Loan Agreement

(Pernambuco Equity and Inclusive Growth Development Policy Loan
Programa de Desenvolvimento das Políticas Públicas do Estado
de Pernambuco II – DPL)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF PERNAMBUCO

Dated July 18, 2013
LOAN AGREEMENT

Agreement dated July 18, 2013, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF PERNAMBUCO ("Borrower") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement).

WHEREAS (A) The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; (b) the Guarantor's maintenance of an adequate macroeconomic policy framework; and (c) the Borrower's maintenance of: (i) an appropriate expenditure program; (ii) sustainable debt; and (iii) appropriate fiscal arrangements with the Guarantor.

WHEREAS (B) the Borrower has informed the Bank that, upon deposit by the Bank of the proceeds of the Loan (on the terms set forth in the Section II of Schedule 1 to this Agreement and for purposes of supporting the Program) into an account to be designated by the Borrower, the Borrower's financial capacity will be strengthened by expanding its fiscal space to finance further public investments in accordance with the Borrower's budgetary laws.

The Bank and the Borrower therefore 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 five hundred and fifty million Dollars ($550,000,000), 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").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement. The Borrower’s representative for purposes of taking any action required or permitted to be taken
pursuant to this Section is the Borrower's secretary of Planning and Management.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%).

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 May 15 and November 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 2 to this Agreement.

2.07. (a) The Borrower may at any time, in each case with the prior non-objection of the Guarantor, through the Secretariat of the 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 unwritten, 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.

(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 II of Schedule 1 to this Agreement.

2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:

(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on: (i) the Guarantor's macroeconomic policy framework; (ii) the Borrower's maintenance of an appropriate expenditure program, sustainable debt, and appropriate fiscal arrangements with the Guarantor, as referred to in the Whereas Clause (A) of this Agreement; and (iii) the progress achieved in carrying out the Program and the actions specified in Section I.A of Schedule 1 to this Agreement;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially: (i) impairing the Borrower's ability to maintain an appropriate expenditure program, sustainable debt and/or fiscal arrangements with the Guarantor; or (ii) reversing the objectives of the Program or any action taken under the Program.
including any action specified in Section I.A of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following, namely, that an action has been taken or a policy has been adopted by the Borrower to reverse any action or policy under the Program, including any action listed in Section I.A of Schedule 1 to this Agreement, in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Guarantor’s macroeconomic policy framework.

(b) The Bank is satisfied with the Borrower’s maintenance of an appropriate expenditure program, sustainable debt and appropriate fiscal arrangements with the Guarantor.

5.02. The Additional Legal Matter consists of the following, namely, that the Loan has been registered with the Guarantor’s Central Bank.

5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Governor.

6.02. The Borrower’s Address is:

Secretaria de Planejamento e Gestão
Rua da Aurora, 1377, Santo Amaro, 2o. andar
Recife, PE 50040-090
Brazil

Facsimile: (55-81) 31823800

6.03. 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)
Washington, D.C.
Facsimile: 1-202-477-6391

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

STATE OF PERNAMBUCO

By

Authorized Representative
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Borrower under the Program include the following:

1. New Economy – Opportunities for all Pernambucans

   1.1. The Borrower has created the legal basis for the establishment of a monitoring and evaluation system for the PROINFRA Program that will provide information for evidence-based policy making, as evidenced by:

      (i) The Borrower’s Decree Nº 38.971, dated December 19, 2012, published in the Borrower’s Official Gazette on December 20, 2012, establishing the requirement for monitoring and evaluation of the effects of PROINFRA program on participating municipalities;

      (ii) Portaria No. 19 of the Borrower’s Secretariat of Economic Development (Secretaria de Desenvolvimento Econômico), dated March 9, 2013, published in the Borrower’s Official Gazette on April 11, 2013, specifying the details of the monitoring and evaluation system, including an outline of the evaluation approach, a list of indicators, the implementation schedule, data collection and management procedures, and mandatory issuance and public disclosure of annual reports.

   1.2. The Borrower’s Business Registration Agency (Junta Comercial de Pernambuco – JUCEPE) has signed agreements with concerned Borrower’s agencies and municipalities to implement REDESIM/PE and establish a “single window” for the Borrower’s business registration process, thus reducing administrative barriers to firm entry:

      (i) Agreement between JUCEPE and the Borrower’s Environment Agency (Agência Estadual de Meio Ambiente), dated June 29, 2012;

      (ii) Agreement between JUCEPE and the Borrower’s Agency of Health Surveillance (Agência Pernambucana de Vigilância sanitária - APEVISA), dated December 3, 2012;

      (iii) Agreement between JUCEPE and the Borrower’s Fire Protection Agency (Corpo de Bombeiros Militar de Pernambuco - CBMPE), dated December 26, 2012;

      (iv) Agreement between JUCEPE and the Borrower’s Finance Secretariat (Secretaria da Fazenda), dated July 1, 2012;
(v) Agreement between JUCEPE and the Borrower’s Secretariat of Federal Revenue (Secretaria da Receita Federal do Brasil), dated September 29, 2011; and

(vi) Separate Agreement between JUCEPE and each of the Borrower’s Participating Municipalities.

1.3. The Borrower has created the legal basis for the establishment of a monitoring and evaluation system for the TVET Programs in the Borrower’s territory that will support policy development and program management, as evidenced by:

(i) The Borrower’s Decree 38.086, dated April 18, 2012, published in the Borrower’s Official Gazette on April 19, 2012, that creates the TVET Programs and details its goals, creates inter-sectorial committees for its implementation and management, and establishes the responsibilities and modalities for preparation of annual evaluation reports of program results to support next years’ activity planning;

(ii) The Borrower’s Decree No. 38.426, dated July 11, 2012, published in the Borrower’s Official Gazette on July 12, 2012, which includes the Borrower’s Secretary of Education in the scope of the TVET Programs; and

(iii) The Borrower’s Decree No. 39.299, dated April 15, 2013, published in the Borrower’s Official Gazette on April 16, 2013, that modifies Decree 38.086 of April 18, 2012, to define the guidelines for the implementation of the monitoring and evaluation system and for the use of monitoring and evaluation data produced by the system.

1.4. The Borrower has created a financing mechanism for the implementation of the Productive Inclusion Program by municipalities within its territory, linked to results-based agreements that establish results monitoring arrangements and annual targets on service provision, as evidenced by:

(i) The Borrower’s Decree 38.929, dated December 7, 2012, published in the Borrower’s Official Gazette on December 8, 2012, that establishes an Automatic Transfer System (ATS) for the Productive Inclusion Program, transferring resources from the Borrower’s Fund for Social Assistance ("Sistema de Transferência Automática e Regular de Recursos Financeiros do Fundo Estadual de Assistência Social" (FEAS) to the Municipal Funds for Social Assistance ("Fundos Municipais de Assistência Social (FMAS)");

(ii) Resolution CIB No. 01 dated April 26, 2013, published in the Borrower’s Official Gazette on April 27, 2013, which approves the criteria for regular and automatic transfer of funds using the ATS in the Productive Inclusion Program and establishes the targets for service provision and amounts and regulates the use of funds;
(iii) Resolution No. 296 of the Borrower’s Social Assistance Council (Conselho Estadual de Assistência Social), dated April 29, 2013, published in the Borrower’s Official Gazette on May 3, 2013, that registers the approval of the Resolution CIB No. 01 of April 26, 2013; and

(iv) Portaria No. 58 from SEDSDH, of March 22, 2013, published in the Borrower’s Official Gazette on March 26, 2013, that establishes the administrative procedures for eligible municipalities to adhere to the ATS, which includes a draft of the Adherence Pact (Termo de Adesão) to the ATS and Acceptance Pact (Termo de Aceite) of the targets and monitoring requirements specific to the productive inclusion programs to be signed by eligible municipalities, including an annual report, the annual targets for service provision and the details of the evaluation report to be completed by the municipalities.

2. Action Driven State – Capacity to Generate Results

2.1. The Borrower has established the legal basis for the Results-based Management Model and extended its application throughout the Borrower’s executive branch, as evidenced by the Borrower’s Decree No. 39.336, dated April 25, 2013, published in the Borrower’s Official Gazette on April 26, 2013, that formalizes the Results-based Management Model and requires the adoption of specific results-based management tools and approaches in all Borrower’s secretariats.

3. Quality of Life – A Better Life for all Pernambucans

3.1. The Borrower has strengthen violence prevention programs in the Borrower’s territory with a focus on the rehabilitation of crack users, gender inclusion and monitoring capacity, through:

3.1.1. The creation of an operational framework for the expansion of the “Programa Atitude” as a form of social prevention to combat drug-related violence and rehabilitate drug users, as evidenced by the Borrower’s Decree 39.201 dated March 18, 2013, published in the Borrower’s Official Gazette on March 19, 2013, which formally establishes “Programa Atitude” as part of “Pacto pela Vida Program” and defines its objectives and operational framework.

3.1.2. The establishment of institutional mechanisms for addressing violence against women, as evidenced by:

(i) the Borrower’s Decree 38.576 of August 27, 2012, published in the Borrower’s Official Gazette on August 28, 2012, which creates the Technical Chamber to Combat Violence Against Women (Câmara para Enfrentamento da Violência de Gênero contra a Mulher) as a multisectoral forum for policy
coordination and implementation of strategic actions to address violence against women as part of the broader “Pacto pela Vida Program”; and

(ii) the execution of a Technical Cooperation Agreement (Acordo de Cooperação Técnica) between the Secretariat of Women’s Affairs (Secretaria da Mulher) and the Secretariat of Social Defense (Secretaria da Defesa Social), dated March 18, 2013, which establishes the objectives and modalities for coordination and collaboration between the two secretariats, including in the area of data sharing and joint monitoring and evaluation arrangements.

3.2. The Borrower has strengthened its policies, programs and approaches aimed at attending the needs of patients with chronic conditions, with an emphasis on diabetes and hypertension, through:

3.2.1. The approval of the Borrower’s plan to address chronic non-communicable disease and establishment of measures to support its implementation, as evidenced by:

(i) CIB Resolution No. 2.212 dated February 18, 2013, published in the Borrower’s Official Gazette on February 19, 2013, that approves the Borrower’s Plan to Address Chronic Non-communicable Disease;

(ii) Decision of the Municipal Secretariats of Health Council (Conselho de Secretarias Municipais de Saúde - COSEMS), dated March 25, 2013, that includes municipal activities and a revised monitoring framework in the Borrower’s Plan to Address Chronic Non-communicable Disease; and

(iii) Portaria No. 157 of the Borrower’s Secretariat of Health published in the Borrower’s Official Gazette on March 28, 2013, and Portaria No. 256 of Borrower’s Secretariat of Health, dated May 7, 2013, published in the Borrower’s Official Gazette on May 8, 2013, that establishes a working group to revise the Borrower’s Policy to Strengthen Primary Care based on the Borrower’s Plan to Address Chronic Non-communicable Disease, thus taking concrete steps towards implementation of said Plan.

3.2.2. The approval of new clinical protocols and simplified clinical pathways focused on chronic non-communicable diseases, as evidenced by:

(i) CIB Resolution No. 2.213, dated February 18, 2013, published in the Borrower’s Official Gazette on February 19, 2013 that approves clinical protocols for chronic non-communicable diseases, with a particular focus on hypertension and diabetes;

(ii) CIB Resolution No. 2.214, dated February 18, 2013, published in the Borrower’s Official Gazette on February 19, 2013, that approves
simplified clinical guidelines for chronic non-communicable diseases; and

(iii) *Portaria* No. 157 of the Borrower’s Secretariat of Health published in the Borrower’s Official Gazette on March 28, 2013, and *Portaria* No. 256 of Borrower’s Secretariat of Health, dated May 7, 2013, published in the Borrower’s Official Gazette on May 8, 2013, that establishes a working group to revise the Borrower’s Policy to Strengthen Primary Care based on the Borrower’s Plan to Address Chronic Non-communicable Disease, with the aim of enhancing the organization of primary care and primary care interventions, including through the incorporation of new monitoring indicators and the introduction of clinical protocols and simplified clinical guidelines.

Section II. **Availability of Loan Proceeds**

A. **General.** 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.

B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th><strong>Allocations</strong></th>
<th><strong>Amount of the Loan Allocated (expressed in Dollars)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>548,625,000</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>1,375,000</td>
</tr>
<tr>
<td>(3) Amount due pursuant to Section 2.07(c) of this Agreement</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>550,000,000</strong></td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions.**

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied:
(a) with the adequacy of the Guarantor’s macroeconomic policy framework and the progress achieved by the Borrower in the carrying out of the Program; and

(b) with the Borrower’s maintenance of an appropriate expenditure program, sustainable debt and appropriate fiscal arrangements with the Guarantor.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is September 30, 2014. The Bank will grant an extension of the Closing Date after the Guarantor’s Ministry of Finance has informed the Bank that it agrees with such an extension.
SCHEDULE 2

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 May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>Beginning November 15, 2018</td>
<td></td>
</tr>
<tr>
<td>through May 15, 2043</td>
<td>2.00%</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. “ATS” means Automatic Transfer System for the Productive Inclusion Program, which transfers resources directly from the Borrower’s Fund for Social Assistance to the Municipal Funds for Social Assistance.

2. “CIB” means Comissão Intergestores Bipartite de Assistência Social, the Bipartite Management Commission for Social Assistance programs whose members represent the collective interests of the Borrower and its municipalities on issues concerning social assistance.

3. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

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

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

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

4. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.

5. "JUCEPE" means Junta Comercial de Pernambuco, the Borrower’s business registration agency which is responsible for managing REDESIM/PE.


7. "Pacto pela Vida Program" means the Borrower’s program aimed at improving citizen security and reduce crime through an integrated strategy involving the coordination across 12 Borrower’s secretariats, the Prosecutor’s Office and municipal governments and created through the Borrower’s plan for public security (Plano Estadual de Segurança Pública (PESP-PE 2007)) and Decree No. 30.569 dated June 29, 2007.
8. “Participating Municipalities” means the following municipalities that have entered into agreements with JUCEPE to implement REDESIM/PE: Municipality of Abreu e Lima on November 8, 2012; Municipality of Araripina on April 26, 2012; Municipality of Arcoverde on August 15, 2012; Municipality of Cabo de Santo Agostinho on June 12, 2012; Municipality of Camaragibe on August 14, 2012; Municipality of Carpina on July 25, 2012; Municipality of Garanhuns on May 10, 2012; Municipality of Goiana on June 4, 2012; Municipality of Igarassu on July 9, 2012; Municipality of Ipojuca on August 13, 2012; Municipality of Itamaracá on June 21, 2012; Municipality of Ipojuca on July 17, 2012; Municipality of Moreno on 20 July 2012; Municipality of Paulista on August 3, 2012; Municipality of Petrolina on November 13, 2012; Municipality of Salgueiro on May 18, 2012; Municipality of São Lourenço da Mata, on July 20, 2012; and Municipality of Serra Talhada on August 8, 2012.

9. “Plan to Address Chronic Non-communicable Disease” means the Borrower's plan that contains recommendations and activities for the provision of health services, human resources, pharmaceutical drugs and equipment that should be provided to address the non-communicable disease challenges in the Borrower’s territory.

10. “Policy to Strengthen Primary Care” means the Borrower’s policy which defines goals, function and institutional responsibilities for the financing and provision of integrated, accessible primary health care in the Borrower’s territory.

11. “Productive Inclusion Program” means Programa de Inclusão Produtiva - Pernambuco no Batente, the Borrower's program aimed at promoting employability and/or income earning opportunities for the poorest segments of the population, created through Law No. 13.679, December 10, 2008.

12. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated March 27, 2013, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

13. “Programa Atitude” means the Borrower’s social integrated attention for crack users and their families program, aimed at reducing drug-related violence and rehabilitating drug users.

14. “PROINFRA Program” means Programa de Desenvolvimento da Infraestrutura Industrial, the Borrower’s Industrial Infrastructure Development Program, created through the Borrower’s Decree No. 37.716, dated December 29, 2011.
15. “REDESIM/PE” means Rede Nacional para a Simplificação do Registro e da Legalização de Empresas e Negócios, the national network to simplify business registration, created through the Guarantor’s Law 11.598/2007 to which the Borrower adhered in 2012.

16. “Results-based Management Model” means the Borrower’s management model established under Lei Complementar No. 141 of September 3, 2009, which consists of the systematic organization of the functions related to the Borrower’s formal planning instruments (i.e., its Plano Plurianual - PPA (the Borrower’s multiannual planning instrument), its annual budget guidelines and its annual budget law) and management tools adopted by the Borrower’s public administration.

17. “SEDSDH” means Secretaria de Desenvolvimento Social e Direitos Humanos, the Borrower’s Secretariat of Social Development and Human Rights.

18. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

19. “TVET Programs” means all the technical and vocational education and training courses implemented in the Borrower’s territory, including both long duration courses (minimum 800 hours) directed at school age population, and shorter duration courses (between 160 and 400 hours) directed at the existing workforce.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (Project Execution Generally), and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:
"Section 5.06. Plans; Documents; Records

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records."

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”