

LOAN NUMBER 7600-BR

Loan Agreement

(Ceará Inclusive Growth Project – SWAp II)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF CEARÁ

Dated *March 19*, 2009



LOAN AGREEMENT

Agreement dated March 19, 2009, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF CEARÁ ("Borrower"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined and modified 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 two hundred forty million dollars (\$240,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the cost of the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement: (a) in respect of Part 1 of the Project to finance part of the Eligible Expenditures incurred by the Borrower under the Eligible Expenditure Programs; (b) in respect of Part 2 of the Project to finance the Eligible Expenditures incurred by the Borrower; and (c) in respect of the Front-End Fee referred to in Section 2.03 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 4.05(c) of the General Conditions.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 amortization schedule set forth in Schedule 3 to this Agreement.



- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance (STN), 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, through SEPLAG, carry out the Project to be carried out 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 Condition of Effectiveness consists of the following, namely that the Project Operational Manual has been adopted by the Borrower through a decree in form and substance satisfactory to the Bank.
- 4.02. The Additional Legal Matter consists of the following, namely that that the Loan has been registered with the Guarantor's Central Bank.
- 4.03. 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 March 30, 2010.



ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower's Representative is its Governor.

5.02. The Borrower's Address is:

Secretaria do Planejamento e Gestão do Estado do Ceará
Centro Administrativo Gov. Virgílio Távora
Av. General Afonso Albuquerque Lima, s/n
Ed. SEPLAN, 3º. Andar
Cambéa
60830-900 Fortaleza, CE
Brazil

Facsimile:
(55-85) 3101-4518

With copies to:

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

Facsimile:
(55-61) 3225-4022

Secretaria de Estado da Fazenda – SEFAZ
Avenida Alberto Nepomuceno, 2 – Centro
60000-050 Fortaleza, CE
Brazil

Facsimile:
(55-85) 3101-9134

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



AGREED at Fortaleza, Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

STATE OF CEARÁ

By



Authorized Representative



SCHEDULE 1

Project Description

The objective of the Project is to promote social advances in the Borrower's territory while modernizing the Borrower's institutions and fiscal situation for economic and social development.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part 1. Implementation of the Eligible Expenditure Programs

Support the implementation of the Eligible Expenditure Programs.

Part 2. Technical Assistance

Provide technical assistance in the five Project Sectors as well as in the area of environmental and social capacity building, in order to:

- (a) support training and dissemination for results-based management, and support implementation of selected PEFA recommendations on strengthening the Borrower's public financial management;
- (b) support the implementation of the Borrower's procurement reform priorities based on the OECD Procurement Indicators Diagnostic; develop a procurement portal within the Borrower's website; disseminate information on the Borrower's procurement system to the benefit of its civil servants and of civil society in the Borrower's territory and support training on the Borrower's procurement system for the Borrower's civil servants involved in the procurement process;
- (c) support the institutional strengthening of TCE-CE and SECON;
- (d) evaluate the CE-Jovem Program and carry out an analysis of the use of exam results in school development plans for schools in the Borrower's territory;
- (e) support the implementation of AMQ and the standardized cost accounting systems in the Borrower's hospitals;
- (f) establish performance indicators for the water and sanitation sector and evaluate approaches to address poor quality of water in the Borrower's territory;
- (g) evaluate the impact of broadband internet access in the Borrower's territory and organize a workshop to exchange experiences on its use;

- (h) support capacity building and institutional strengthening for selected institutions in the Borrower's administrative structure in the areas of environmental management and indigenous peoples issues; and
- (i) carry out studies and/or activities as may be proposed by the Borrower and agreed to by the Bank to support the implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall, through SEPLAG, carry out the Project in accordance with the Project Operational Manual, including the Procurement Plan, the Environmental Management Framework, the Resettlement Framework, and the Indigenous Peoples' Framework, and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail. In addition, in case of any conflict between the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule, said additional instructions shall prevail.
2. The Borrower shall maintain, until the completion of the execution of the Project, shall maintain competent staff in adequate numbers with qualifications and experience satisfactory to the Bank and in accordance, as applicable, with the provisions of Section III of this Schedule, including the following key staff: a Project coordinator, two Project coordination staff members, a Procurement Specialist, an Economist and a Financial Management Specialist.
3. The Borrower shall maintain, until the completion of the execution of the Project, Management Meetings to convene at least once every semester, and shall submit the minutes of said meetings to the Bank.
4. The Borrower shall furnish to the Bank on or about six months, twelve months, eighteen months, twenty four months, thirty months, and forty two months after the Effective Date, regular reports (the EEP Spending Reports) prepared in accordance with the provisions of the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule.
5. The Borrower shall furnish to the Bank on or about April 5 and October 5 each year starting on the first such date after the Effective Date, a Procurement report (the Procurement Plan Report) confirming that all procurement activities under Part 2 of the Project have been carried out in accordance with the Procurement Plan.
6. The Borrower shall: (a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

7. (a) The EEPs will comply with the eligibility criteria and procedures set forth in the Project Operational Manual.
- (b) Without limitation to the provisions of paragraph (a) above, the eligibility criteria for the Bank financing of EEPs will include the following:
 - (i) for EEPs implemented in calendar year 2008 and for which the first withdrawal is requested in 2009, the requirement that at least 50% of the amounts allocated for the financing for the respective EEP as set forth in the table in Schedule 4 of this Agreement, has been spent during the preceding year, and
 - (ii) for EEPs implemented in calendar years 2009 and thereafter and for which the first withdrawal is requested in the subsequent years, the requirement that at least 70% of the amounts allocated for the financing for the respective EEP as set forth in the table in Schedule 4 of this Agreement, has been spent during the preceding year.
8. If, at any time, the Bank determines that any portion of the financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of Part 1 of the Project, was not supported by evidence of actual spending by the Borrower under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Operational Manual, the Borrower shall refund any such portion to the Bank as the Bank shall specify by notice to the Borrower.

B. Anti-Corruption

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

C. Safeguards

1. Environmental Management Framework and Health Waste Management Strategy

The Borrower shall, through SEPLAG, when applicable in accordance with the provisions of the Environmental Management Framework (including provisions for chance finding of cultural property) and the Health Waste Management Strategy; (a) furnish to the Bank for its approval a Specific Environmental Assessment for each Subproject; and (b) carry out the requirements specified by such Specific Environmental Assessment in accordance with its terms.

2. Resettlement

The Borrower shall, when applicable in accordance with the provisions of the Resettlement Framework: (a) furnish to the Bank for its approval a Resettlement Plan for each Subproject; and (b) carry out the requirements specified by such Resettlement Plan in accordance with its terms.



3. **Indigenous Peoples**

The Borrower shall, when applicable in accordance with the provisions of the Indigenous Peoples' Framework: (a) furnish to the Bank for its approval an Indigenous Peoples' Plan for each Subproject; and (b) carry out the requirements specified by such Indigenous Peoples' Plan in accordance with its terms.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall, through SEPLAG, 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: (a) the Disbursement-Linked Indicators, when applicable; (b) the EEP Spending Reports; (c) the Procurement Plan Report; (d) the Environmental Management Framework, the Health Waste Management Strategy, the Resettlement Framework and the Indigenous Peoples' Framework; and (e) the indicators (Secondary Indicators) set forth in the Project Operational Manual. Each Project Report shall be furnished to the Bank on or about April 5 and October 5 each year starting on the first such date after the Effective Date and shall cover a period of one calendar semester preceding the presentation of such Project Report. The Project Reports shall be furnished to the Bank not later than one month after the end of the period covered by such reports.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than December 31, 2012.

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, through SEPLAG, prepare and furnish to the Bank not later than thirty 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, through SEPLAG, have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works (including non-consultants' services) required for the Project and to be financed under the Project 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 and Works

1. The following table specifies the methods of procurement, which may be used for goods and works (including non-consultants' services). The Procurement Plan and the Project Operational Manual shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding (including in respect of goods, non-consultants services and works, <i>convite, tomada de preços</i> and <i>concorrência</i> set forth in the Guarantor's Law No. 8.666 of June 21, 1993 in respect of goods and non-consultants services, <i>pregão eletrônico</i> set forth in the Guarantor's Law No. 10520 of July 17, 2002).
(b) Shopping
(c) Direct Contracting
(d) Established Private or Commercial Practices which have been found acceptable to the Bank

2. Contracts awarded on the basis of National Competitive Bidding are subject to the following additional procedures, namely that the bidding documents shall be acceptable to the Bank.

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 for Part 2 of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on Consultants' Qualifications
(b) Least-Cost Selection
(c) Quality-Based Selection
(d) Selection under a Fixed Budget
(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Single Source Selection
(g) Sole Source Procedures for the Selection of Individual Consultants
(h) Selection of UN Agencies as Consultants as set forth in Paragraph 3.15 of the Consultant Guidelines

3. EE Contracts for consultants services under Part 1 of the Project, all estimated to cost \$100,000 equivalent or less, may be procured following the provisions applicable to *técnica e preço* and *melhor preço* as set forth in the Guarantor's Law 8666 of June 21, 1993, as a form of Single Source Selection and without the Prior Review of the Bank.

D. Review by the Bank of Procurement Decisions

The Procurement Plan and the Project Operational Manual 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. (a) 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.
- (b) Without limitation to the provisions of paragraph (a) above, withdrawals of the Loan may be made as reimbursements or advances to the Borrower's deposit accounts identified in the instructions referred to in such paragraph (a).
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.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Eligible Expenditure Programs under Part 1 of the Project	235,730,000	Up to 30% of amounts spent and reported under the EEP Spending Reports
(2) Goods, non-consultants' services, operating costs, and consultants' services for Part 2 of the Project	3,670,000	100%
(3) Front-end Fee	600,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	240,000,000	

For the purposes of this table:

- (a) the term "non-consultants' services" means; (i) software licensing and incidental services; (ii) the reasonable cost of training materials and rental of training facilities and equipment; tuition fees, travel and per-diem of trainees and non-Borrower trainers; and any other expenses related to training (including study tours and workshops) to be carried out under the Project; and (iii) data collection for quality surveys; and
- (b) the term "operating costs" means recurrent costs of the Project, associated with Part 2 of the Project incurred by SEPLAG, including: (i) operation and maintenance of vehicle, repairs, fuel and spare parts; (ii) equipment and computer maintenance, including hardware and software; (iii) communication costs and shipment costs (whenever these costs are not included in the cost of goods); (iv) office supplies and equipment; (v) rent for office facilities; (vi) utilities; (vii) travel and per diem costs for Borrower technical staff carrying out training, supervisory and quality control activities; and (viii) expenses related to audits other than consultants' services.

B. Withdrawal Conditions; Withdrawal Period

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

- (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$48,000,000 equivalent may be made for payments made twelve months prior to such date for Eligible Expenditure



Programs under Category (1), for the first disbursement as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; or

- (b) for payments made under Category (1) unless: (i) the relevant EEP Spending Report, as referred to in Section I.A.4 of this Schedule, has been submitted to, and found satisfactory by, the Bank, in accordance with the provisions of the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; and (ii) all other conditions referred to in the Project Operational Manual and in the additional instructions referred to in Section IV.A.1 of this Schedule (including, when applicable, compliance with the Disbursement-Linked Indicators as referred to in Schedule 5 to this Agreement) have been met by the Borrower in form and substance satisfactory to the Bank.

2. If the Bank has:

- (a) received only partial evidence of compliance under the Disbursement-Linked Indicators referred to in Schedule 5 to this Agreement in respect to the fifth and the seventh disbursements under Category (1) (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank may, at its option, authorize that the unwithdrawn portion of the Loan resulting from this lack of evidence be carried forward to the subsequent withdrawals, provided that, if this occurs, the amount to be disbursed by the Bank, in the aggregate under all subsequent withdrawals, shall not exceed 30% of the sum of amounts referred in the last four columns of the table in Schedule 4 to this Agreement for the years up to and including the one for which the withdrawal is made;
- (b) not approved a full withdrawal by the Borrower of the Loan proceeds under Category (1), the Bank may, by notice to the Borrower and the Guarantor, cancel the corresponding amount of the Loan at the time of the eighth disbursement (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule);
- (c) not approved a full withdrawal by the Borrower of the Loan proceeds under Category (2), the Bank may cancel the corresponding amount of the Loan or reallocate said amount under Category (1); and
- (d) not received the evidence that the minimum amounts referred to in paragraph 7 (b) of Section I.A. of this Agreement have been spent for the respective EEPs, the Bank may reduce in each calendar year by 10% for each non compliant EEP, the amount to be disbursed under Category (1); provided, however, that if in a subsequent calendar year the share of EEPs have been spent as required in such paragraph 7 (b), the amount or amounts withheld due to the non-compliance of the spending requirement of each EEP may be added to the amounts to be disbursed all by notice to the Borrower and the Guarantor.



3. The Closing Date is June 30, 2012. The Bank may 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.

Section V. Other Undertakings

The Borrower shall, through SEPLAG: (i) no later than three months after the Effective Date, designate the independent auditors as referred to in Section II. B.3 above; and (ii) no later than six months after the Effective Date, designate the procurement auditors as referred to in Section I.A.6 above; all under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance, if applicable, with the provisions of Section III above.



SCHEDULE 3

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each March 15 and September 15, the first installment to be payable on the fifteenth (15th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the forty-fourth (44th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment, except for the last one, shall be equal to one-thirtieth (1/30th) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after September 15, 2034, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
4. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.



SCHEDULE 4

Eligible Expenditure Programs

Project Sector	Budget Item	Borrower's Budget Line Numbers (as set forth in the Borrower's Budget Law)	Expenditure Type	Amount to be spent by the Borrower in 2008 in million RS	Amount to be spent by the Borrower in 2009 in million RS	Amount to be spent by the Borrower in 2010 in million RS	Amount to be spent by the Borrower in 2011 in million RS
Education	Basic School Standards	041	Goods/ works/ operating costs	52,984	54,473	54,473	54,473
Education	Basic Education Quality in Rural and Urban School Zones	048	Goods/ works/ operating costs	7,813	8,224	8,224	8,224
Education	Cooperation between States and Municipalities	058	Goods/ works/ operating costs	625,222	647,222	647,222	647,222
Health	Secondary and Tertiary Health Care	535	Goods/ works/ operating costs	158,318	134,080	162,159	91,962
Health	Primary Health Care	536	Goods/ works/ operating costs	6,486	2,879	3,701	1,645
Health	Management of Health Work and Education	554	Goods/ works/ operating costs	45,364	15,203	15,203	15,203
Water and Sanitation	Ceará Environmental Sanitation	711	Goods/ works/ operating costs	14,579	6,558	6,558	5,738
Business Environment and Innovation	Digital Ceará	033	Goods/ works/ operating costs	4,470	5,814	5,814	5,814
Business Environment and Innovation	Strengthening Professional and Higher Education	194	Goods/ works/ operating costs	47,100	48,223	48,223	48,223
Business Environment and Innovation	Technological Innovation, research and scientific development	196	Goods/ works/ operating costs	14,788	17,732	22,798	10,132

SCHEDULE 5

Disbursement-Linked Indicators

Public Sector Management – Fiscal Performance
1. The Borrower's current fiscal balance (in millions of RS) has reached the following values by end 2008: 1,074; by end 2009: 1,146; by end 2010: 1219; and by end 2011: 1,293.
2. The HefimdaH Index for ICMS collection using 4 sectors (a. industry; b. retail; c. utilities -- energy & fuels -- and communications; and d. others) will not exceed 0.35 from 2008 to 2012.
Public Sector Management – Results-Based Management
3. The number of Line Secretariats with annual performance reports validated by SEPLAG and COGERF and posted on the SEPLAG website has reached 5 by end 2008; 8 by end 2009; 11 by end 2010; and 15 by end 2011.
4. The number of "Output-Result Reports" (ORR) validated by COGERF and posted on the SEPLAG website has reached 1 by end 2008, 3 by end 2009, 5 by end 2010, and 7 by end 2011.
Education
5. The external exam results evaluating students in 2 nd , 5 th , 9 th & 12 th grades have been processed and publicly reported at the level of individual Borrower's public schools, along with a report of best practices, for at least 90% of such schools in 2008, 2009, 2010, and 2011.
6. The percentage of municipalites in the Borrower's territory with: (a) a program manager appointed for the child literacy program "Alfabetização na Idade Certa"; and (b) didactic materials for said program delivered to the schools, is at least 70% by end 2008 and 2009, at least 75% by end 2010, and at least 80% by end 2011. In addition, the percentage of program managers receiving state funding has reached 40% by end 2009, 50% by end 2010, and 60% by end 2011.
Health
7. The percentage of PSF/AB Teams classified in the AMQ quality ranking system has reached 15% by end 2008, 20% by end 2009, 25% by end 2010, and 30% in 2011. In addition, for teams that have been ranked in a previous year, by end 2010 at least 25% of these teams improve their AMQ quality ranking, and by end 2011 at least 30% of teams improve their AMQ ranking.
8. The number of Borrower public and private licensed hospitals, in accordance with Guarantor Law N° 6.437/1977, has reached 6 by end 2008, 8 by end 2009, 10 by end 2010 and 12 by end 2011. In addition, in 2011 at least one such hospital is ONA quality certified.
9. The number of Borrower public and private main hospitals (<i>hospitais polo</i>) with standardized cost-accounting systems, and sending annual cost reports to SESA, has reached 5 by end 2008, 10 by end 2009 and 15 by end 2010 and 2011.
Water Resources Management & Water Supply and Sanitation
10. The percent of invoicing for Bulk Water distributed to industrial, agricultural and aquaculture users in the Borrower's territory has reached 15% by end 2008, 18% by end 2009, 27% by end 2010 and 37% by end 2011.
11. The number of urban water and sewage connections in the Borrower's territory has reached, respectively, 108,245 and 35,860 by end 2008; 144,062 and 56,200 by end 2009; 179,879 and 76,540 by end 2010; and 197,790 and 86,711 by end 2011.
12. The percentage of water losses (unaccounted-for water) in the Borrower's territory has fallen to 29.2% by end 2008, 28.7% by end 2009, 28.5% by end 2010, and 28.2% by end 2011.
Business Environment & Innovation
13. The total urban population living in Borrower municipal centers with access to broadband internet service has reached 1,833,600 by end 2008, 3,033,000 by end 2009, 3,311,300 by end 2010 and 4,365,700 by end 2011.
14. The proportion of business registrations in CGF (<i>Cadastro Geral da Fazenda</i>) completed within 72 hours has reached 21% by end 2008, 24% by end 2009, 29% by end 2010 and 35% by end 2011.

APPENDIX

Section I. Definitions

1. “*Alfabetização na Idade Certa*” means the Borrower’s education program of the same name established by the Borrower’s Decree Law N° 14.026, dated December 17, 2007, being implemented via Protocols of Intentions (Protocolos de Intenções) between the Governor of Ceará, the Borrower’s State Secretariat of Education and municipal mayors in Ceará.
2. “AMQ” means *Avaliação para a Melhoria da Qualidade*, a quality certification system for family health care based on internationally-recognized standards of healthcare, as described in detail at Gurantor’s Ministry of Health website: <http://dtr2002.saude.gov.br/proesf/autoavaliacoesf/paginas/amqOquee.asp>
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
4. “Borrower’s Budget Law” means the Borrower’s annual budget law (*Lei Orçamentária Anual*) as approved by the State Assembly.
5. “Bulk water” means large-scale abstraction of water from rivers, lakes, reservoirs and aquifers by man-made diversion such as canals and pipelines.
6. “CAGECE Distributed Water Quality Compliance Ratio” means the number of ARCE (Ceará Multisector Regulatory Agency) inspections reporting non-compliance with the Distribution Water Quality Index divided by the total number of ARCE inspections.
7. “CAGECE EBTIDA Margin” means CAGECE’S earnings before taxes, interest, depreciation and amortization (EBTIDA) divided by its net operational income.
8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
9. “CE-Jovem Project” means a joint project implemented by the Borrower’s Secretariat of Science and Technology and the Secretariat of Education, designed to prepare secondary students as mid-level information technology (IT) specialists.
10. “CGF” means *Cadastro Geral da Fazenda*, the Borrower’s taxpayer registry, as regulated by the Borrower’s Decree N° 24.569, dated July 31, 1997.
11. “COGERF” means the Borrower’s Committee for Fiscal and Results-Based Management, established by the Borrower’s Decree N° 27.524, dated August 9, 2004.
12. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.

13. "Diarrhea Reduction Task Force" means the Task Force to reduce childhood diarrhea resulting in hospitalization established by the Borrower's Decree 28.793, dated July 11, 2007.
14. "Disbursement-Linked Indicators" means a set of indicators as specified in Schedule 5 to this Agreement.
15. "EE Contract" means a contract for goods, works, non-consultants services and/ or consultants services of an EEP, eligible for financing under Part 1 of the Project in accordance with the requirements of this Agreement and the Project Operational Manual.
16. "EEP" or "Eligible Expenditure Programs" means a set of defined expenditures for goods, works, consulting and non-consulting services and operating costs (including salaries) made by the Borrower for Part 1 of the Project under the Program's Project Sector budget lines as specified in Schedule 4 to this Agreement.
17. "EEP Spending Report" means the report prepared by the Borrower in accordance with the Project Operational Manual and referred to in Section I.A.4 of Schedule 2 to this Agreement on the spending status of the Eligible Expenditure Programs under Part 1 of the Project.
18. "Environmental Management Framework" means the document (published and available to the public on the website www.seplag.ce.gov.br), dated March 24, 2008 and outlining general implementation procedures, mitigation measures and monitoring procedures for environmental purposes and cultural property chance finding under the Project, as said framework may be amended from time to time with the Bank's prior approval.
19. "Family Health Teams" or "PSF/AB Teams" means multi-disciplinary teams composed of doctors, nurses, nurse technicians, and health agents responsible for promoting public health, illness prevention, recovery and rehabilitation for the families in a specified geographic region, which teams are working under the Guarantor's Family Health Program described in the Guarantor's website: http://portal.saude.gov.br/portal/saude/cidadao/area.cfm?id_area=149.
20. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
21. "Health Waste Management Strategy" means the document (published and available to the public on the website www.seplag.ce.gov.br), dated March 24, 2008 and outlining general implementation procedures, mitigation measures and monitoring procedures for health waste under the Project, as said strategy may be amended from time to time with the Bank's prior approval.
22. "Herfindahl Index" means the measure of tax revenue concentration given by the

following formula:
$$\sum_i \left(\frac{ICMS_i}{ICMS_T} \right)^2$$

23. "ICMS" means "*Imposto Sobre Operações relativas a Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*", the taxes on the circulation of goods and services, as well as communications, within the territory of the Guarantor.
24. "Indigenous Peoples' Framework" means the document (published and available to the public on the website www.ipece.ce.gov.br) outlining general implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project, as said framework may be amended from time to time with the Bank's prior approval.
25. "Indigenous Peoples' Plan" means a document or documents to be prepared, when applicable, in accordance with the provisions of the Indigenous Peoples' Framework as referred to in Section I.C.3 of Schedule 2 to this Agreement and to be published and available to the public on the website www.ipece.ce.gov.br, and outlining specific implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project, as said plan may be amended from time to time with the Bank's prior approval.
26. "Line Secretariats" means the Borrower's secretariats responsible for service delivery in the Project Sectors.
27. "Management Meetings" mean the meetings held among SEPLAG, SEFAZ and the Borrower's Line Secretariats to discuss progress under the Program and the Project and guide overall supervision of the Program.
28. "NUTEC" means *Fundação Núcleo da Tecnologia Industrial do Ceará*, the foundation of industrial technology created by the Borrower's Law N° 13.017, dated December 12, 1978.
29. "OECD Procurement Indicators Diagnostic" means the publication dated July 17, 2006, and entitled "Methodology for Assessment of National Procurement Systems" (Version 4), prepared by the Development Assistance Committee of the Organisation for Economic Co-operation and Development, published on the website: http://www.oecd.org/document/40/0,3343,en_2649_201185_37130152_1_1_1_1.00.html
30. "ONA" means *Organização Nacional de Acreditação*, the national accreditation organization, created in 1999 as a non-governmental organization of public interest and operating under Resolution No. 921 dated May 9, 2002 issued by the Director of the *Diretoria Colegiada da Agência Nacional de Vigilância Sanitária*, and available at the following website: http://www.saude.mg.gov.br/atos_normativos/legislacao-sanitaria/estabelecimentos-de-saude/acreditacao/RES_921.pdf.
31. "Output-Result Reports" means the monitoring and evaluation reports prepared with the content described in the Project Operational Manual.

32. "PEFA" means "Public Expenditure and Financial Accountability Assessment", an initiative intended to provide an integrated and harmonized approach for measuring and monitoring public financial management (PFM) performance progress, while also helping focus support on country-led PFM reform programs and described in: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTFINANCIALMGMT/0,,contentMDK:21494261~menuPK:3914299~pagePK:210058~piPK:210062~theSitePK:313218,00.html>
33. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October 2006.
34. "Procurement Plan" means the Borrower's procurement plan for the Project, dated July 3, 2008 and included in the Project Operational Manual 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.
35. "Procurement Plan Report" means the report prepared by the Borrower referred to in Section I.A.5 of Schedule 2 to this Agreement on the procurement status of Part 2 of the Project.
36. "Program" means the Borrower's program designed to promote social inclusion and economic growth in the Borrower's territory, framed under the Borrower's Law No.-14053, dated January 7, 2008.
37. "Project Operational Manual" means the operational manual for the Project found satisfactory to the Bank, to be adopted by the Borrower through a Decree and which shall contain, *inter alia*: (i) the terms of reference, functions and responsibilities for the personnel of the Borrower, responsible for Project coordination, monitoring and evaluation; (ii) the criteria, detailed rules and procedures for the EEPs; (iii) the procedures for procurement of goods, works, non-consultants' services, consultants' services and operating costs for Parts 1 and 2 of the Project (including the applicable threshold values for prior reviews), as well as for financial management and audits (i.e. financial audit and procurement audit) under the Project; (iv) the indicators to be used in the monitoring and evaluation of the Project; (v) flow and disbursement arrangements of Project funds; (vi) the implementation arrangements between SEPLAG and IPECE; (vii) the detailed content of the EEP Spending Report/the customized statements of expenditures, the interim financial reports, the Procurement Plan Report and the Project Reports; and (viii) the Environmental Management Framework, the Health Waste Management Strategy, the Resettlement Framework and the Indigenous Peoples' Framework.
38. "Project Sectors" means the five sectors in which EEP take place, namely Public Sector Management, Education, Health, Water Resources Management & Water Supply and Sanitation and Business Environment and Innovation.
39. "R\$" means Brazilian *reais*, the Guarantor's currency.
40. "Resettlement Framework" means the document (published and available to the public on the website www.seplag.ce.gov.br), dated December 6, 1995 and outlining general

implementation procedures, mitigation measures and monitoring procedures for involuntary resettlement under the Project, as said framework may be amended from time to time with the Bank's prior approval.

41. "Resettlement Plan" means a document or documents to be prepared, when applicable, in accordance with the provisions of the Resettlement Framework as referred to in Section I.C.2 of Schedule 2 to this Agreement and to be published and available to the public on the website www.planejamento.mg.gov.br and outlining specific implementation procedures, mitigation measures and monitoring procedures (including cadastre and action plan) for any involuntary resettlement under the Project, as said plan may be amended from time to time with the Bank's prior approval.
42. "SECON" means *Secretaria de Estado da Controladoria e Ouvidoria Geral*, the Borrower's secretariat for internal control and audit.
43. "SEFAZ" means *Secretaria de Estado de Fazenda*, the Borrower's secretariat for finance.
44. "SEPLAG" means *Secretaria de Estado de Planejamento e Gestão*, the Borrower's secretariat for planning and management or any other secretariat or administrative unit of the Borrower as may be proposed by the Borrower and agreed by the Bank for purpose of Project implementation.
45. "SESA" means the *Secretaria de Estado da Saúde*, the Borrower's secretariat of health.
46. "Specific Environmental Assessment" means a document or documents to be prepared, when applicable, in accordance with the provisions of the Environmental Management Framework and of the Health Waste Management Strategy as referred to in Section I.C.1 of Schedule 2 to this Agreement and to be published and available to the public on the website www.seplag.ce.gov.br, outlining specific implementation procedures for each Subproject under the Project and providing for mitigation measures and monitoring procedures for environmental purposes, including chance finding for cultural property, as said assessment may be amended from time to time with the Bank's prior approval.
47. "Subproject" means each specific set of activities to be undertaken as part of the Project and covered by the Eligible Expenditure Programs.
48. "TCE-CE" means *Tribunal de Contas do Estado do Ceará*, the Borrower's auditing chamber, established and operating under the Borrower's Constitution dated October 5, 1989.

Section II. Modifications to the General Conditions

- I. Introduction to Section 2.05 and paragraph (a) of said Section of the General Conditions is amended to read as follows:

"The Borrower shall use the proceeds of the Loan or cause said proceeds to be used exclusively to finance expenditures which, except as otherwise provided in the Loan Agreement, satisfy the following requirements:



(a) the payment is for the financing of the reasonable cost of goods, works, operating costs or services required for the Project, to be financed out of the proceeds of the Loan and procured, all in accordance with the provisions of the Legal Agreements;”

2. Section 5.07 (b) of the General Conditions is amended to read as follows:

“The Borrower and the Project Implementing Entity shall maintain records adequate to record the progress of their Respective Parts of the Project (including its cost and the benefits derived from it), to identify the goods, works, operating costs and services financed out of the proceeds of the Loan and to disclose their use in the Project, and shall furnish such records to the Bank upon its request.”

3. Paragraph 36 of the Appendix to the General Conditions is amended to read as follows:

“Eligible Expenditure” means an expenditure the payment for which meets the requirements of Section 2.05 (included for Part 1 of the Project in the “Expenditure Type” column in Schedule 4 to this Agreement) and which is consequently eligible for financing out of the proceeds of the Loan.”