Loan Agreement

(Rio Grande do Sul Integrated Municipal Development Program – Integrated Municipal Infrastructure Project - Programa de Desenvolvimento Sustentável para a Região de Santa Maria - Projeto Santa Maria 2020)

between

MUNICIPALITY OF SANTA MARIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated, March 4, 2010
LOAN AGREEMENT

Agreement dated March 4, 2010, between MUNICIPALITY OF SANTA MARIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). 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 — 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 thirteen million nine hundred and fifty thousand Dollars ($13,950,000), 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 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 Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. 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; 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 (d) of the General Conditions.

2.05. The Payment Dates are March 15 and September 15 in each year.
2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of 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 and through the Guarantor’s Secretariat of National Treasury, 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 4.05 (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 objective of the Project and the Program. To this end, the Borrower shall carry out the Project, through its Cabinet of the Mayor, 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 registered with the Guarantor’s Central Bank.

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 June 23, 2010.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is its Mayor.

5.02. The Borrower’s Address is:

Gabinete do Prefeito
Prefeitura Municipal de Santa Maria
Rua Venâncio Aires, 2277
Santa Maria – RS, 97.010-005

Facsimile: (55 55) 3921-7100

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 address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

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

MUNICIPALITY OF SANTA MARIA

By /s/ Cezar Augusto Shirmer
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Makhtar Diop
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to strengthen the capacity of the Borrower to provide selected infrastructure services and employment opportunities to its population.

The Project constitutes a part of the Program, and consists of the following parts:

Part I: Municipal Strengthening

Strengthening of the Borrower’s capacity to more effectively and efficiently execute its programs, implement and mainstream the appraisal, fiduciary, environmental and social procedures of the PDMI including, *inter alia*:

1. Public Service Modernization

   (a) Acquisition of furniture, hardware and software and provision of training and technical assistance for municipal planning and management.

   (b) Development of a transport master plan for the Borrower.

   (c) Training of municipal staff in municipal and project management.

2. Project Management and Engineering Designs

   (a) Provision of technical assistance and equipment and financing of operating costs, as required for the UGP and UAP, when applicable, to carry out the appraisal, fiduciary, environmental, monitoring, reporting and social requirements of the PDMI and the Project.

   (b) Preparation of engineering designs for selected infrastructure included in the Project.

Part II: Employment and Income Generation

1. Promotion of Work and Income Alternatives

   (a) Carrying out of activities to promote entrepreneurship in the educational establishments in Santa Maria, including the expansion of school facilities to foster entrepreneurship programs, organization of courses and seminars focused on entrepreneurial skills and setting up of media and information technology laboratories in educational facilities.
(b) Improvement of recycling and solid waste management as an income generating activity, including:

(i) Provision of technical assistance and equipment to the solid waste collectors Cluster on the organization of the process of collection, segregation, stocking and selling of recycled materials in a cooperative form, and carrying out of citizen outreach activities on the importance of recycling; and

(ii) Improvement of the Borrower’s central warehouse facility.

2. **Innovation and Technological Modernization**

Implementation of a technological park, and improvement of the Business Innovation Incubator to support business development and research and development.

**Part III: Infrastructure Service Improvements**

Carrying out of activities aimed to improve road, drainage and water and sanitation services including, *inter alia*, (Infrastructure Service Improvement Subprojects or ISIS Subprojects):

1. **Urban and Road Upgrading**

   (a) Improvement of the North-South corridor:

   (i) engineering design and paving, resealing, signaling and lighting of about 7 km of urban roads; and

   (ii) construction, paving, sealing, signaling and lighting of the tunnel in the Rio Branco Avenue and its connection to the city’s road network.

   (b) Rehabilitation, landscaping, extending, paving, resealing, signaling and widening of about 800 meters of access roads to the intra-urban bus terminal and neighborhood access streets:

   (i) rehabilitation, landscaping, extending, paving, resealing and signaling of Rigoberto Duarte street; and

   (ii) rehabilitation, landscaping, paving, resealing and signaling of General Neto street and widening, paving, resealing and signaling of Pedro Santini street.

   (c) New paving, resealing and signalization of about 12 km of streets including:

   (i) João Machado Soares street; and

   (ii) other urban streets.
2. Rural Roads

Rehabilitation of rural roads and bridges, provision of equipment and materials for improving rural roads, and development of a cadastre of rural roads.

3. Environmental Rehabilitation

Improvement of the environmental quality and preservation of river basins in Santa Maria, and socio-economic integration and quality of life of local population in selected neighborhoods along the margins of the Cancela stream and the micro-basin of Rio Vacacaf-Mirim, including:

(a) Construction of up to 150 residences for population to be resettled from the margins of the Cancela stream and up to 135 residences for population to be resettled from the margins of the micro-basin of Rio Vacacaf-Mirim.

(b) Resettlement and relocation of affected families located in the margins of the Cancela streams and of the micro-basin of Rio Vacacaf-Mirim.

(c) Infrastructure improvements and environmental rehabilitation of the margins of the Cancela stream and of the micro-basin of Rio Vacacaf-Mirim including:

(i) for the Cancela stream margins:

(A) cleaning, environmental rehabilitation, protection of streams and embankments for the Cancela stream; and

(B) paving, construction of sewerage and drainage infrastructure and of public facilities, and landscaping; and

(ii) for the Rio Vacacaf-Mirim micro-basin:

(A) cleaning, environmental rehabilitation, protection of streams and embankments for the Rio Vacacaf-Mirim micro-basin; and creation and implementation of an environmentally-protected park in the protection area of the Rio Vacacaf-Mirim dam, including, inter alia, revegetation and leisure areas; and

(B) paving, construction of sewerage and drainage infrastructure and of public facilities, and landscaping.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Borrower shall:
   (a) maintain a project coordination unit (UGP) within its General Secretariat with the
       powers and responsibilities set forth in the Operational Manual; and
   (b) no later than three months from the Effective Date have such unit fully staffed
       with personnel with experience and qualifications satisfactory to the Bank,
       including the following key staff: a coordinator and experts to handle the
       technical, procurement, financial management and safeguard aspects of the
       project.

2. The Borrower shall, together with the other Participating Municipalities and until
   completion of the Project, maintain the Superior Council and Technical Council with the
   structures, powers and responsibilities set forth in the Operational Manual.

3. The Borrower shall establish, together with at least two other Participating Municipalities
   a unit of inter-municipal coordination (UAP) with powers and responsibilities set forth in
   the Operational Manual. This unit shall be established not later than such date as the
   Bank shall notify the Borrower that at least three of the loan agreements between the
   Bank and Participating Municipalities have been entered into and become effective, for
   purposes of the financing of part of the costs of implementing the PDMI in the respective
   Participating Municipalities.

B. Inter-Institutional Agreements

1. Except as the Borrower shall otherwise agree, the Borrower shall not amend, assign,
   abrogate, waive or fail to enforce the PDMI Inter-Municipal Agreement or any of its
   provisions.

C. Technological Park, Solid Waste Collectors Cluster and Business Innovation
   Incubator

   (a) The Borrower shall, prior to implementation of Part II.2 of the Project in respect
       of the Business Innovation Incubator, enter into an agreement with the Federal University
       of Santa Maria to set forth their respective responsibilities in the implementation of the
       improvements to the Business Innovation Incubator.

   (b) The Borrower shall, prior to: (a) bidding for equipment and selection of
       consultants to support the solid waste collectors Cluster, under Part II.1 (b) (i) of the
       Project; and (b) bidding for the Business Innovation Incubator and the Technological
D. Operational Manual

Without limitation to the provisions of Article V of the General Conditions, the Borrower shall carry out the Project in accordance with the Operational Manual, satisfactory to the Bank, containing, *inter alia*:

(a) the functions, responsibilities and training requirements for the personnel responsible for the coordination, monitoring and evaluation of the Project, including the UGP, UAP, the Superior Council and the Technical Council;

(b) procedures for procurement of goods, works and services, as well as for financial management, disbursement and audits of the Project and respective forms, reports and guidelines;

(c) the indicators to be used in the monitoring and evaluation of the Project;

(d) the Environmental Assessment and Management Framework and the Resettlement Framework; and

(e) the requirements for the preparation and approval of Business Plans.

In case of any conflict between the provisions of this Agreement and those of the Operational Manual, the provisions of this Agreement shall prevail.

E. Anti-Corruption Guidelines

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

F. Safeguards

1. Resettlement

The Borrower shall, when applicable in accordance with the provisions of the Resettlement Framework: (a) furnish to the Bank for approval the Resettlement Plan and Action Plan, respectively; and (b) carry out such Resettlement Plan in accordance with their respective terms.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. 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 below in the Operational Manual. Each Project
Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five days after the end of the period covered by such report.

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 shall prepare and furnish to the Bank not later than forty-five days after the end of each calendar quarter, interim unaudited 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, Works and Non-Consultant Services. All goods, works, and non-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 Section I of the Procurement Guidelines, and with the provisions of this Section.

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 Section.

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-Consultant Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works, and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.


The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant 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) National Competitive Bidding using bidding documents acceptable to the Bank and including, in respect of goods, <em>pregão eletrônico</em> set forth in the Guarantor’s Law No. 10520 of July 17, 2002.</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
<tr>
<td>(c) Shopping</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 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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Least-Cost Selection</td>
</tr>
<tr>
<td>(c) Quality-Based Selection</td>
</tr>
<tr>
<td>(d) Individual Consultants Based on Qualifications</td>
</tr>
<tr>
<td>(e) Single Source Selection</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 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 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 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 allocation of the amounts of
the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and non-consultant services for all Parts of the Project other than Part II.1 (b) (ii); Parts III. 1 (a) (ii); (b) (ii) and (c) (i); and Parts III. 3 (a), (b), (c) (i) (B) and (c) (ii) B thereof</td>
<td>4,940,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) (a) Works for Parts II and III.1 and 2 of the Project other than Part II, 1 (b) (ii), and Parts III. 1 (a) (ii), (b) (ii) and (c) (i) thereof; and (b) Works for Parts III.3 (c) (i) (A) and (ii) (A) of the Project</td>
<td>5,370,000</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>2,430,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants Services, Training and Operating Costs for all Parts of the Project other than Part II.1 (b) (ii); Parts III.1 (a) (ii); (b) (ii) and (c) (i); Parts III. 3 (a), (b), (c) (i) (B) and (c) (ii) (B) thereof</td>
<td>1,175,125</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Front-end Fee</td>
<td>34,875</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(5) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.07 (c) of this Agreement</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>13,950,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3. For purposes of paragraph 2 above, the terms:

(i) “Training” means reasonable expenditures (other than those for consultants’ services) incurred by the Borrower for the purposes of the Project and directly related to training activities described in the Project, including, *inter alia*, costs related to workshops,
seminars, conferences, study tours, training registration fees, facility and equipment rentals, and local travel costs and per diems for the Borrower’s staff or consultants hired by the UGP; and

(ii) “Operating Costs” means reasonable recurrent expenditures (other than those for consultants’ services) incurred by the Borrower for the purposes of the Project and directly related to the activities described in the Project, including, *inter alia*, office materials and supplies, transportation, phone and fax charges, media campaigns, printing of materials, and local travel costs and per diems for the Borrower’s staff or consultants hired by the UGP.

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; and

   (c) for payments made under Category 2 (b) of the table in paragraph A.2 above, unless the Bank shall have approved the respective Resettlement Plan.

2. The Closing Date is December 31, 2012. 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 (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 15 and September 15</td>
<td></td>
</tr>
<tr>
<td>Beginning March 15, 2014 through March 15, 2026</td>
<td>3.85%</td>
</tr>
<tr>
<td>On September 15, 2026</td>
<td>3.75%</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

1. “Business Plan” means a business plan prepared by the Borrower, approved by the Bank and detailing the description of the business, the marketing strategy, the competitiveness analysis, a development plan, operation and management plans and relevant financial information.

2. “Business Innovation Incubator” means the incubator operated by the Federal University of Santa Maria to mentor newly established entrepreneurs.

3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

4. “Cluster” means geographic concentration of inter-connected businesses, suppliers and associated institutions in a particular economic sector.


7. “Escritório da Cidade” means the Borrower’s independent agency ("autarchy") created pursuant to the Borrower’s Law No. 4,875 dated December 22, 2005 and responsible for territorial municipal planning.

8. “Federal University of Santa Maria” means the Guarantor’s university based in Santa Maria pursuant to the Guarantor’s Law No. 3,834-C dated December 14, 1960.


10. “Infrastructure Service Improvement Subproject” or “Subproject” means a subproject to be implemented under Part III of the Project and eligible for financing out of the proceeds of the Loan in accordance with the provisions of the Operational Manual.


12. “Participating Municipalities” means: Bagé, Pelotas, Rio Grande, Santa Maria and Uruguaiana and any other municipality in the Guarantor’s State of Rio Grande do Sul which meets the criteria set forth in the Operational Manual to participate in the Program.
13. “PDMI Inter-Municipal Agreement” means the agreement, satisfactory to the Bank, entered into among the following Participating Municipalities: Bagé, Pelotas, Rio Grande, Santa Maria and Uruguaiana on November 5, 2007.


15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated August 6, 2008 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.


17. “Resettlement Framework” means the framework, dated July 23, 2007, prepared by the Participating Municipalities and set forth in the Operational Manual defining the procedures for the involuntary resettlement of population in the event it is required in connection with works to be carried out under the Project as published and available to the public in the website: www.pdmi.com.br.

18. “Resettlement Plan” means any plan prepared following the requirements of the Resettlement Framework and approved by the Bank.

19. “Superior Council” means Conselho Superior, the council established by the Participating Municipalities on November 5, 2007 in accordance with the PDMI Inter-Municipal Agreement.

20. “Technical Council” means Conselho Técnico, the technical arm of the Superior Council established by the Participating Municipalities on November 5, 2007 in accordance with the PDMI Inter-Municipal Agreement.

21. “UAP” means unidade de articulação, the unit to be established jointly by Participating Municipalities in accordance with the provisions of Section I.A.3 of Schedule 2 to this Agreement.

22. “UGP” means “Unidade Gestão do Projeto”, the unit established pursuant to the Borrower’s Executive Decree No. 096 dated May 3, 2007, as modified through Executive Decree No. 100 dated September 12, 2008, under the authority of the Cabinet of the Mayor and the Escritório da Cidade.

23. “Urban Road Upgrading Activities” means the road paving, resealing and widening, signalization and other activities listed in the Operational Manual.