students, carried out by the Guarantor’s Ministry of Education, based on a national sample of schools and students;

(l) “SEDUC” means the Borrower’s Secretariat of Education; and

(m) “SPAECE” means Sistema Permanente de Avaliação Educacional do Estado do Ceará, the Borrower’s education evaluation system applied in the years in which SAEB is not carried out, and which covers the Borrower’s schools and the municipal schools in the Borrower’s territory.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred forty-nine million seven hundred fifty thousand Dollars ($149,750,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of: (i) subject to paragraph (b) of this Section, Program Expenditures; (ii) the reasonable cost of goods and consultants’ services required for Part B of the Project and to be financed out of the proceeds of the Loan; (iii) the front-end fee referred to in Section 2.04 of this Agreement; and (iv) 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.

(b) For purposes of this Section, Program Expenditures shall not include expenditures set forth in Schedule 4 to this Agreement.

(c) If, at any time, the Bank determines that any amount of the Loan withdrawn from the Loan Account was used to make a payment for an
expenditure that is not eligible for financing pursuant to the Loan Agreement, the Borrower shall, upon notice from the Bank to the Borrower and the Guarantor, promptly refund such amount to the Bank.

Section 2.03. The Closing Date shall be December 31, 2007, or such later date as the Bank shall establish, after having received evidence that the Guarantor has authorized the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date authorized by the Guarantor.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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

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

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

Section 2.08. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each February 15 and August 15, the first such installment to be payable on the eleventh (11th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Maturity Fixing Date for said Disbursed Amount. Each installment except for the last one shall be equal to one-fourteenth (1/14) of said Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of said Disbursed Amount.
(b) Notwithstanding the provisions of paragraph (a) of this Section, if any one or more installments of principal of any Disbursed Amount would, pursuant to the provisions of such paragraph (a), be payable after February 15, 2020, the Borrower shall also pay on such date the aggregate amount of all such installments.

(c) The Bank shall notify the Borrower and the Guarantor of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for said Disbursed Amount.

(d) Notwithstanding the provisions of paragraphs (a) through (c) of this Section, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in said Approved Currency 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.

Section 2.09. (a) The Borrower may at any time, in each case with the prior authorization of the Guarantor, through the Secretariat of Treasury of the Guarantor’s Ministry of Finance, 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and public expenditures practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower shall: (i) carry out the Project in accordance with the recommendations set forth in the Project social and environmental impact and management assessment, submitted by the Borrower to the Bank on April 20, 2005; and (ii) carry out or cause to be carried out all actions therein specified to be carried out by the Borrower or any of its agencies, within the period of time also specified in such document.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan in respect of Part B of the Project.

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

Section 3.03. The Borrower shall maintain, during the execution of the Project, a unit within the Borrower’s Secretariat of Planning for purposes of coordinating the participation of the several Secretariats and agencies of the Borrower in the carrying out of the Project and the fulfillment of conditions for disbursement of the Loan, such unit to have a structure and functions satisfactory to the Bank, and qualified staff in adequate numbers as required to carry out its responsibilities under the Project.
Section 3.04. The Borrower shall cause CAGECE to:

(a) not later than one year after the date of this Agreement, apply for a license from Instituto Brasileiro do Meio Ambiente e Recursos Naturais Renováveis – IBAMA to regularize the operation of the ocean outfall that discharges sewage collected in the city of Fortaleza; and

(b) promptly take, in a manner acceptable to the Bank, any action that may be required by such Instituto for such regularization.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such financial 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 the reports referred to in paragraph 4 (b) of Schedule 1 to this Agreement or on the basis of statements of expenditure, the Borrower shall:

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

(ii) enable the Bank’s representatives to examine such records; and

(iii) ensure that 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) The Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided by the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V
Effective Date; Termination

Section 5.01. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Loan has been validly registered by the Guarantor’s Central Bank.

Section 5.02. The date January 17, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Bank:

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

Cable address: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
For the Borrower:

Secretaria de Planejamento e Coordenação
Centro Administrativo Governador Virgilio Távora
60839-900 Fortaleza, Ceará
Brazil

Facsimile: (55-85) 3101-4518

With copies to:

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

Facsimile: (55-61) 225-4022
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Brasilia, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe
Authorized Representative

STATE OF CEARÁ

By /s/ Lucio Gonçalo de Alcantara
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth:

   (a) the Categories of items: (i) under Part A of the Project to be paid by the Borrower: (A) and reimbursed out of the proceeds of the Loan; or (B) in an amount equivalent to the amount of the Loan proceeds advanced by the Bank; and (ii) under Part B of the Project to be financed out of the Loan proceeds and disbursed by the Bank through any of the disbursement modalities adopted by the Bank;

   (b) the allocation of the amounts of the Loan to each Category; and

   (c) the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Program Expenditures</td>
<td>144,000,000</td>
<td>35%, subject to paragraph 2 below</td>
</tr>
<tr>
<td>(2) Goods and consultants’ services under Part B of the Project</td>
<td>5,375,625</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end fee</td>
<td>374,375</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(4) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.09 (c) of this Agreement</td>
</tr>
</tbody>
</table>

TOTAL 149,750,000
2. Notwithstanding the provisions of paragraph 1 above, withdrawals from the Loan Account in respect of expenditures under Category (1) of the table in paragraph 1 above may be made by the Borrower only as follows:

   (a) a first withdrawal in respect of payments made for Program Expenditures prior to the date of this Agreement, in an aggregate amount not exceeding $29,000,000, shall be made on account of payments made within one year before the date of this Agreement;

   (b) a second withdrawal, in an amount which, when added to the amount of the first withdrawal referred to in (a) above, shall not exceed the amount of $64,000,000, shall be made as an advance for Program Expenditures to be incurred in the six-month period subsequent to such second withdrawal;

   (c) a third withdrawal in an amount not exceeding $25,000,000 shall be made as an advance for Program Expenditures to be incurred in the six-month period subsequent to such third withdrawal, if the Borrower has submitted to the Bank: (i) evidence, satisfactory to the Bank, that an amount equivalent to the amount of the Loan proceeds advanced pursuant to subparagraph (b) above has been used for Program Expenditures in a proportion not exceeding 35% of the total amount of such Program Expenditures, subject to the provisions of paragraph 3 (a) below; and (ii) not later than December 31, 2005, strategic plans, satisfactory to the Bank, for the following secretariats of the Borrower’s government: health, education, infrastructure, water resources management, environment and social inclusion;

   (d) a fourth withdrawal in an aggregate amount not exceeding $25,000,000 shall be made as an advance for Program Expenditures to be incurred in the six-month period subsequent to such fourth withdrawal, subject to: (i) submission of evidence satisfactory to the Bank that an amount equivalent to the amount of the Loan proceeds advanced pursuant to paragraph (c) above has been used for Program Expenditures in a proportion not exceeding 35% of the total amount of such Program Expenditures, and further subject to the provisions of paragraph 3 (a) below; and (ii) the provisions of Annex A to this Schedule; and

   (e) a fifth withdrawal in an aggregate amount not exceeding $30,000,000 shall be made to reimburse Program Expenditures paid, subject to: (i) submission of evidence satisfactory to the Bank that an amount equivalent to the amount of the Loan proceeds advanced pursuant to paragraph (d) above has been used for Program Expenditures in a proportion not exceeding 35% of the total amount of such Program Expenditures; and (ii) the provisions of Annex B to this Schedule.

3. If the Bank has not:
(a) received the evidence referred to in paragraph (c) (i) or (d) (i) above with respect to the amount of the Program Expenditures in question, the Bank may, at its option, authorize that the difference between such amount and the amount of Program Expenditures actually spent be carried forward to the subsequent withdrawal, provided that, if this occurs in the case of paragraph (c) (i) above, the amount to be disbursed by the Bank, under the fourth withdrawal, in addition to the amount set forth in paragraph (d) above shall be pro-rated in the same proportion among the amounts set forth in the table in paragraph 3 of Annex A to this Schedule; and

(b) approved a full withdrawal by the Borrower of the Loan proceeds referred to in paragraph 2 (d) or (2) (e) above, as provided in Annexes A or B to this Schedule, as the case may be, the Bank may, by notice to the Borrower and the Guarantor, cancel the corresponding amount of the Loan.

4. The Bank may require withdrawals from the Loan Account to be made either:

(a) on the basis of statements of expenditure for expenditures under contracts for: (i) goods or works costing less than $500,000 and $10,000,000 equivalent per contract, respectively; (ii) services of individual consultants costing less than $50,000 equivalent per contract; and (iii) services of consulting firms costing less than $200,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower; or

(b) 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 Report-based Disbursement, 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 the withdrawal request.

5. Disbursements of the Loan proceeds shall be made by the Bank to a general account of the Borrower’s Secretariat of Finance (Conta Única do Tesouro). The Borrower shall inform the Bank of the details of such account before submitting the first withdrawal of Loan proceeds to the Bank.
Annex A
to
SCHEDULE 1

Provisions Applicable to the
Fourth Withdrawal Referred to in
Paragraph 2 (d) of Schedule 1

1. Except as the Bank shall otherwise agree, the withdrawal will not be approved by
the Bank unless evidence satisfactory to the Bank has been furnished to the Bank that:

(a) The Borrower’s primary surplus in calendar year 2005 has been at least
one hundred thirty-four million Reais (R$134,000,000).

(b) The execution of the following projects of the Borrower financed by
loans from the Bank have achieved the following targets in calendar year 2005:

(i) Ceará Integrated Water Resource Management Project -
PROGERIRH (Loan 4531-BR)

The two remaining contracts (for lots A and B) have
been duly signed to complete construction of the Castanhão -
Fortaleza water conveyance system with a minimum water flow
capacity of 12 cubic meters per second, and invoices equal to
10% of the total value of each such contract have been presented
to and paid by the Borrower.

(ii) Ceará Basic Education Quality Improvement Project (Loan
4591-BR)

An amount equivalent to at least 70% of $25,000,000
(the amount estimated to be disbursed from Loan 4591-BR in
calendar year 2005) has been disbursed to pay for expenditures
under such project.

(iii) Rural Poverty Reduction Project – Ceará (Loan 4626-BR)

(A) An amount of at least $33,000,000 of the proceeds of
Loan 4626-BR has been disbursed by December 31,
2005, to pay for expenditures under such project.
(B) At least 90,000 families have benefited from investment subprojects under such project in at least 150 municipalities by December 31, 2005.

(C) At least 120 municipal councils have been participating and functioning in such project by December 31, 2005.

2. The amount to be withdrawn shall comprise the amounts indicated in the table in paragraph 3 below as corresponding to the targets set out in such table for each sector therein set forth, provided that, except as the Bank may otherwise agree, no withdrawal shall be made:

   (a) of amounts in the fourth column of such table corresponding to the sectors indicated therein (except the public management sector) unless the Bank has received evidence satisfactory to the Bank that the Borrower has incurred, in the twelve-month period after the first withdrawal of Loan proceeds for Program Expenditures, at least 70% of the expenditures projected, pursuant to the Attachment to this Annex, to be incurred under the corresponding program or programs, set out in such table, in such sector; and

   (b) of any amount indicated in such table as corresponding to a target unless the Bank has received evidence satisfactory to the Bank that such target has been achieved. The review of achievement of such targets shall be based on the detailed criteria set forth in the table with “Arrangements for Results Monitoring” in Annex 3 of the Project Appraisal Document of the Bank for the Project.

3. The table below sets out the sectors, programs, targets and amounts referred to in paragraph 2 above:

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Programs</th>
<th>Targets</th>
<th>Amounts in Dollars</th>
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<tbody>
<tr>
<td>(a) Health</td>
<td>(i) Primary Health Care; and (ii) Secondary and Tertiary Health Care</td>
<td>(1) At least 89% of pregnant women have received four or more pre-natal consultations during calendar year 2005.</td>
<td>1,923,088</td>
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<td>(2) Not more than 21% of hospital admissions for children five years old or younger have been made for diarrhea during calendar year 2005.</td>
<td>1,923,076</td>
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<tr>
<td>(3) At least 57% of the Borrower’s population has been covered by teams of the Borrower’s Family Health Program, as certified by the Borrower’s Secretariat of Health, during calendar year 2005.</td>
<td>1,923,076</td>
<td></td>
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</tr>
</tbody>
</table>
(b) **Education**

(iii) Fundamental Education;

(iv) Basic School Operations; and

(v) Municipal Schools

(4) (A) Evaluation reports of the SPAECE test performed in the Borrower’s schools have been completed and the results of such evaluation have been disseminated to CREDEs and the evaluated schools by December 31, 2005, through the media, informative material and workshops; and guidelines for the preparation of school improvement strategies and action plans, including best practices, have been prepared and sent to each of the Borrower’s schools by December 31, 2005.

(B) The results of the SAEB test performed in the Borrower’s schools in calendar year 2003 have been disseminated to CREDEs and the Borrower’s schools by December 31, 2005, including the ranking of the Borrower under

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<td>1,923,076</td>
</tr>
</tbody>
</table>
SAEB vis-à-vis Brazil and other Brazil’s northeast states.

(C) The Borrower has provided support to the carrying out of SAEB testing in the Borrower’s schools during calendar year 2005, by making available the information required therefor, such as number of students by grade and number of classrooms; and the Borrower has carried out all the activities required for the implementation of SAEB testing in the Borrower’s schools in 2005, as defined by the Guarantor’s Ministry of Education.

(5) (A) A study to improve SEDUC’s administrative efficiency has been completed by November 30, 2005, under terms of reference satisfactory to the Bank.

(B) A reform and
restructuring of CREDEs has been completed by December 31, 2005, as provided in the Borrower’s Decree No.27757, of April 4, 2005; and consultants, acceptable to the Bank, have been contracted by the Borrower, under terms of reference satisfactory to the Bank, to evaluate the impact of such reform and restructuring.

(C) Consultants, acceptable to the Bank, have been contracted by the Borrower not later than December 31, 2005, under terms of reference satisfactory to the Bank, to evaluate the performance of the directors and other members of the management group of the Borrower’s schools selected in 2004.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1,923,076</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) The Borrower’s illiterate population 15 years old or more has been reduced by 100,000 in calendar year</td>
<td></td>
<td>1,923,076</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(c) Water and Sanitation</td>
<td>(vi) Urban Water Supply; and (vii) Urban Sanitation</td>
<td>(7) At least 23,600 new household water connections have been made in the Borrower’s territory in calendar year 2005.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8) At least 14,400 new household sanitation service connections have been made in the Borrower’s territory in calendar year 2005.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9) The ratio of CAGECE’s operating costs to its operating revenues has been lower than 71.38% by December 31, 2005.</td>
</tr>
<tr>
<td>(d) Water Resources Management</td>
<td>(viii) Integration of Water Basins</td>
<td>(10) At least 75% of industrial bulk water users in the borrower’s territory have been charged tariffs for the use of water by December 31, 2005.</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(11) At least 2% of irrigation bulk water users in the Borrower’s territory with consumption higher than 6,000 cubic meters per month have been charged tariffs for the use of water by December 31, 2005.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(12) At least 20% of aquaculture water users in the Borrower’s territory have been charged tariffs for the use of water by December 31, 2005.</td>
</tr>
</tbody>
</table>
4. Notwithstanding the provisions of paragraph 1 (b) above, if the Bank has determined that one or more targets set forth therein have not been achieved, the Borrower may submit to the Bank a time-bound action plan to achieve, in a manner satisfactory to the Bank, such target or targets. If the Bank is satisfied that such action plan has been implemented, then the Bank may authorize the withdrawal in accordance with the provisions of paragraph 2 above.
Attachment to Annex A

Projected Expenditures

The amounts in *Reais* of the expenditures projected in the PPA to be incurred in the Borrower’s programs set out below, during the twelve-month period after the first withdrawal of Loan proceeds referred to in paragraph 2 (a) of Schedule 1 to this Agreement, are as follows:

<table>
<thead>
<tr>
<th>Programs</th>
<th>Amount (<em>Reais</em>)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary Health Care</td>
<td>59,000,000</td>
</tr>
<tr>
<td>2. Secondary and Tertiary Health Care</td>
<td>78,000,000</td>
</tr>
<tr>
<td>3. Fundamental Education</td>
<td>15,000,000</td>
</tr>
<tr>
<td>4. Basic School Operations</td>
<td>60,000,000</td>
</tr>
<tr>
<td>5. Municipal Schools</td>
<td>436,000,000</td>
</tr>
<tr>
<td>6. Urban Water Supply</td>
<td>10,000,000</td>
</tr>
<tr>
<td>7. Urban Sanitation</td>
<td>23,000,000</td>
</tr>
<tr>
<td>8. Integration of Water Basins</td>
<td>49,000,000</td>
</tr>
<tr>
<td>9. Biodiversity</td>
<td>6,000,000</td>
</tr>
</tbody>
</table>
Annex B
to
SCHEDULE 1

Provisions Applicable to the
Fifth Withdrawal Referred to in
Paragraph 2 (e) of Schedule 1

1. Except as the Bank shall otherwise agree, the withdrawal will not be approved by the Bank unless evidence satisfactory to the Bank has been furnished to the Bank that:

   (a) The Borrower’s primary surplus in calendar year 2006 has been at least one hundred forty-seven million Reais (R$147,000,000).

   (b) The execution of the following projects of the Borrower financed by loans from the Bank have achieved the following targets in calendar year 2006:

      (i) Ceará Integrated Water Resource Management Project - PROGERIRH (Loan 4531-BR)

          At least 120 kilometers of the Castanhão - Fortaleza water conveyance system have been completed, with a minimum water flow capacity of 12 cubic meters per second.

      (ii) Ceará Basic Education Quality Improvement Project (Loan 4591-BR)

          A minimum amount of the proceeds of Loan 4591-BR, calculated as per the formula below, has been disbursed to pay for expenditures under such project:

          \[(0.7 + x\%) \times 22,000,000\],

          where “x” is the difference between 100% and the actual disbursement percentage of the amount estimated to be disbursed under such loan in calendar year 2005 ($25,000,000).
(iii) Rural Poverty Reduction Project – Ceará (Loan 4626 - BR)

(A) Loan 4626-BR has been fully disbursed to pay for expenditures under such project;

(B) at least 105,000 families have benefited from investment subprojects under such project in at least 160 municipalities; and

(C) at least 130 municipal councils have been participating and functioning in such project.

2. The amount to be withdrawn shall comprise the amounts indicated in the table in paragraph 3 below as corresponding to the targets set out in such table for each sector therein set forth, provided that, except as the Bank may otherwise agree, no withdrawal shall be made:

(a) of amounts in the fourth column of such table corresponding to the sectors indicated therein (except the public management sector) unless the Bank has received evidence satisfactory to the Bank that the Borrower has incurred, in the twelve-month period after the fourth withdrawal of Loan proceeds for Program Expenditures, at least 70% of the expenditures projected, pursuant to the Attachment to this Annex, to be incurred under the corresponding program or programs, set out in such table, in such sector; and

(b) of any amount indicated in such table as corresponding to a target unless the Bank has received evidence satisfactory to the Bank that such target has been achieved. The review of achievement of such targets shall be based on the detailed criteria set forth in the table with “Arrangements for Results Monitoring” in Annex 3 of the Project Appraisal Document of the Bank for the Project.

3. The table below sets out the sectors, programs, targets and amounts referred to in paragraph 2 above:

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Programs</th>
<th>Targets</th>
<th>Amounts in Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Health</td>
<td>(i) Primary Health Care; and (ii) Secondary and Tertiary Health</td>
<td>(1) At least 90% of pregnant women have received four or more pre-natal consultations during calendar year 2006</td>
<td>2,307,696</td>
</tr>
<tr>
<td>Care</td>
<td>calendar year 2006.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2)</td>
<td>Not more than 20% of hospital admissions for children five years old or younger have been made for diarrhea, during calendar year 2006.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,307,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>At least 60% of the Borrower’s population has been covered by teams of the Borrower’s Family Health Program, as certified by the Borrower’s Secretariat of Health, during calendar year 2006.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,307,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii)</td>
<td>Fundamental Education;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv)</td>
<td>Basic School Operations; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v)</td>
<td>Municipal Schools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4)</td>
<td>(A) Consultants, acceptable to the Bank, have been contracted, not later than August 30, 2006, by the Borrower, under terms of reference satisfactory to the Bank, to implement the SPAECE test in the Borrower’s and municipal schools by November 30, 2006.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,307,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B)</td>
<td>The results of the SAEB test performed in the</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Borrower’s schools in calendar year 2005 have been disseminated to CREDEs and the Borrower’s schools by December 31, 2006, including the ranking of the Borrower under SAEB vis-à-vis Brazil and other Brazil’s northeast states.

(5) (A) The recommendations of the study to improve SEDUC’s efficiency, referred to in target (5) (A) of the table in Annex A to this Schedule 1, have been implemented in a manner satisfactory to the Bank.

(B) The impact evaluation report on CREDEs’ reform and restructuring, referred to in target (5) (B) of the table in Annex A to this Schedule 1, has been completed by May 30, 2006; and the recommendations of such evaluation have been implemented by 2,307,692
December 31, 2006.

(C) The report on the performance of the directors and other members of the management group of the Borrower’s schools selected in 2004, referred to in target (5) (C) of the table in Annex A to this Schedule 1, and on the evaluation of the implementation of the 2005 action plans prepared by such directors has been completed by April 30, 2006.

(6) The Borrower’s illiterate population 15 years old or more has been reduced by 100,000 in calendar year 2006.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2,307,692</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2,307,692</td>
</tr>
<tr>
<td>(c) <strong>Water and Sanitation</strong></td>
<td>(vi) <strong>Urban Water Supply</strong>; and (vii) <strong>Urban Sanitation</strong></td>
<td>(7) At least 34,160 new household water connections have been made in the Borrower’s territory in calendar year 2006.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8) At least 18,550 new household sanitation service connections have been made in the Borrower’s territory in calendar year 2006.</td>
</tr>
<tr>
<td>(d) <strong>Water Resources Management</strong></td>
<td>(viii) <strong>Integration of Water Basins</strong></td>
<td>(9) The ratio of CAGECE’s operating costs to its operating revenues has been lower than 70.66% by December 31, 2006.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(10) More than 80% of industrial bulk water users in the Borrower’s territory have been charged tariffs for the use of water by December 31, 2006.</td>
</tr>
</tbody>
</table>
(11) At least 5% of irrigation bulk water users in the Borrower’s territory with consumption higher than 6,000 cubic meters per month have been charged tariffs for the use of water by December 31, 2006. | 769,230 |

(12) At least 40% of aquaculture water users in the Borrower’s territory have been charged tariffs for the use of water by December 31, 2006. | 769,230 |

(e) Environment (ix) Biodiversity (13) A decree of the Borrower’s Governor has been issued, not later than December 31, 2006, to create a protected area (in addition to the area referred to in target (13) in the table in Annex A to this Schedule 1) in the Caatinga biomes, with an area of at least 5,000 hectares, and to establish a zoning and management plan for such area. | 2,307,692 |
(14) (A) The economic and environmental zoning study for: (I) the *Caatinga* biomes has been finished by December 31, 2006; and (II) the *Serra Úmida* biomes has been contracted not later than December 31, 2006.

(B) A report has been issued on the progress in the implementation, during calendar year 2006, of the economic and environmental zoning of the *Litoral* biomes.

| (f) Public Sector Management | (15) The ratio of the Borrower’s tax revenues to its gross domestic product has been at least 8.5% by December 31, 2006. | 2,307,692 |

4. Notwithstanding the provisions of paragraph 1 (b) above, if the Bank has determined that one or more targets set forth therein have not been achieved, the Borrower may submit to the Bank a time-bound action plan to achieve, in a manner satisfactory to the Bank, such target or targets. If the Bank is satisfied that such action plan has been implemented, then the Bank may authorize the withdrawal in accordance with the provisions of paragraph 2 above.
### Projected Expenditures

The amounts in *Reais* of the expenditures projected in the PPA to be incurred in the Borrower’s programs set out below, during the twelve-month period after the fourth withdrawal of Loan proceeds referred to in paragraph 2 (d) of Schedule 1 to this Agreement, are as follows:

<table>
<thead>
<tr>
<th>Programs</th>
<th>Amount (Reais)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary Health Care</td>
<td>65,000,000</td>
</tr>
<tr>
<td>2. Secondary and Tertiary Health Care</td>
<td>85,000,000</td>
</tr>
<tr>
<td>3. Fundamental Education</td>
<td>15,000,000</td>
</tr>
<tr>
<td>4. Basic School Operations</td>
<td>60,000,000</td>
</tr>
<tr>
<td>5. Municipal Schools</td>
<td>474,000,000</td>
</tr>
<tr>
<td>6. Urban Water Supply</td>
<td>22,000,000</td>
</tr>
<tr>
<td>7. Urban Sanitation</td>
<td>31,000,000</td>
</tr>
<tr>
<td>8. Integration of Water Basins</td>
<td>60,000,000</td>
</tr>
<tr>
<td>9. Biodiversity</td>
<td>8,000,000</td>
</tr>
</tbody>
</table>
SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen social inclusion in the Borrower’s territory, while at the same time preserving fiscal sustainability.

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

Part A: Program Expenditures

Carrying out of the following programs of the Borrower, which are identified in the PPA with the respective numbers set out below:

<table>
<thead>
<tr>
<th>Program</th>
<th>PPA Budget Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) strengthening and expansion of primary health care</td>
<td>536</td>
</tr>
<tr>
<td>(b) strengthening secondary and tertiary health care</td>
<td>535</td>
</tr>
<tr>
<td>(c) support to the fundamental education system</td>
<td>049</td>
</tr>
<tr>
<td>(d) maintenance of school system operations</td>
<td>544</td>
</tr>
<tr>
<td>(e) support to municipal schools in the Borrower’s territory</td>
<td>065</td>
</tr>
<tr>
<td>(f) increase of urban water delivery coverage, especially among poorer populations, but excluding the subprojects under the programs known as PRODETUR and PROSANEAMENTO, and the subprojects already completed or under implementation, as of the Effective Date, under the program known as Alvorada</td>
<td>711</td>
</tr>
</tbody>
</table>
(g) increase of urban sanitation coverage, especially among poorer populations, but excluding the subprojects under the programs known as PRODETUR and PROSANEAMENTO, and the subprojects already completed or under implementation, as of the Effective Date, under the program known as Alvorada

(h) integration of water basins, known as PROGERIRH

(i) management of protected areas and related programs in key biomes, including licensing, monitoring, inspection and management with respect to natural resources

Part B: Technical Assistance

Provision of technical assistance to: (a) support public sector reforms in the areas of fiscal planning, contingent liabilities resulting from lawsuits against the Borrower, revenue administration, treasury systems, procurement, results-based management, audits, and performance monitoring; (b) carry out an in-depth study of tariff setting experience and reform recommendations for the Borrower’s water and sanitation sector, including the proposal of new legislation and a regulatory accounting system for such sector; (c) carry out a study to define a cultural-historic corridor rehabilitation project in the center of Fortaleza; and (d) support Project management and coordination.

* * *

The Project is expected to be completed by June 30, 2007.
SCHEDULE 3

Procurement

Section I. General

A. Goods, works and non-consultant services (except those referred to in Part B below) under Part A of the Project shall be procured in accordance with the provisions of Law No. 8666, of June 21, 1993, as amended to the date of this Agreement, and Law No. 10520 of July 17, 2002, both of the Guarantor, and with the provisions of Section IV of this Schedule.

B. Goods and non-consultant services under Part A of the Project estimated to cost $500,000 equivalent or more, works under Part A of the Project estimated to cost $10,000,000 equivalent or more, and goods and non-consultant services under Part B of the Project shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of Sections II and IV of this Schedule.

C. 1. Services of consulting firms and individual consultants, under Part A of the Project, estimated to cost $200,000 and $50,000 equivalent or more, respectively, and consultants’ services under Part B of the Project shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of Sections III and IV of this Schedule.

2. Services of consulting firms and individual consultants, under Part A of the Project, estimated to cost less than $200,000 and $50,000 equivalent, respectively, shall be procured in accordance with the provisions of the Guarantor’s Law No. 8666, of June 21, 1993, as amended to the date of this Agreement, and the provisions of Section IV of this Schedule.

D. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines or Consultant Guidelines, as the case may be.
Section II. Particular Methods of Procurement of Goods, Works and Non-Consultant Services Referred to in Section, I.B of this Schedule

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts for the goods, works and non-consultant services referred to in Section I.B of this Schedule shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Guarantor.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods and non-consultant services under Part B of the Project, estimated to cost less than $500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions, using bidding documents, satisfactory to the Bank, in a standardized form for the Project:

   (a) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Procurement Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;

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

   (c) the arrangements, under the invitation to bid, for joint-ventures (consórcios) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;

   (d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

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

Goods and non-consultant services under Part B of the Project, estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of either: (a) Shopping procedures, and a standard request for quotations acceptable to the Bank; or (b) the procedures known as “pregão eletrônico,” set forth in the Guarantor’s Law No. 10520 of July 17, 2002.

**Section III. Particular Methods of Procurement of Consultants’ Services**

Referred to in Section I, C.1 of this Schedule

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

B. **Other Procedures**

1. **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.

2. **Single Source Selection.** Services for tasks under Part B of the Project in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

**Section IV. Review by the Bank of Procurement Decisions**

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to the Bank’s Prior Review: (a) each contract for goods, works and non-consultant services to be procured in accordance with International Competitive Bidding procedures; and (b) each contract for consultants’ services provided
by a firm estimated to cost the equivalent of $200,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of $50,000 or more, the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.
For purposes of Section 2.02 (b) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;

2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, unmanufac-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>tured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>manufactured</td>
<td>Tobacco, (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and asso-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ciated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Guarantor or international agreements to which the Guarantor is a party); and

5. expenditures for pesticides, and for construction of hospitals.