

LOAN NUMBER 8168-BR

# Loan Agreement

**(Recife Education and Public Management Project-  
*Programa de Desenvolvimento da Educação e da  
Gestão Pública no Município do Recife*)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

and

**THE MUNICIPALITY OF RECIFE**

Dated *October 31*, 2012

## LOAN AGREEMENT

Agreement dated October 31, 2012, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the MUNICIPALITY OF RECIFE ("Borrower"). The Bank and the Borrower hereby agree as follows:

### ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred and thirty million Dollars (\$130,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the cost of the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement:
  - (a) for Part 1 of the Project for reimbursement of Eligible Expenditures incurred by the Borrower and pre-financed from its own resources, as part of the Eligible Expenditure Programs; and
  - (b) for Part 2 of the Project for reimbursement for Eligible Expenditures incurred by the Borrower, or as advances for Eligible Expenditures.

The Borrower's representative for the purposes of taking any action required or permitted to be taken pursuant to this Section is the Borrower's Secretary of the Special Secretariat of Management and Planning, or any person or persons whom he or she shall designate.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.



- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with the prior no objection of the Guarantor, through the Guarantor's Secretariat of National Treasury of the 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: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 the Variable Rate or the Reference 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.



### **ARTICLE III — PROJECT**

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall:

- (a) through SEGESP, carry out Part 2(e) of the Project;
- (b) through SEEL, carry out Parts 1 and 2(a) of the Project;
- (c) through SEFIN, carry out Parts 2(b) and 2(c) of the Project;
- (d) through SADGP and SEFIN, carry out Part 2(d) of the Project; and
- (e) through SSP, carry out Part 2(f) of the Project,

all under the coordination of SEGESP and in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

4.01. The Additional Legal Matter consists of the following, namely, that the Loan has been duly registered with the Central Bank of Brazil.

4.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on November 29, 2013.

### **ARTICLE V — REPRESENTATIVE; ADDRESSES**

5.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is its Mayor.



5.02. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

5.03. The Borrower's Address is:

Secretaria Especial de Gestão e Planejamento (SEGESP)  
Prefeitura do Recife  
Cais do Apolo 925, 9º andar  
Recife – PE, 50030-903  
Pernambuco  
Brazil

Facsimile: (55-81) 3355-8014

With copy to:

Secretaria de Finanças (SEFIN)  
Prefeitura do Recife  
Cais do Apolo 925, 14º andar  
Recife – PE, 50030-903  
Brazil

Facsimile: (55-81) 3355-8752

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

Facsimile: (55-61) 2020-5006.



AGREED at Brasilia, Federative Republic of Brazil, as of  
the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

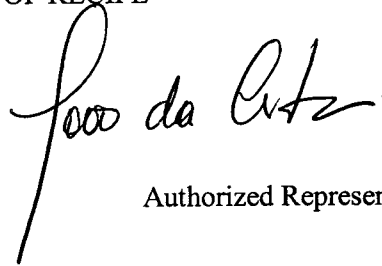
By



Authorized Representative

MUNICIPALITY OF RECIFE

By



Authorized Representative



## SCHEDULE 1

### Project Description

The objective of the Project is to expand coverage of improved early child education (ECE), create conditions more conducive to learning in Fundamental Education, and improve municipal public management, all within the Borrower's territory.

The Project consists of the following parts:

Part 1: Expand coverage of improved ECE and create conditions conducive to learning in Fundamental Education

Provision of support for the implementation of the Eligible Expenditure Programs, including activities to:

- (a) rehabilitate ECE centers;
- (b) promote multi-sectoral early child development;
- (c) create conditions more conducive to learning in Fundamental Education;
- (d) professional development of the municipal teaching force; and
- (e) education management.

Part 2: Strengthen institutions for more efficient and effective public management

Provision of technical assistance to strengthen the Borrower's public management in the following areas:

- (a) Education Evaluation and Administration:
  - (i) the monitoring and evaluation of various key programs, including the accelerated learning programs, the expanded school day program, the school improvement plans program, and in-service education program;
  - (ii) the carrying out of a study of the management of the education sector as a whole within the Borrower's territory, identifying key strengths and weaknesses in the management system;
  - (iii) the carrying out of a study of education expenditures; and
  - (iv) the implementation of an improved monitoring system for the SEEL.



(b) Tax Administration:

(i) the planning and carrying out of a selective property registration exercise (*recadastramento*) in the urban areas to broaden the IPTU tax base; (ii) the planning and carrying out of a property assessment exercise to update the outdated property values, which in turn serve as the base of calculation for IPTU and other Borrower's taxes; (iii) the carrying out of a communications campaign to facilitate planning and implementation of the property assessment exercise referred to in (ii) above, and the provision of assistance to ensure that the recommendations of the property assessment technical proposal are in line with the Borrower's legal framework; (iv) the development of a new tax management system, which includes a cadastre and a module for follow up of non-tax active debt; (v) the improvement of SEFIN e-services to facilitate voluntary tax compliance, as well as the carrying out of a campaign to expand automatic IPTU payment through bank accounts; (vi) the development of a management system for the Borrower's attorney general's office to manage legal claims resulting from the collection of tax debt; and (vii) the purchase of IT equipment for the Borrower's Secretariat of Legal Affairs (SAJ).

(c) Public debt management:

(i) the carrying out of an in-depth diagnosis of debt management to identify the system's main deficiencies and preparation of terms of reference for the design of a new information system; (ii) the development of a debt management system; (iii) the design and implementation of a training program for SEFIN staff working in debt management; and (iv) the purchase of IT equipment for SEFIN's debt management unit.

(d) Increasing efficiency of public expenditures:

(i) payroll management and human resources management; (ii) procurement; (iii) public financial management; and (iv) modernization of EMPREL, through the following activities:

(A) the preparation of an in-depth diagnosis of human resources management in the Borrower's territory, particularly focusing on improving payroll policy, the payroll system, and supporting the Borrower in the design of a payroll audit; (B) the carrying out of a payroll audit and the acquisition of management tools to facilitate the execution of continuous controls once the audit





mentioned herein is carried out; (C) the establishment of a new human resources management and payroll system, including modules for payroll, human resources management and pension management; (D) the provision of training for payroll management personnel; (E) the acquisition of IT equipment for the payroll management unit within the Borrower's Administration Secretariat and the General Comptroller's Secretariat; (F) the development of a procurement system to enhance contract management, including the provision of training and the acquisition of IT/office equipment for staff working at the procurement unit within SEFIN; and (G) the provision of support to comply with the Guarantor's legislation on accounting standards, including the provision of training, and the acquisition of IT equipment for staff working at the accounting unit within SEFIN, including EMPREL.

(e) Municipal planning, results-based management, and Project management:

(i) create and implement a strategic priorities management unit within SEGESP, and develop indicators for these strategic priorities and link said indicators to the Borrower's annual budget; (ii) design and implement a training program in results-based management for managers and key staff in various Borrower's secretariats, including SEGESP; (iii) carrying out of a reengineering and simplification process of several management processes in key Borrower's secretariats, and (iv) Project management, including the hiring of key Project staff, the Independent Verification Agency for the carrying out of technical audits, and Operating Costs.

(f) Urban mobility management:

(i) implementation of a traffic and transport integrated data center in CTTU, which will merge data from existing traffic and transport monitoring systems to improve more effective management of mobility within the Borrower's territory; and (ii) preparation of Urban Plans to improve mobility in key areas of the Borrower's territory, as well as design of specific investments within those Urban Plans.



## SCHEDULE 2

### Project Execution

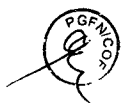
#### Section I. Implementation Arrangements

##### **A. Institutional Arrangements**

1. No later than two (2) months after the Effective Date, the Borrower shall create and thereafter maintain, until the completion of the execution of the Project:
  - (a) an implementation unit within SEGESP, to be responsible for the overall implementation of the Project (the "PIU"). Such unit shall have staff in adequate numbers and with qualifications and experience satisfactory to the Bank including a Project coordinator, a deputy coordinator, a procurement specialist, a financial management specialist, and other personnel needed for the effective implementation of the Project, all as set forth in the Project Operational Manual; and
  - (b) a Project Consultative Committee, to be responsible for overseeing implementation, monitoring and evaluation of all Project activities and provide recommendations based on the review of the progress reports and other relevant documents prepared for the Project, and with structure and functions satisfactory to the Bank, as set forth in the Project Operational Manual.

##### **B. Implementation Arrangements**

1. The Borrower, through SEGESP, shall:
  - (a) have all the Project procurement records and documentation for each calendar year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank;
  - (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
  - (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.



2. The Borrower, through SEGESP, shall:
  - (a) cause the Independent Verification Agency to carry out at least two technical audits during Project implementation, particularly focused on the compliance with the DLIs;
  - (b) furnish to the Bank as soon as available, but in any case not later than the sixth Loan withdrawal and the eleventh Loan withdrawal, respectively, the two audit reports of the Independent Verification Agency of such scope and in such detail as the Bank shall have reasonably requested; and
  - (c) furnish to the Bank such other information concerning said technical audits and documentation as the Bank shall from time to time reasonably request.
3. The Borrower shall ensure that the Eligible Expenditure Programs shall comply with the eligibility criteria and procedures set forth in the Project Operational Manual.
4. The Borrower shall ensure that the budget code number indicated in Schedule 4 to this Agreement shall conform to the Borrower's annual budget law. The Borrower and the Bank agree that such budget code number may change under the Borrower's budget law provided, however, that there is no change in the corresponding EEP described in Schedule 4 of this Agreement and in the underlying activities to be financed by the Bank under such EEP.
5. The Borrower, through SEGESP, and the Bank may jointly adjust, once every year, the amounts assigned per budget code to the EEPs detailed in Schedule 4 to this Agreement, in a manner satisfactory to the Bank.
6. Prior to the sixth disbursement under Category (1) (as referred to in the Project Operational Manual and additional instructions referred to in Section IV.A.1 of this Schedule), the Borrower shall
  - (a) carry out a mid-term review with the Bank on the overall progress in the execution of the Project and on the accomplishment of the Project,
  - (b) review whether any adjustments or replacement of the existing DLIs are needed, and
  - (c) thereafter make the required adjustments, all in a manner acceptable to the Bank.



- 7 If, at any time, the Bank determines that any portion of the Loan Proceeds was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs under Part 1 of the Project, was not supported by evidence of actual spending by the Borrower under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Operational Manual, the Borrower shall promptly refund any such portion to the Bank as the Bank shall specify by notice to the Borrower.

**C. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**D. Safeguards**

1. The Borrower shall, with the assistance of the pertinent Participating Entity, implement the Project in accordance with the provisions of the Environmental Management Framework (EMF) and those of each environmental management plan as may be required as per the terms of the EMF, prepared by the Borrower and approved by the Bank.
2. The Borrower shall ensure that Project activities do not involve any Resettlement.
3. The Borrower, through SEGESP, shall ensure, and/or cause the Participating Entities to ensure, that the terms of reference for any consultancy in respect of any Project activity shall be satisfactory to the Bank following its review thereof and, to that end, such terms of reference shall duly incorporate the requirements of the applicable Bank Safeguards Policies, as applied to the advice conveyed through such technical assistance.

**E. Project Operational Manual**

1. The Borrower shall, with the assistance of the Participating Entities implement the Project in accordance with a manual, satisfactory to the Bank (the Project Operational Manual), which shall include, *inter alia*:
  - (a) the Performance Indicators;
  - (b) the procedures for the carrying out of monitoring and evaluation of the Project;
  - (c) the detailed criteria for the monitoring of the DLIs;



- (d) the procurement and financial requirements of the Project;
  - (e) the roles and responsibilities of each Participating Entity;
  - (f) the Environmental Management Framework;
  - (g) the Project chart of accounts and internal controls, reporting procedures and the format of the Interim unaudited financial reports referred to in Section II.B.2 of this Schedule; and
  - (h) the procedures for defining the 60% Rule Indicator. In case of any conflict between the terms of the Operational Manual and this Agreement, the provision of this Agreement will prevail.
2. Except as the Borrower and the Bank may otherwise agree in writing, the Borrower shall not abrogate, amend, suspend, waive or otherwise fail to enforce the Project Operational Manual or any provision thereof.

**Section II. Project Monitoring Reporting and Evaluation**

**A. Project Reports**

1. The Borrower, through SEGESP, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than 60 days after the end of the period covered by each such report.
2. Without limitation to the provisions of paragraph 1 of this Section, the Borrower, through SEGESP, shall include the following information in each Project Report:
  - (a) the Borrower's compliance with the DLIs;
  - (b) the updated Procurement Plan; and
  - (c) a section describing any condition which interferes or that could potentially interfere with Project implementation, including any environmental/social issues that may arise during Project implementation.
3. For purposes of carrying out the technical audits referred to in Section I.B.2 of Schedule 2 to this Agreement, the Borrower shall, not later than eighteen months (18) months after Effective Date, select and contract an entity, independent from



the Borrower (Independent Verification Agency) with experience and qualifications in education acceptable to the Bank, pursuant to the provisions of Section III of this Schedule and in accordance with terms of reference satisfactory to the Bank.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through SEGESP, shall prepare and furnish to the Bank not later than 60 days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower, through SEGESP, shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods, Works and Non-Consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and in accordance with the provisions of this Schedule as the case may be.
2. **Consultant Services.** All consultant services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and in accordance with the provisions of this Schedule, as the case may be.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.



**B. Particular Methods of Procurement of Goods, Works and Non-Consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-Consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding (including in respect of goods, non-consultant services and works, <i>convite, tomada de preços</i> and <i>concorrência</i> set forth in the Guarantor's Law No. 8.666 of June 21, 1993, as well as procurement in accordance with the method known as " <i>pregão eletrônico</i> ", as provided in the Guarantor's Law No. 10.520, of July 17, 2002, under any e-procurement system approved by the Bank), subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.
(b) Shopping
(c) Direct Contracting

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Selection based on Consultant's Qualifications
(b) Quality-based Selection
(c) Least Cost Selection
(d) Selection under a Fixed Budget
(e) Procedures set forth in Section V of the Consultants Guidelines for the Selection of Individual Consultants
(f) Single Source Selection



**D. Review by the Bank of Procurement Decisions**

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

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions (Disbursement Letter) as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 3 below.
2. Without limitation to the provisions of paragraph 1 of this Section, withdrawals of the Loan may be made as:
  - (a) reimbursements of expenditures for Parts 1 and 2 of the Project; or
  - (b) advances to the Borrower's designated account identified in the instructions referred to in said paragraph 1 in respect of Part 2 of the Project.
3. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed (inclusive of taxes)</b>
(1) Eligible Expenditure Programs under Part 1 of the Project	100,000,000	30% of aggregate EEP expenditures
(2) Goods, consultants' services, non-consulting services, Training and Operating Costs under Part 2 of the Project	30,000,000	100%
<b>TOTAL AMOUNT</b>	<b>130,000,000</b>	





4 For the purposes of this Section the term:

- (a) "Training" means expenditures (other than for consultants' services) incurred in connection with the carrying out of training, seminars, and workshops under the Project, including, inter alia: logistics, the reasonable travel cost (including transportation and lodging), and per diem of the trainers and trainees, tuition fees, as well as training materials; and
- (b) "Operating Costs" means the following management and supervision costs, to the extent they would not have been incurred absent the Project, including, inter alia: (i) maintenance of furniture and equipment; (ii) rental of office space; and (iii) communication costs.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee;
- (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed USD 20,000,000 equivalent may be made for payments made up to twelve months prior to such date but on or after July 1, 2011, for Eligible Expenditures under Category (1) and Category (2); and
- (c) for payments made under Category (1) unless: (i) the relevant Project Reports, as referred to in Section II.A.1. of this Schedule, shall have been submitted to, and found satisfactory by, the Bank, in accordance with the provisions of the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; and (ii) all other conditions referred to in the Project Operational Manual and in the additional instructions referred to in Section IV.A.1 of this Schedule including, when applicable, compliance with the Disbursement-Linked Indicators (for the respective semester as referred to in Schedule 5 to this Agreement) have been met by the Borrower in a form and substance satisfactory to the Bank.

2. If the Bank has not received evidence of full compliance with the 60% Rule Indicator (DLI #1) or with the quantitative DLIs (DLI #2 through DLI #8) listed in Schedule 5 to this Agreement, in respect to any Loan withdrawal under Category (1) other than the first Loan withdrawal (as referred to in the Project



Operational Manual and additional instructions referred to in Section IV.A.1 of this Schedule), then:

- (a) the Bank shall disburse the Loan amount of the corresponding withdrawal attributable to each DLI, in proportion to the respective degree of execution of each DLI and in accordance with additional instructions referred to in Section IV.A.1 of this Schedule;
  - (b) the Borrower shall prepare and furnish to the Bank a satisfactory time-bound action plan to achieve such DLI or DLIs in a manner satisfactory to the Bank; and
  - (c) as soon as the Bank is satisfied that said action plan has been implemented, the Bank shall authorize the withdrawal of unwithdrawn Loan amount by which the corresponding Loan withdrawal had been reduced in the withdrawal period following the date of implementation of said action plan, all as further detailed in the additional instructions referred to in Section IV.A.1 of this Schedule.
3. If the Bank has not received evidence of full compliance with the qualitative DLIs (DLI #9 through DLI #12) listed in Schedule 5 to this Agreement, with respect to any Loan disbursement under Category (1) (as referred to in the Project Operational Manual and additional instructions referred to in Section IV.A.1 of this Schedule), then:
  - (a) the Bank shall withhold the corresponding withdrawal attributable to each DLI not complied with;
  - (b) the Borrower shall prepare and furnish to the Bank a satisfactory time-bound action plan to achieve such DLI or DLIs in a manner satisfactory to the Bank; and
  - (c) as soon as the Bank is satisfied that said action plan has been implemented, the Bank shall authorize the withdrawal of unwithdrawn Loan amount by which the corresponding Loan withdrawal had been reduced in the withdrawal period following the date of implementation of said action plan, all as further detailed in the additional instructions referred to in Section IV.A.1 of this Schedule.
4. In the event that the Bank has not approved a full withdrawal by the Borrower of the Loan proceeds under Category (1) (as referred to in the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank may, by notice to the Borrower, cancel the corresponding amount of the Loan after the last Loan



withdrawal (as referred to in the additional instructions referred to in Section IV.A.1 of this Schedule).

5. The Closing Date is April 30, 2018. The Bank may grant an extension of the Closing Date only after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such extension.



### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date, by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
June 15, 2019	1.83%
December 15, 2019	1.87%
June 15, 2020	1.91%
December 15, 2020	1.96%
June 15, 2021	2.00%
December 15, 2021	2.05%
June 15, 2022	2.09%
December 15, 2022	2.14%
June 15, 2023	2.19%
December 15, 2023	2.24%
June 15, 2024	2.29%
December 15, 2024	2.34%
June 15, 2025	2.39%
December 15, 2025	2.44%
June 15, 2026	2.50%
December 15, 2026	2.56%
June 15, 2027	2.61%
December 15, 2027	2.67%
June 15, 2028	2.73%
December 15, 2028	2.79%
June 15, 2029	2.86%
December 15, 2029	2.92%
June 15, 2030	2.99%
December 15, 2030	3.05%
June 15, 2031	3.12%



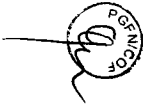
December 15, 2031	3.19%
June 15, 2032	3.26%
December 15, 2032	3.34%
June 15, 2033	3.41%
December 15, 2033	3.49%
June 15, 2034	3.57%
December 15, 2034	3.65%
June 15, 2035	3.73%
December 15, 2035	3.81%
June 15, 2036	3.90%
December 15, 2036	4.11%
total	100.00%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.



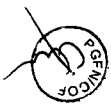
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.





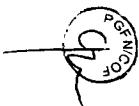
**SCHEDULE 4**  
**Eligible Expenditure Programs**  
**(Expressed in RS)**

Budget Code and Programs	2011	2012	2013	2014	2015	2016	2017	Total
<b>1206 – Effective Organization for Teaching and Learning</b>								
2.101 - Implementation of continued training policies for municipal teachers.	4,999,328	1,940,000	2,027,300	2,118,529	2,213,862	2,313,486	2,417,593	<b>18,030,098</b>
2.125 – Increase and improvement of quality of IT and communication processes in the education municipal network.	412,000	850,000	888,250	928,221	969,991	1,013,641	1,059,255	<b>6,121,358</b>
2.178 – Increase of coverage and improvement of quality of primary education.	90,677,598	87,070,000	90,988,150	95,082,617	99,361,335	103,832,595	108,505,061	<b>675,517,355</b>
2.179 - Increase of coverage and improvement of quality of early childhood education.	9,801,644	11,640,000	12,163,800	12,711,171	13,283,174	13,880,917	14,505,558	<b>87,986,263</b>
2.182 - Implementation of mechanisms for school inclusion of students with special learning needs (including <i>Bolsa Escola</i> Program and School Grants).	140,000	1,930,000	2,016,850	2,107,608	2,202,451	2,301,561	2,405,131	<b>13,103,601</b>
<i>Subtotal</i>	<b>106,030,570</b>	<b>103,430,000</b>	<b>108,084,350</b>	<b>112,948,146</b>	<b>118,030,812</b>	<b>123,342,199</b>	<b>128,892,598</b>	<b>800,758,675</b>



Budget Code and Programs	2011	2012	2013	2014	2015	2016	2017	Total
<b>1207- Effective Support for Quality Education</b>								
2.128 - Provision of school furniture, equipment and supplies.	5,161,482	5,000,000	5,225,000	5,460,125	5,705,831	5,962,593	6,230,910	<b>38,745,940</b>
2.131 – Rehabilitation and maintenance of the municipal education infrastructure.	10,962,000	11,100,000	11,599,500	12,121,478	12,666,944	13,236,956	13,832,620	<b>85,519,497</b>
<b>Subtotal</b>	<b>16,123,482</b>	<b>16,100,000</b>	<b>16,824,500</b>	<b>17,581,603</b>	<b>18,372,775</b>	<b>19,199,549</b>	<b>20,063,529</b>	<b>124,265,438</b>
<b>1214 – Social Assistance to the Municipal Students</b>								
2.107 - Development of supplementary programs for the municipal education.	65,967,322	70,000,000	73,150,000	76,441,750	79,881,629	83,476,302	87,232,736	<b>536,149,738</b>
<b>Subtotal</b>	<b>65,967,322</b>	<b>70,000,000</b>	<b>73,150,000</b>	<b>76,441,750</b>	<b>79,881,629</b>	<b>83,476,302</b>	<b>87,232,736</b>	<b>536,149,738</b>
<b>2110 – Management of the Education Municipal Policies</b>								
2.035 - Coordination and supervision of education and sports policies.	319,972	860,000	898,700	939,142	981,403	1,025,566	1,071,716	<b>6,096,499</b>
<b>Subtotal</b>	<b>319,972</b>	<b>860,000</b>	<b>898,700</b>	<b>939,142</b>	<b>981,403</b>	<b>1,025,566</b>	<b>1,071,716</b>	<b>6,096,499</b>
<b>TOTAL</b>	<b>188,441,346</b>	<b>190,390,000</b>	<b>198,957,550</b>	<b>207,910,640</b>	<b>217,266,619</b>	<b>227,043,616</b>	<b>237,260,579</b>	<b>1,467,270,350</b>

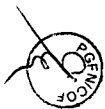




## SCHEDULE 5

### Disbursement Linked Indicators (DLIs) – Baseline and Targets

DLI	Indicators	Baseline 12-31-2011	Semester 1 12-31-2012	Semester 2 06-30-2013	Semester 3 12-31-2013	Semester 4 06-30-2014
1	Percentage of aggregate budget allocation for EEPs spent	74.9% (2010)	60%	--	60%	--
2	Number of children enrolled in the Multi-Sectoral Early Child Development Program	0	--	--	--	400
3	Number of students enrolled in extended school day program	1,514	--	2,450	--	3,450
4	Percentage of all early child education facilities with emergency needs (first number) and priority needs (second number) that received required rehabilitation	--	100%  80%	--	100%  80%	--
5	Number of students in Grades 1-5 enrolled in accelerated learning programs	2,419 (2012)	--	1,900	--	1,450
6	Number of ECE professionals who have received in-service training	1,000	1,050	--	1,150	--
7	Percentage of teachers, directors, and pedagogical coordinators in fundamental education who received in-service training	75%	75%	--	78%	--
8	Number of schools that received systematic follow-up on a School Management Plan from the core regional follow-up team	35	70	--	85	--
9	System for learning assessment at the primary level (SMAR)*	0	--	1	--	2
	(i) Data analyzed and results reported	No	--	No	--	Yes
	(ii) Data reported by gender, urban/rural, or geographic locations	No	--	No	--	No
	(iii) Assessments repeated at least once every 5 years for the same subject areas and grades	No	--	No	--	No

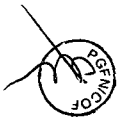


DLI	Indicators	Baseline 12-31-2011	Semester 1 12-31-2012	Semester 2 06-30-2013	Semester 3 12-31-2013	Semester 4 06-30-2014
10	Quality of the Borrower's tax administration system	--	--	TORs for firm to carry out property reassessment approved by the Bank, as set forth in Part 2 (b) of the Project	New web-based system for IPTU collection fully functional	--
11	Efficiency of payroll management	--	--	TORs for payroll audit and new payroll system approved by Bank as set forth in Part 2 (d) of the Project	--	Completion of payroll audit and identification of potential savings
12	Maintain key staff during the Project implementation period: at least deputy coordinator, procurement specialist, financial management specialist, and three focal points in different Participating Entities.	--	Yes	Yes	Yes	Yes
* The score for the SMAR indicator is determined as follows: one point is awarded for implementation of the assessment, and one additional point is awarded for each of the criteria listed under (i), (ii) and (iii) above that is satisfied.						

DLI	Indicators	Semester 5 12-31-2014	Semester 6 06-30-2015	Semester 7 12-31-2015	Semester 8 06-30-2016	Semester 9 12-31-2016	Semester 10 06-30-2017
1	Percentage of aggregate budget allocation for EEPs spent	60%	--	60%	--	60%	--
2	Number of children enrolled in the Multi-Sectoral Early Child Development Program	--	800	--	1,200	--	1,200
3	Number of students enrolled in extended school day program	--	3,950	--	3,950	--	3,950



DLI	Indicators	Semester 5 12-31-2014	Semester 6 06-30-2015	Semester 7 12-31-2015	Semester 8 06-30-2016	Semester 9 12-31-2016	Semester 10 06-30-2017
4	Percentage of all early child education facilities with emergency needs (first number) and priority needs (second number) that received required rehabilitation	100% 80%	--	100% 80%	--	100% 80%	
5	Number of students in Grades 1-5 enrolled in accelerated learning programs	--	1,300	--	1,200	--	900
6	Number of ECE professionals who have received in-service training	1,250	--	1,350	--	1,500	--
7	Percentage of teachers, directors, and pedagogical coordinators in fundamental education who received in-service training	80%	--	82%	--	82%	--
8	Number of schools that received systematic follow-up on a School Management Plan from the core regional follow-up team	100	--	115	--	120	--
9	System for learning assessment at the primary level (SMAR)	--	3	--	4	--	4
	(i) Data analyzed and results reported	--	Yes	--	Yes	--	Yes
	(ii) Data reported by gender, urban/rural, or geographic locations	--	Yes	--	Yes	--	Yes
	(iii) Assessments repeated at least once every 5 years for the same subject areas and grades	--	No	--	Yes	--	Yes
10	Quality of the Borrower's tax administration system	Completion of the property reassessment	--	Implementa-tion of property reassessment	--	--	--



DLI	Indicators	Semester 5 12-31-2014	Semester 6 06-30-2015	Semester 7 12-31-2015	Semester 8 06-30-2016	Semester 9 12-31-2016	Semester 10 06-30-2017
11	Efficiency of payroll management	--	Corrective measures to address payroll audit findings are implemented, generating annual savings to the municipality of at least R\$ 7.2 million		New payroll system fully functional	--	
12	Maintain key staff during the Project implementation period: at least Deputy Coordinator, procurement specialist, financial management specialist, and three focal points in different Participating Entities.	Yes	Yes	Yes	Yes	Yes	Yes
<p>* The score for the SMAR indicator is determined as follows: one point is awarded for implementation of the assessment, and one additional point is awarded for each of the criteria listed under (i), (ii) and (iii) above that is satisfied.</p>							

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011.
2. “Bank Safeguards Policies” means the Bank’s operational policies and procedures set forth in the Bank’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under [www.WorldBank.org/opmanual](http://www.WorldBank.org/opmanual).
3. “*Bolsa Escola* Program” means *Programa Bolsa Escola*, the Borrower’s program created through Lei 16.702/97 which supplements the Guarantor’s Bolsa Familia Program and aims to improve learning for the poorest children by conditioning cash transfers to families on regular student school attendance, as well as providing social services to beneficiary families.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CMEIs” means *Centros Municipais de Educação Infantil*, the Borrower’s early child education centers for children between the ages of 0 and 5 years old.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated January 2011.
7. “CTTU” means *Companhia de Trânsito e Transporte Urbano*, the Borrower’s Urban Transport and Traffic Company, as existing and operating under the Borrower’s Law nº 16.534, dated November 24, 1999, or its successor or successors thereto acceptable to the Bank.
8. “Disbursement-Linked Indicator” or “DLI” means any of the indicators set forth in Schedule 5 of this Agreement.
9. “ECE” means early child education (children ages 0 to 5).
10. “Eligible Expenditure Program” or “EEP” means a set of defined investment and selected recurrent expenditures (including works, goods, non-consulting services, consultants’ services, operating and maintenance costs, student grants - *Bolsa Escola* Program - and School Grants), incurred by the Borrower under the budget lines set forth in Schedule 4 to this Agreement (and thus said set of expenditures



- constitute a subset of the Eligible Expenditures defined in the General Conditions).
11. "EMPREL" means *Empresa Municipal de Informática*, the Borrower's Municipal Information Technology Company, as existing and operating under the Borrower's Law nº 10.206, dated December 9, 1969, or its successor or successors thereto acceptable to the Bank.
  12. "Environmental Management Framework" or "EMF" means the framework prepared by the Borrower, dated September 16, 2011, acceptable to the Bank, published and available to the public as of September 23, 2011, at [www.recife.pe.gov.br](http://www.recife.pe.gov.br), as the same may be updated from time to time with the prior written agreement of the Bank, included in the Project Operational Manual, which sets out the environmental protection measures in respect of the Project, including: (a) the guidelines to be followed in connection with the finding of cultural property; (b) the guidelines for the carrying out of environmental assessments under the Project and the preparation of the pertinent environmental management plans; and (c) the procedures for the environmental supervision, monitoring and evaluation of the Project.
  13. "Fundamental Education" consists of primary education and lower secondary education (children ages 6-14).
  14. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012.
  15. "Independent Verification Agency" means the entity referred to in Section II.A.3 of Schedule 2 to this Agreement.
  16. "IPTU" means *Imposto Predial e Territorial Urbano*, the Borrower's Urban Land and Property Tax.
  17. "IT" means information technology.
  18. "Multi Sectoral Early Child Development Program" means the Borrower's program as described in the publication entitled *Políticas Integradas para a Primeira Infância* dated March 2012: (i) setting forth policies integrated across sectors; and (ii) fostering individualized attention either at home or in existing buildings in the Borrower's administrative region, attending children between the ages of 0 and 5 years.
  19. "Participating Entity" means, collectively, SEGESP, SEEL, SEFIN, SADGP and SSP.



20. “Performance Indicators” means the Project monitoring and evaluation indicators set forth in the Project Operational Manual.
21. “PIU” or “Project Implementing Unit” means *Unidade de Implementação do Projeto*, the unit referred to in Section I.A.1 of Schedule 2 to this Agreement.
22. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated January 2011.
23. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 17, 2012, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
24. “Project Consultative Committee” means the committee referred to in Section I.A.(b) of Schedule 2 to this Agreement.
25. “Project Operational Manual” means the manual dated March 27, 2012, and referred to in Section I.E.1 of Schedule 2 to this Agreement as the same may be amended from time to time with the prior written agreement of the Bank.
26. “R\$” means Brazilian *Reais*, the Borrower’s currency.
27. “Resettlement” means the impact of: (i) an involuntary taking of land under the Project, which taking causes affected persons to have their: (a) income source or means of livelihood adversely affected (whether or not the affected persons must move to another location); or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) access to productive assets adversely affected, temporarily or permanently; or (d) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; or (ii) an involuntary restriction of access to natural resources in legally designated parks and protected areas (including reserves) which causes an adverse impact on the livelihoods of the affected persons.
28. “SADGP” means *Secretaria de Administração e Gestão de Pessoas*, the Borrower’s Secretariat of Public Administration and Personnel Management, or its successor or successors thereto acceptable to the Bank.
29. “School Grants” means *suprimento individual para escolas – Ensino Fundamental - e suprimento individual para pré-escolas, creches, e CMEIs – Educação Infantil*, the Borrower’s non-reimbursable transfers to schools for the carrying out of minor works, goods, consultants’ services and recurrent costs incurred on an emergency basis as determined by the Borrower in accordance with criteria acceptable to the Bank.

30. "School Management Plans" means any of the ECE centers' or Fundamental Education schools' management plans (*Plano de Desenvolvimento Escolar*), to improve student learning and growth.
31. "SEEL" means *Secretaria de Educação, Esporte e Lazer*, the Borrower's Secretariat of Education, or its successor or successors thereto acceptable to the Bank.
32. "SEFIN" means the *Secretaria de Finanças*, the Borrower's Secretariat of Finance, or its successor or successors thereto acceptable to the Bank.
33. "SEGESP" means *Secretaria Especial de Gestão e Planejamento*, the Borrower's Special Secretariat of Management and Planning, or its successor or successors thereto acceptable to the Bank.
34. "SMAR" means *Sistema Municipal de Avaliação de Rede*, the Borrower's system of student evaluation.
35. "SSP" means *Secretaria de Serviços Públicos*, the Borrower's Secretariat of Public Services, or its successor or successors thereto acceptable to the Bank.
36. "Urban Plan" means any of the Borrower's urban plans, setting forth specific steps and investments to improve mobility and urban development in a particular area, all within the Borrower's territory.
37. "60% Rule Indicator" means a condition to be met by the Borrower for certain Loan withdrawals to take place, namely that for the aggregate amount of the EEP there has been spent in the previous 12-month period (January – December) to the pertinent Loan withdrawal, 60% of the budgeted EEP funds (specified in Schedule 4 to this Agreement) for said period under Part 1 of the Project.

