Loan Agreement

(Rural Poverty Reduction Project – Minas Gerais / Projeto de Combate a Pobreza Rural da Região Mineira do Nordeste “PCPR- 1ª Fase”)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF MINAS GERAIS

Dated January 31, 2006
LOAN AGREEMENT

AGREEMENT, dated January 31, 2006 between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the STATE OF MINAS GERAIS (the Borrower).

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

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

(C) the Project will be carried out by Instituto de Desenvolvimento do Norte e Nordeste de Minas Gerais (IDENE), an autonomous agency (autarquia) of the Borrower under the supervision of the Borrower’s Secretariat of State, Planning and Management (Secretaria do Estado de Planejamento e Gestão – SEPLAG-MG), with the Borrower’s assistance and, as part of such assistance, the Borrower will make the proceeds of the Loan available to IDENE, as set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended, through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:
“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their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

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

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

(a) “Approved POA” means each approved annual operating plan referred to in Section 3.04 (b) of this Agreement;

(b) “Community Association” means a civil association formed by members of a community (associação civil) duly established in the Borrower’s territory in accordance with the Guarantor’s laws, and which meets the criteria set forth in the Operational Manual for participating in the Project;

(c) “Community Subproject” means any investment referred to in Part A of the Project to be carried out by a Community Association utilizing the proceeds of a Grant and which meets the criteria set forth in the Operational Manual;

(d) “Council Agreement” means any of the agreements referred to in Section 3.01 (b) (iii) of this Agreement;

(e) “Eligible Categories” means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(g) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;
(h) “FUMAC Grant” means a grant approved by a Municipal Council and made or proposed to be made by IDENE out of the proceeds of the Loan to a Community Association in a Municipality, for the financing of a Community Subproject pursuant to the terms of the Operational Manual;

(i) “FUMAC Pilot Grant” means a grant approved and made or proposed to be made by a Municipal Council, under a FUMAC Pilot Grant Agreement, out of the proceeds of the Loan to a Community Association in a Municipality for the financing of a Community Subproject pursuant to the terms of the Operational Manual;

(j) “FUMAC Pilot Grant Agreement” means any of the agreements to be entered into between a Municipal Council and a Community Association in a Municipality providing for a FUMAC Pilot Grant;

(k) “Grant” means any of a FUMAC Grant or a FUMAC Pilot Grant or a PAC Grant;

(l) “Grant Agreement” means any of the agreements to be entered into between IDENE and a Community Association providing for a PAC Grant or a FUMAC Grant;

(m) “IDENE Subsidiary Agreement” means the agreement to be entered into between the Borrower and IDENE pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the IDENE Subsidiary Agreement;

(n) “MIS” means the system referred to in Section 3.03 (a) of this Agreement;

(o) “Model Forms” means the set of model draft agreements satisfactory to the Bank, including standard drafts of Council Agreements, Grant Agreements and FUMAC Pilot Grant Agreements, set forth in the Operational Manual;

(p) “Municipal Council” means a municipal council, composed mainly of representatives of communities and local organizations, as provided in the Operational Manual;

(q) “Municipality” means any of the municipalities set forth in the Operational Manual (as hereinafter defined) and any other municipality that may be added to such list from time to time by agreement between the Bank and the Borrower;

(r) “Operational Manual” means the manual for the operation of the Project referred to in Section 3.06 of this Agreement; as the same may be amended from time to time by agreement between the Borrower and the Bank;
(s) “PAC Grant” means a grant approved and made or proposed to be made by IDENE out of the proceeds of the Loan to a Community Association in a Municipality under a Grant Agreement for the financing of a Community Subproject in accordance with the terms of the Operational Manual;

(t) “Performance Indicators” means the set of performance indicators, to be used for purposes of monitoring the progress of the Project, set forth in the Operational Manual, and any other additional performance indicator that may be agreed from time to time by the Bank and the Borrower for such purposes;

(u) “Procurement Plan” means the Borrower’s procurement plan, dated July 7, 2005, covering the initial 18 month period of implementation of the Project, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding 18 month periods (or longer) of implementation of the Project;

(v) “Report-based Disbursements” means disbursements made pursuant to the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement; and

(w) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to IDENE.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty-five million Dollars ($35,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, as well as in respect of the fee referred to in Section 2.04 of this Agreement, and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.
Section 2.03. The Closing Date shall be July 31, 2010, or such later date as the Bank shall establish, after having received evidence that the Guarantor has authorized the extension of the Closing Date. The Bank shall promptly notify the Borrower and the Guarantor of such later date, which shall not be a date beyond the date authorized by the Guarantor.

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

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

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

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall through SEPLAG-MG cause IDENE, under the terms of the IDENE Subsidiary Agreement, to carry out the Project, with the assistance of the Municipal Councils, with due diligence and efficiency and in conformity with appropriate social, administrative, agricultural, environmental, financial and engineering practices, and in accordance with the Operational Manual and the Approved POAs, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend, abrogate, suspend, waive or fail to enforce the Operational Manual or any provision thereof. In the case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

(b) The Borrower shall make the proceeds of the Loan available to IDENE under a subsidiary agreement to be entered into between the Borrower and IDENE, under terms and conditions which shall have been approved by the Bank, whereby IDENE shall undertake to:

(i) carry out the Project as set forth or referred to in this Agreement;
(ii) enter into 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 Model Forms; and

(iii) enter into Council Agreements with Municipal Councils providing for: (A) the terms and conditions for the participation of the relevant Municipal Council in the Project; and (B) the obligation of such Municipal Council to enter into FUMAC Pilot Grant Agreements with Community Associations which shall be made in accordance with the terms of the respective draft set forth in the Model Forms, and, to exercise its rights and comply with its obligations under the FUMAC Pilot Grant Agreements in such a manner as to protect the interests of the Municipal Council, the Borrower and the Bank and to accomplish the purposes of the Loan, and not to assign, amend, abrogate, waive or fail to enforce the FUMAC Pilot Grant Agreements or any provision thereof.

(c) The Borrower shall exercise its rights and comply with its obligations under the IDENE Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the IDENE Subsidiary Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. The Borrower shall cause IDENE:

(a) to establish and maintain a Project monitoring and information system, satisfactory to the Bank (the MIS), to enable it to monitor and evaluate on an on-going basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than six months after the Effective Date, the baseline evaluation study (perfil de entrada) referred to in Part C.4 of the Project;
(c) to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(d) promptly after the preparation of each report referred to in paragraph (c) of this Section, to review with the Bank each such report, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said reports and the Bank’s views on the matter.

Section 3.04. The Borrower shall cause IDENE:

(a) by October 30 of each year during Project implementation, to prepare and furnish to the Bank the proposed annual operating plans and budget, 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; and

(b) not later than 30 days after the approval of the Borrower’s budget by its Assembléia Legislativa (Legislative Assembly), to furnish 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.

Section 3.05. The Borrower shall cause IDENE:

(a) to furnish to the Bank, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, the results and recommendations of an assessment, to be carried out under terms of reference satisfactory to the Bank, on the cost structure and effectiveness of Community Subprojects, including an evaluation of the physical performance, and cost comparisons and procurement procedures thereof;

(b) to review with the Bank the results and recommendations of such assessments; and

(c) to take or cause to be taken all such action which shall have been agreed by the Bank and the Borrower during the review referred to in paragraph (b) above, as shall be necessary for the efficient implementation of Community Subprojects, such action to be taken in a manner and within a timetable agreed upon during such review.
Section 3.06. The Borrower shall cause IDENE to carry out the Project in accordance with a manual, satisfactory to the Bank (the Operational Manual), which shall include, *inter alia*:

(a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof);

(b) criteria for selection of Municipal Councils, Community Associations and Community Subprojects;

(c) requirements for implementation of Community Subprojects, including environmental criteria and procedures for screening and management of Community Subprojects, in particular for activities that: (i) use wood as fuel; (ii) produce any waste, liquid or solid; (iii) involve the procurement of pesticides; (iv) involve the construction of small dams; and (v) involve fisheries and aquaculture; and

(d) the Model Forms and the Performance Indicators.

Section 3.07. For the purposes of Section 9.08 of the General Conditions, the Borrower shall cause IDENE:

(a) to prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) to afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.08. For the purposes of implementing Part A of the Project, the Borrower shall:

(a) after having selected a Community Subproject, enter into a Grant Agreement with a Community Association, in accordance with the terms and conditions set forth in the Operational Manual; and

(b) for those Community Subprojects estimated to cost more than the equivalent of $50,000, request Bank’s prior review and approval.
ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall cause IDENE to:

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

(ii) enable the Bank’s representatives to examine such records; and
(iii) ensure that the relevant statements of expenditure and reports referred to in Part A.5 of Schedule 1 to this Agreement, as the case may be, are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s reporting obligations set out in Section 3.03 of this Agreement, the Borrower shall cause IDENE to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank (the FMR), which:

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

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

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

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

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the IDENE Subsidiary Agreement has been executed on behalf of the Borrower and IDENE.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or
opinions to be furnished to the Bank, namely, that the Loan has been duly registered by the Guarantor’s Central Bank.

Section 5.03. The date May 1, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Bank:

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

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

For the Borrower:

Secretaria de Estado, Planejamento e Gestão
Governo do Estado de Minas Gerais
Rua Tomas Gonzaga, 686 - 5o. Andar - Lourdes
30180.140 – Belo Horizonte, Minas Gerais
Brazil

Facsimile: (55-31) 3290-8259
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

Instituto de Desenvolvimento do Norte e Nordeste de Minas Gerais
Rua Rio de Janeiro, 471 - Centro
Belo Horizonte - CEP: 30.160-040
Minas Gerais, Brazil

Facsimile: (55-31) 2129-8114

Gabinete de Secretario de Estado Extraordinário para o Desenvolvimento dos Vales do Jequitinhonha e Mucuri e do Norte de Minas
Rua Rio de Janeiro, 471 – 10º andar – Centro
Belo Horizonte - CEP: 30.160-040
Minas Gerais, Brazil

Facsimile: (55-31) 2129-8119

Subsecretaria de Assuntos Internacionais
Secretaria de Desenvolvimento Economico
Rua Rio de Janeiro, 471 – 16º andar – Centro
Belo Horizonte - CEP: 30.160-040
Minas Gerais, Brazil

Facsimile: (55-31) 2129-6293
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Belo Horizonte, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe Authorized Representative

STATE OF MINAS GERAIS

By /s/ Aécio Neves da Cunha Authorized Representative

Witnessed by:

/s/ Érico Andrade
Attorney General of the State of Minas Gerais
**SCHEDULE 1**

Withdrawal of the Proceeds of the Loan

A. **General**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Grants:</td>
<td></td>
<td>75% of expenditures for goods, works and services for a Community Subproject financed by a Grant</td>
</tr>
<tr>
<td>(a) PAC Grants</td>
<td>6,450,000</td>
<td></td>
</tr>
<tr>
<td>(b) FUMAC Grants</td>
<td>20,520,000</td>
<td></td>
</tr>
<tr>
<td>(c) FUMAC Pilot Grants</td>
<td>1,700,000</td>
<td></td>
</tr>
<tr>
<td>(2) Consultants’ services for Parts B and C of the Project</td>
<td>1,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training for Parts B and C of the Project</td>
<td>1,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (Expressed in Dollars)</td>
<td>% of Expenditures to be Financed</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>(4) Administrative Costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) incremental operational costs</td>
<td>180,000</td>
<td>20%</td>
</tr>
<tr>
<td>(b) Project supervision and monitoring costs</td>
<td>250,000</td>
<td>50%</td>
</tr>
<tr>
<td>(5) Fee</td>
<td>350,000</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(6) Premia for Interest Rate caps and Interest Rate Collars</td>
<td>-0-</td>
<td>Amount due under Section 2.09 (c) of this Agreement</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>2,650,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>35,000,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule the term:

(a) “Training” includes all reasonable training-related expenditures except consultants’ services.

(b) “Administrative Costs” means the incremental operational costs (which would not have been incurred absent the Project) and the supervision and monitoring costs of the Project incurred by IDENE under Part C of the Project, excluding expenditures for salaries and related benefits and training.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding $3,500,000 may be made on account of payments made within twelve months prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods and works costing less than $100,000 equivalent per contract; (b) for services of individual consultants
costing less than $50,000 equivalent per contract; and (c) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

   (a) if the Bank at any time is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;
(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Bank shall not have received, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.
1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $3,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to reduce the high levels of rural poverty in the Municipalities by: (a) improving the well-being and incomes of the rural poor through better access to basic socio-economic infrastructure and services and support for productive activities, using proven community-driven development techniques; (b) increasing the social capital of rural communities to organize collectively to meet their own needs; (c) enhancing local governance by greater citizen participation and transparency in decision-making, through creation and strengthening of community associations and Municipal Councils; and (d) fostering closer integration of development policies, programs and projects at the local level, by assisting Municipal Councils to extend their role in seeking funding, priority-setting and decision-making over resource allocation, and by assisting the Borrower to measure the efficiency and impact of its own programs to reduce rural poverty in rural space.

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

Part A: Community Subprojects

Financing, through PAC Grants, FUMAC Grants and/or FUMAC Pilot Grants, of small scale community investments (Community Subprojects) consisting, *inter alia*, of: (a) infrastructure investments such as for rural water supply, electrification, local road improvements and construction of small bridges; (b) social investments such as construction of day care centers and rehabilitation of schools and health posts; and (c) other investments such as for small-scale community agro-processing, purchase of agricultural equipment and minor irrigation schemes.

Part B: Institutional Development

1. Provision of technical assistance and training for Community Associations in, *inter alia*, community mobilization and organization, preparation of Community Subprojects, and operation and maintenance of such Community Subprojects.

2. Training and equipping of Municipal Councils with respect to the role of Municipal Councils, the contents of the Operational Manual, subproject evaluation and supervision, environmental assessment of subprojects, participatory planning and financial management.
3. Provision of on-the-job training and expert advice for IDENE staff, 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).

4. Provision of technical assistance for SEPLAG-MG’s staff in support of the implementation of the Borrower's modernization reforms, particularly in promoting the integration of the Borrower’s policy for poverty reduction and strengthening the Borrower’s management capacity to better monitor the impact of its public expenditures to reduce poverty in the rural space.

5. 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 C: Project Administration

Support to the overall Project implementation, coordination and supervision including, *inter alia*:

1. the operation of IDENE and its field offices related to Project implementation;

2. the establishment and operation of the MIS;

3. the design, development and carrying out of a statewide information campaign within the Borrower’s territory to disseminate information about the Project; and

4. the carrying out of studies to assess the impact of the Project, including, *inter alia*, a baseline evaluation study, annual physical performance reviews, a mid-term implementation review, and a comprehensive impact evaluation.

* * *

The Project is expected to be completed by January 31, 2010.
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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment 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>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td></td>
</tr>
<tr>
<td>Beginning October 15, 2010 through October 15, 2021</td>
<td>4.17 %</td>
</tr>
<tr>
<td>On April 15, 2022</td>
<td>4.09 %</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan shall not 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 as follows:

   (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if
at any time the Bank shall adopt a due date billing system under which invoices are issued
on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan
to an Approved Currency, the amount so converted in said Approved Currency that shall be
repayable on any Principal Payment Date occurring during the Conversion Period, shall be
determined by the Bank by multiplying such amount in its currency of denomination
immediately prior to said Conversion by either: (a) the exchange rate that reflects the
amounts of principal in said Approved Currency payable by the Bank under the Currency
Hedge Transaction relating to said Conversion; or (b) if the Bank so determines in
accordance with the Conversion Guidelines, the exchange rate component of the Screen
Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time
shall be 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.
SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultant’s services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultant’s Services).

A. National Competitive Bidding

Except as otherwise provided in Part B of this Section, goods, works and services (other than consultants’ services) shall be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions, using bidding documents, satisfactory to the Bank, in a standardized form for the Project:

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

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

(c) the arrangements, under the invitation to bid, for joint-ventures (consórcios) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;
(d) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and

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

B. Other Procurement Procedures

1. **Shopping**: Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $500,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures, and a standard request for quotations acceptable to the Bank.

2. **Community Participation**: 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.

3. **Direct Contracting**: Goods and works which the Bank agrees meet the requirements for Direct Contracting, may be procured in accordance with the provisions of said procurement method.

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

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

B. **Other Procedures**

1. **Least-cost Selection**: Services for assignments costing less than $200,000 equivalent per contract and which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. **Quality-based Selection**: Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.
3. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

**Section IV. 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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.