Loan Agreement

(Additional Financing for the Rural Poverty Reduction Project - Ceará)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF CEARÁ

Dated July 7, 2006
LOAN AGREEMENT

AGREEMENT dated July 7, 2006, entered into between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the STATE OF CEARÁ ("Borrower") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank 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 —FINANCING

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 thirty seven million five hundred thousand Dollars ($37,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan"), to assist in financing 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.

2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.
2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; 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.

2.06. The Payment Dates are January 15 and July 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

2.08. (a) The Borrower may at any time, with the prior non-objection of the Guarantor, through the Secretariat of National 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 the 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 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 for 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 the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the Local and Regional Development Secretariat with the assistance of the Municipal Councils, 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

4.01. 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 December 6, 2007.

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

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is the Borrower’s Local and Regional Development Secretary.
5.02. The Borrower’s Address is:

Secretaria do Desenvolvimento Local e Regional
Estado do Ceará
Centro Administrativo Governador Virgilio Távora – Cambeba
60.830-120 Fortaleza, Ceará
Brazil

Facsimile: (55-85) 3101-4472

With copy to:

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

Facsimile: (55-61) 3225-4022

Secretaria do Planejamento e Coordenação do
Estado do Ceará
Centro Administrativo Governador Virgílio Távora - Cambeba
60839-900 Fortaleza, Ceará
Brazil

Facsimile: (55-85) 3101-4518

5.03. 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: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (1-202) 477-6391
AGREED at Brasília, Federal District, 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/ Alex Araújo

Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are: (a) to increase social and economic opportunities for the Municipalities’ rural poor by improving access to basic, social and economic infrastructure through Community Subprojects; (b) to increase the social capital of rural communities to organize collectively and meet their own needs; (c) to foster local governance and citizenship through strengthening of Municipal Councils, at the same time forging links with governmental and non-governmental agencies, civil society, financial institutions and the private sector; and (d) to scale up the impact of the Original Project by using the social capital created by the Original Project to further increase incomes of the rural poor and by fostering closer integration of development policies, programs and projects in rural areas at the local level, by assisting Municipal Councils to extend their role in seeking funding from, setting priorities for and making decisions concerning the allocation of resources from other programs beyond the Project.

The Project consists of the following parts included in the Original Project, as amended below solely for purposes of the Loan:

Part 1: Community Subprojects: Financing through Area Grants of small scale community investments (Community Subprojects) consisting, \textit{inter alia}, of: (a) infrastructure investments such as rural water supply, electrification and access to communities’ improvements; (b) social investments such as construction of day care centers and rehabilitation of schools and health posts; and (c) other investments such as small-scale community agro-processing, purchase of agricultural equipment and minor irrigation schemes.

Part 2: Institutional Development: (a) Provision of technical assistance and training for Community Associations in, \textit{inter alia}, community mobilization and organization, preparation of Community Subprojects, and operation and maintenance of such Community Subprojects; (b) training and equipping of Municipal Councils with respect to the role of Municipal Councils, the contents of the Operational Manual, Community Subproject evaluation and supervision, environmental assessment of Community Subprojects, participatory planning and financial management; (c) provision of on-the-job training and expert advice for the STU, Municipal Councils, and Community Associations on technical matters regarding the Community Subprojects preparation/execution cycle (such matters to include, for example, standard designs, monitoring techniques and financial management); (d) provision of technical assistance for the Local and Regional Development Secretariat in support of the implementation of the Borrower's modernization reforms in areas related to the Project; and (e) carrying out of workshops and seminars for Municipal Councils and Community Associations to exchange views and disseminate information and experience with respect to the carrying out of the Project.
Part 3: Project Administration: Support to the overall Project implementation, coordination and supervision including, *inter alia*: (a) the operation of the STU and its field offices related to Project implementation; (b) the operation of the MIS; (c) the carrying out of the statewide information campaign initiated under the Original Project to disseminate information about the Project; and (d) the carrying out of studies to assess the impact of the Project, including, *inter alia*, a baseline evaluation study, a physical performance review, a mid-term implementation review, and a comprehensive impact evaluation.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. For the purposes of carrying out the Project, the Borrower shall, through the Local and Regional Development Secretariat, maintain during Project implementation, the STU with responsibilities, structure and functions satisfactory to the Bank.

2. The Borrower, through the Local and Regional Development Secretariat, shall enter into Area Grant Agreements whenever appropriate for the carrying out of the Project, such agreements to be made in accordance with the terms of the respective draft set forth in the New Model Forms.

3. The Borrower shall continue: (a) preparing and furnishing to the Bank annual operating plans and budgets, satisfactory to the Bank, detailing the Project activities proposed to be carried out during the next succeeding year and the respective sources of funding therefor, by October 30 of each year; and (b) furnishing to the Bank the approved annual operating plans and respective budget (Approved POA) referred to in paragraph (a) of this Section for each year in question, not later than 30 days after the approval of the Borrower's annual budget by its Assembléia Legislativa (Legislative Assembly).

4. The Borrower shall continue carrying out the Project in accordance with the Operational Manual and the Approved POAs, in a manner satisfactory to the Bank.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

The Borrower 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 indicators set forth in the Operational Manual and agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

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 shall prepare and furnish to the Bank not later than one month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower 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 and Works. All goods and works 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 with the provisions of this Schedule.

2. Consultants’ Services. All consultants’ 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 with the provisions of this Schedule.

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 and Works

1. National Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of National Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
<tr>
<td>(b) Goods, works and services (other than consultants’ services) under Community Subprojects, costing less than $50,000 equivalent per contract, may be procured in accordance with the procedures set forth in the Operational Manual for community participation.</td>
</tr>
</tbody>
</table>

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 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least-Cost Selection</td>
</tr>
<tr>
<td>(b) Single Source Selection</td>
</tr>
<tr>
<td>(c) Individual Consultants</td>
</tr>
</tbody>
</table>

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 the Proceeds of the Loan

A. General.

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower, to finance Eligible Expenditures, Area Grants and New Administrative Costs as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocations of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures, Area Grants and New Administrative Costs 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) Area Grants (goods, works and services)</td>
<td>13,020,000</td>
<td>75% of the cost of the Community Subproject financed by an Area Grant</td>
</tr>
<tr>
<td>(a) Area 1 Grants</td>
<td>13,020,000</td>
<td></td>
</tr>
<tr>
<td>(b) Area 2 Grants</td>
<td>8,670,000</td>
<td></td>
</tr>
<tr>
<td>(c) Area 3 Grants</td>
<td>9,300,000</td>
<td></td>
</tr>
<tr>
<td>(2) Consultants’ services and training for Parts 2 and 3 of the Project</td>
<td>4,240,000</td>
<td>100%</td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period.

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

   (a) for payments made prior to the date of this Agreement; and

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

2. The Closing Date is June 30, 2009. The Bank will only grant an extension of the Closing Date 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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15</td>
<td></td>
</tr>
<tr>
<td>Beginning July 15, 2011</td>
<td>4.17 %</td>
</tr>
<tr>
<td>through July 15, 2022</td>
<td></td>
</tr>
<tr>
<td>On January 15, 2023</td>
<td>4.09 %</td>
</tr>
</tbody>
</table>

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 on 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.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Section I. Definitions

Unless the context otherwise requires, the several terms defined in the Original Loan Agreement and the General Conditions have the respective meanings therein set forth, and are hereby incorporated to this Agreement. Additionally, the following definitions also constitute an integral part of this Agreement:

1. “Area Grants” means Area 1 Grants, Area 2 Grants and/or Area 3 Grants.

2. “Area Grant Agreements” means any of the agreements to be entered into between the Borrower and a Community Association, providing for an Area Grant.

3. “Area 1 Grants” means grants to be made by the Borrower to a Community Association for the financing of Community Subprojects in those Municipalities with an Index of Social Development up to 0.3665 points.

4. “Area 2 Grants” means grants to be made by the Borrower to a Community Association for the financing of Community Subprojects in those Municipalities with an Index of Social Development greater than 0.3665 and less than 0.4145 points.

5. “Area 3 Grants” means grants to be made by the Borrower to a Community Association for the financing of Community Subprojects in those remaining Municipalities not covered by Area 1 and Area 2 Grants.


8. “Index of Social Development” means the index which measures the social development of the Borrower’s municipalities, issued by the Borrower’s Instituto de Pesquisa e Estratégia Econômica - IPECE, and based on data on education, health, housing conditions, employment and income and rural development.
9. “Local and Regional Development Secretariat” means the Borrower’s Secretaria do Desenvolvimento Local e Regional.

10. “Original Loan Agreement” means the loan agreement for the Original Project between the Bank and the Borrower, dated October 29, 2001 (Loan No. 4626-BR).

11. “Original Project” means the Project described in Schedule 2 to the Original Loan Agreement.

12. “New Administrative Costs” means the operational costs (which would not have occurred absent the Project) and the supervision and monitoring costs of the Project incurred by the STU under Part 3 of the Project excluding expenditures for salaries and related benefits and training.

13. “New Model Forms” means the set of model draft Area Grant Agreements satisfactory to the Bank, as set forth in the Operational Manual.


15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 14, 2005 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.