

LOAN NUMBER 8155-BR

Loan Agreement

(SWAp to Strengthen Public Investment Project
*Programa de Apoio à Retomada do Desenvolvimento Econômico
e Social do Rio Grande do Sul*)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF RIO GRANDE DO SUL

Dated *September 11*, 2012

LOAN AGREEMENT

Agreement dated September 11, 2012, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and STATE OF RIO GRANDE DO SUL ("Borrower"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions.

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 four hundred and eighty million Dollars (\$480,000,000) ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement: (a) in respect of Part B of the Project to finance (through advances and/or reimbursements for retroactive expenditures only) the Eligible Expenditures incurred by the Borrower under the Program; (b) in respect of the Part A of the Project to finance (through advances and/or reimbursements) Eligible Expenditures incurred by the Borrower; and (c) Front-end Fee, Premia for Interest Rate Caps and Collars. The Borrower's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is its Secretary of Planning, Management and Citizen Participation.
- 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 the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-



payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with prior non-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or 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 withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate 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 II of Schedule 1 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower, under the overall coordination of SEPLAG, shall carry out the Project with the participation of the Agencies, and with the assistance of the



Additional Implementing Entities, all 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 — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) Any of the Additional Implementing Entities shall have failed to perform their obligations under the corresponding Additional Implementation Agreement.
 - (b) Any of the Agencies shall have failed to perform their obligations under the corresponding Inter-Agency Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraph (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) each of the Inter-Agency Agreements has been executed on behalf of the Borrower and the relevant Agency and published in the Borrower's Official Gazette;
 - (b) the Borrower has established the Special Bidding Committee, in a manner satisfactory to the Bank; and
 - (c) the Borrower has submitted and approved the Project Operational Manual in a manner satisfactory to the Bank.
- 5.02. The Additional Legal Matters consist of the following:
- (a) the Loan has been duly registered with the Guarantor's Central Bank; and



- (b) each of the Inter-Agency Agreements has been duly authorized or ratified by the Borrower, through SEPLAG, and the relevant Agency, and is legally binding upon the Borrower, through SEPLAG, and the relevant Agency, all in accordance with its terms.
- 5.03. 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 November 1, 2013.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as provided in Section 2.02 of this Agreement, the Borrower's Representative is its Governor.

- 6.02. The Borrower's Address is:

Palácio Piratini
Praça Marechal Deodoro s/n-Centro
90010-282 Porto Alegre/RS
Brasil

Facsimile: (55-51) 3228-2465

- 6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

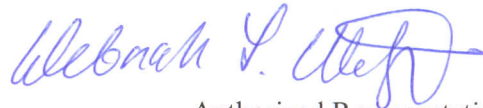
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AGREED at Brasília, Federative Republic of Brazil, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

STATE OF RIO GRANDE DO SUL

By



Authorized Representative



SCHEDULE 1

Project Description

The objective of the Project is to support and improve the planning and implementation of public investments by strengthening the capacity of the Borrower's planning agency and selected sector secretariats of the Borrower.

The Project consists of the following parts:

Part A: Technical Assistance

Provision of goods, training, consultants' services and non-consulting services to strengthen the Borrower's capacity to design, implement, monitor and evaluate public investment, including, *inter alia*, support for:

1. Investment and human resource planning, contract and public asset management, through: (a) carrying out a review of the Borrower's current project planning process and developing terms of reference to develop the relevant procedures and manuals; (b) developing a methodology and providing training in project preparation; (c) providing support for long-term integrated transport and logistics infrastructure planning; (d) carrying out a diagnostic study of SEDUC's human resources system; (e) developing and implementing a contract management information system; (f) developing and implementing a bidding management system; and (g) setting up a system for managing public assets and disposing of surplus real estate assets.
2. Monitoring and impact assessment, through: (a) setting up a multi-channel system for public service evaluation; and (b) providing training in firm-level benchmarking methodology.
3. Environmental and disaster risk management, through: (a) setting up an environmental licensing and public communications system; (b) setting up an ecological-economic zoning system; (c) developing a disaster risk management coordination system; (d) setting up a disaster risk information and monitoring system; (e) establishing a disaster risk management situation room; (f) carrying out a feasibility study for industrial symbiosis; and (g) providing training in firm-level waste reduction techniques.
4. Public-private consultation, through: (a) designing an ICT strategy, systems and implementation support; (b) designing and implementing a multi-channel participatory budgeting platform and participation portal; and (c) drafting a proposed new legal framework on participatory procedures and third party monitoring, supporting its application to organizational processes and providing training to strengthen third party monitoring.

5. Other technical assistance, through: (a) providing technical assistance to economic clusters on, *inter alia*, marketing strategies; (b) surveying new entrepreneurs and recently established firms to understand constraints on firm formation and foster coordination among private sector development interventions; (c) carrying out a critical point survey road program, and developing a bridge management system; (d) providing support for the modernization of the management of the Borrower's pension system; (e) providing support for the institutional strengthening and institutional modernization of DAER; (f) providing support to AGDI's management throughout the first year of the Project; and (g) carrying out the technical audits referred to in Section II.A.2 of Schedule 2 to this Agreement.

Part B: Implementation of the Eligible Expenditure Programs

Support the implementation of the Eligible Expenditure Programs through investments in public sector management (*inter alia*, public asset management), transport (*inter alia*, highway rehabilitation and repair), education (*inter alia*, technological modernization, buildings repair), and private sector development for small and medium-sized enterprises (*inter alia*, cluster programs, industrial extension services and technology parks).



SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower, through SEPLAG, shall enter into Inter-Agency agreements (the Inter-Agency Agreements), satisfactory to the Bank, with each of the Agencies, setting forth the manner in which each Agency will participate in the implementation of the Project including, *inter alia*: (a) a provision stating that the relevant Agency agrees to collaborate in the implementation of the Project in accordance with the terms and provisions of the relevant Inter-Agency Agreement, which shall duly include all the provisions of this Agreement referring to the implementation of the Project (including, *inter alia*, compliance with the Safeguards Documents, the Anti-Corruption Guidelines, and the provisions set forth in Section III of this Schedule 2); (b) financial management provisions detailing the flow of information and/or flow of funds between the relevant Agency and SEPLAG in order for the Borrower to comply with its obligations under Section II of this Schedule 2; and (c) in the case of DAER, special provisions to govern the management of Loan proceeds.
2. The Borrower shall exercise its rights and carry out its obligations under each of the Inter-Agency Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not amend, assign, terminate, waive or fail to enforce any provision of any of the Inter-Agency Agreements. In case of any conflict between the terms of any of the Inter-Agency Agreements and those of this Agreement, the terms of this Agreement shall prevail.
3. Notwithstanding Section I.A.1 of this Schedule 2, the Borrower shall select, in a manner satisfactory to the Bank, additional public and non public entities (such as universities, unions, city halls, and non-governmental organizations) (the Additional Implementing Entities), with qualifications and experience (including the qualification and experience to carry out the procurement activities, selection of consultants, and application of the Safeguards Documents, required under the Loan Agreement) satisfactory to the Bank, to support the Borrower in the carrying out of Part B of the Project. The Borrower, through any of the Agencies, shall enter into separate agreements, satisfactory to the Bank, with each Additional Implementing Entity (the Additional Implementation Agreements), setting forth the manner in which each Additional Implementing Entity will participate in the implementation of the Project including, *inter alia*: (a) a provision stating that the relevant Additional Implementing Entity agrees to collaborate in the implementation of the Project in accordance with the terms and

provisions of the relevant Additional Implementation Agreement, which shall duly include all the provisions of this Agreement referring to the implementation of the Project (including, *inter alia*, compliance with the Safeguards Documents, the Anti-Corruption Guidelines, and the provisions set forth in Section III of this Schedule 2); and (b) financial management provisions detailing the flow of information and/or flow of funds between the relevant Additional Implementing Entity and the relevant Agency in order for the Borrower to comply with its obligations under Section II of this Schedule 2.

4. The Borrower shall exercise its rights and carry out its obligations under each of the Additional Implementation Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not amend, assign, terminate, waive or fail to enforce any provision of any of the Additional Implementation Agreements. In case of any conflict between the terms of any of the Additional Implementation Agreements and those of this Agreement, the terms of this Agreement shall prevail.
5. The Borrower shall carry out the Project, and cause the Project to be carried out, in accordance with the provisions of a manual, satisfactory to the Bank (the Project Operational Manual), which shall include, *inter alia*: (a) the Performance Indicators; (b) the procedures for the carrying out of monitoring and evaluation of the Project; (c) the detailed criteria for the monitoring of the DLIs; (d) arrangements, procedures and criteria for the carrying out of Part B of the Project; (e) the procurement and financial requirements of the Project (including, *inter alia*, the requirement to update the Procurement Plan at least annually); (f) the Procurement Plan; (g) the Safeguards Documents; (h) a Project chart of accounts and internal controls, reporting procedures, format of the EEP Spending Report referred in Section I.B.1 of this Schedule 2 and the format of the Interim Unaudited Financial Reports, referred to in Section II.B.3 of this Schedule 2; and (i) the terms of reference for the Independent Verification Agency. Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce any provision of the Project Operational Manual without the Bank's prior written approval. In case of any conflict between the terms of the Project Operational Manual 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.
6. The Borrower shall maintain, until the completion of the execution of the Project, competent staff in numbers, with qualifications and experience, and working under terms of reference, satisfactory to the Bank, and in accordance, as applicable, with the provisions of Section III of this Schedule.



7. Notwithstanding the provisions of Section I.A.6 of this Schedule 2, the Borrower shall set up and maintain, throughout the implementation of the Project, a special bidding committee, with members in numbers, with qualifications and experience, and working under terms of reference, satisfactory to the Bank (the Special Bidding Committee), said Special Bidding Committee to support the Borrower in the procurement of goods, works, consultants' services and non-consulting services under the Project, as further detailed in Section III of this Schedule 2.

B. SWAP Implementation Arrangements

1. The Borrower shall furnish to the Bank immediately following the Effective Date, and on or about February 28 and August 31 of each year, starting on the first such date after the Effective Date, regular reports on EEP spending (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.
2. The Borrower shall furnish to the Bank on or about February 28 and August 31 of each year starting on the first such date after the Effective Date, a Procurement report confirming that all procurement activities under Part B of the Project have been carried out in accordance with the Procurement Plan, and in a manner acceptable to the Bank.
3. The Borrower shall: (a) have all the Project procurement records and documentation for each fiscal year of the Borrower 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 six 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 Project procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.
4. The EEPs shall comply with the eligibility criteria and procedures set forth in the Project Operational Manual.
5. The Borrower and the Bank may jointly review, once every year, the amounts assigned per budget code to the EEP detailed in Schedule 4 to this Agreement, and adjust as necessary, in a manner satisfactory to the Bank.
6. The budget code numbers indicated in Schedule 4 to this Agreement shall conform to the Borrower's budget law. The Borrower and the Bank agree that such budget code numbers may change under the Borrower's budget law,

provided however, that there is no change in the corresponding Eligible Expenditure Program described in Schedule 4 of this Agreement and in the underlying activities to be financed by the Bank under such Eligible Expenditure Program.

7. Without limitation to the pertinent provisions of the General Conditions, and 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 B 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.

C. Anti-Corruption

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

D. Safeguards

1. The Borrower shall carry out the Project and shall cause the Agencies and the Additional Implementing Entities to carry out the Project in accordance with the Safeguards Documents.
2. Without limitation to the provisions of Section I.D.1 of this Schedule 2, in the case of activities under the Project which do not have an environmental management plan, indigenous peoples plan and/or resettlement action plan (as it may correspond) in place to the date of this Agreement, the Borrower shall, and shall cause the Agencies and the Additional Implementing Entities, through the respective Additional Implementation Agreement or Inter-Agency Agreement, to: (a) prior to the implementation of any activities under the Project, prepare the environmental management plan, indigenous peoples plan, and/or or resettlement plan, as it may correspond, required in the ESMF, the IPPF and/or the RPF, and follow the procedures set forth in the ESMF, IPPF and/or RPF (as it may correspond) with respect to the preparation of assessments, submission to the Bank for approval, consultations and disclosure of the final instruments; and (b) immediately after the Bank's approval of the pertinent plan, carry out said plan in accordance with its terms.
3. The Borrower shall ensure that the terms of reference for any consultancies related to any technical assistance provided under the Project, shall be satisfactory to the Bank and, to that end, such terms of reference shall require



that the advice conveyed through such consultancies and technical assistance be consistent with the requirements of the Bank Safeguard Policies.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of: (a) the Performance Indicators set forth in the Project Operational Manual; (b) the applicable DLI; (c) the most recent EEP Spending Report and Interim Unaudited Financial Reports; (d) the Procurement Plan; and (e) the Safeguards Documents. Each Project Report shall cover a period six months preceding the presentation of such Project Report, and shall be furnished to the Bank not later than February 28 and August 31 of each year, starting on the first of any such dates after the Effective Date.
2. The Borrower shall, not later than June 30 each year, starting on June 30, 2013, select and contract services from consultants, independent from the Borrower with experience in public investment planning and implementation, pursuant to the provisions of Section III of this Schedule and in accordance with terms of reference satisfactory to the Bank. The Independent Verification Agency shall be responsible for the carrying out of annual technical audits of the Project, particularly focused on the achievement of the DLI.
3. Without limitation to any other provision of the General Conditions or of this Agreement, the Borrower and the Bank shall review, on or about September 30, 2014, or at any other time, if needed during Project implementation, the progress in the implementation of the Project, including *inter alia*, the Performance Indicators and the DLI's.

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, for all Project expenditures, including those with respect to which withdrawals from the Loan Account were made on the basis of reports, including the EEP Spending Reports, which reports shall be subject to: (a) prior review by the Independent Verification Agency once a year; and (b) review by the Bank every semester.
2. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower and shall contain, *inter alia*:



- (a) (i) an opinion as to whether: (A) all Interim Unaudited Financial Reports and the EEP Spending Reports have observed agreed disbursements arrangements and are supported by eligible documentation; and (B) any required documents and other evidence submitted during such fiscal year, together with the procedures, accounting and other financial management monitoring systems, and internal controls involved in their preparation, can be relied upon to support the related withdrawals;
- (ii) in respect of each audit, the amounts disbursed were used for goods, works, consultants' services and non-consulting services eligible for financing out of the proceeds of the Loan; and
- (b) a management letter identifying any internal control weaknesses that may need to be addressed by 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.

- 3. Without limitation on the provisions of Section II.A of this Schedule, the Borrower shall prepare and furnish to the Bank as part of the Progress Report, Interim Unaudited Financial Reports for the Project covering the semester, in form and substance satisfactory to the Bank.

Section III. Procurement

A. General

- 1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed (through reimbursement and advances) under Part A of the Project and financed (through advances and reimbursements for retroactive expenditures only) under Part B of 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 Sections II and III of the



Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

4. **Procurement Agency and Special Bidding Committee for the Procurement of Goods, Works and Non-consulting Services.** The Borrower shall carry out the procurement for goods, works, and non-consulting services to be awarded on the basis of International Competitive Bidding procedures through the Special Bidding Committee. The Borrower shall carry out the procurement for goods, works and non-consulting services to be awarded on the basis of any method other than International Competitive Bidding procedures through SARH (through CECOM).
 5. **Procurement Agency and Special Bidding Committee for the Selection and Contracting of Consultants' Services.** The Borrower shall carry out the selection and contracting of Consultants' services through the Special Bidding Committee.
- B. Particular Methods of Procurement of Goods, Works and Non-consulting Services**
1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
 2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

Procurement Method
(a) National Competitive Bidding, (including in respect of works, goods and non-consulting services, <i>convite, tomada de preços</i> and <i>concorrência</i> (set forth in the Guarantor's Law N° 8.666 of June 21, 1993), and in respect of of-the-shelf goods and readily available non-consulting services, <i>pregão eletrônico</i> (as set forth in the Guarantor's Law N° 10.520 of July 17, 2002, and in Decree N° 5.450 of May 31, 2005), under 'COMPRASNET', the procurement portal of the Guarantor, <i>Compras-RS</i> , the State procurement portal, or any other e-procurement system approved by the Bank, subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank).
(b) Shopping (including, in respect of of-the-shelf goods and readily available non-consulting services, <i>pregão eletrônico</i> set forth in the Guarantor's Law N° 10.520 of July 17, 2002, and in Decree N° 5.450 of May 31, 2005).
(c) Direct Contracting
(d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found 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. No consultants' services shall be procured under Part B of the Project.
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 under Part A of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality Based Selection
(b) Selection under a Fixed Budget
(c) Least-Cost Selection
(d) Selection Based on the Consultant's Qualifications
(e) Single-Source Selection
(f) Procedures set forth in Paragraphs 5.1 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Single- Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.6 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

Procurement Plan.

The Procurement Plan shall set forth: (i) all the contracts for goods, non-consulting services, and all the expected contracts for the selection of consultants under Part A of the Project; (ii) all the contracts for goods, works and non-consulting services expected to be procured under International Competitive Bidding under Part B of the Project; and (iii) those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May



2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) Goods, non-consulting services, consultants' services, and Training under Part A of the Project	55,300,000	100%
(2) Eligible Expenditure Programs under Part B of the Project	423,500,000	Up to 55%
(3) Front-end Fee	1,200,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.07(c) of this Agreement
TOTAL AMOUNT	480,000,000	

3. For purposes of this Section, the term "Training" means reasonable expenditures incurred in connection with the carrying out of training, seminars, and workshops under the Project such as logistics, travel costs (including transportation and lodging), *per-diem* of trainers and trainees (as applicable), tuition fees and training materials (but not including items which can be procured as goods, non-consulting services or 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 \$11,000,000 equivalent may be made for payments made prior to this date but on or after January 1, 2012 (but in no case more than twelve months before the date of this Agreement), for Eligible Expenditures; and
- (b) for payments made under Category (2) unless: (i) the relevant EEP Spending Report, as referred to in Section I.B.1 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 (for the respective year) as referred to in Schedule 5 to this Agreement and compliance with the 70% Rule Indicator) have been met by the Borrower in form and substance satisfactory to the Bank.

2. If the Bank has:

- (a) not received evidence of full compliance with the 70% Rule Indicator with respect to the fourth, sixth and eighth disbursement under Category (2) (as referred to in the Project Operational Manual and additional instructions referred to in Section IV.A.1 of this Schedule), then the maximum amount of the corresponding withdrawal shall be proportional to the degree of execution of the Borrower's EEP, as further detailed in the additional instructions referred to in Section IV.A.1 of this Schedule. The unwithdrawn amount will be added to the next planned disbursement amount, all as set forth in said additional instructions;
- (b) not received evidence of full compliance with the DLIs referred to in Schedule 5 to this Agreement in respect to the fourth, sixth, and eighth disbursements under Category (2) (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank shall: (i) deduct a set amount for each non-compliant DLI from the otherwise disbursable amount, all as set forth in said additional instructions; (ii) request the Borrower to prepare a time-bound action plan to achieve such DLI or DLIs in a manner satisfactory to the Bank; and (iii) when satisfied that the DLI or DLIs have been complied with and/or such action plan has been implemented, authorize that the unwithdrawn amount by which the corresponding disbursement had been reduced to be added to the next planned disbursement amount, all as set forth in said additional instructions; and



- (c) advance amounts not documented will be deemed available to cover the next period's EEP expenditures and will be deducted from the calculation of the amount to be disbursed, all as set forth in the additional instructions referred to in Section IV.A.1 of this Schedule.
- 3. In the event that the Bank has not approved a full withdrawal by the Borrower of the Loan proceeds under Category (2) (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, by notice to the Borrower, cancel the corresponding amount of the loan at the time of the last disbursement (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule).
- 4. The Closing Date is June 30, 2017. The Bank may grant an extension of the Closing Date after the Guarantor's Minister of Finance has informed the Bank that it agrees with such an extension.

Section V. Other Undertakings

The Borrower shall: (i) no later than three months after the Effective Date, designate the independent auditors as referred to in Section II. B.2 of this Schedule 2 above; and (ii) no later than six months after the Effective Date, designate the procurement auditors as referred to in Section I.B.3 of this Schedule 2; 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. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date by; (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
15 May 2016	0.05
15 November 2016	0.05
15 May 2017	0.05
15 November 2017	0.05
15 May 2018	0.05
15 November 2018	0.05
15 May 2019	0.05
15 November 2019	0.05
15 May 2020	0.05
15 November 2020	0.05
15 May 2021	0.25
15 November 2021	0.25
15 May 2022	0.25
15 November 2022	0.30
15 May 2023	4.00
15 November 2023	4.00
15 May 2024	4.00
15 November 2024	4.00
15 May 2025	4.00
15 November 2025	4.00
15 May 2026	4.00
15 November 2026	4.00
15 May 2027	4.00
15 November 2027	4.00
15 May 2028	4.00
15 November 2028	4.00
15 May 2029	4.00



15 November 2029	4.00
15 May 2030	4.00
15 November 2030	4.00
15 May 2031	3.00
15 November 2031	1.50
15 May 2032	1.50
15 November 2032	1.50
15 May 2033	1.50
15 November 2033	1.50
15 May 2034	1.50
15 November 2034	1.50
15 May 2035	1.50
15 November 2035	1.50
15 May 2036	1.50
15 November 2036	1.50
15 May 2037	1.50
15 November 2037	1.50
15 May 2038	1.50
15 November 2038	1.50
15 May 2039	1.50
15 November 2039	1.50
15 May 2040	1.50
15 November 2040	1.50
15 May 2041	1.50
15 November 2041	1.45
TOTAL	100.00

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such



date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar weeks prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.



SCHEDULE 4

Eligible Expenditure Programs

Eligible Expenditure Program	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 FY 2013 in million US\$	Amount to be spent by the Borrower in FY 2014 in million US\$	Amount to be spent by the Borrower in FY 2015 in million US\$	Amount to be spent by the Borrower in FY 2016 in million US\$
Transport	Highway Rehabilitation and Repair	3252	Goods/ works/ non consulting services/ and operating costs	0	83.8	142.0	128.6
Education	Refurbishment of Facilities	6344	Goods/ works/ non consulting services/ and operating costs	110.0	69.7	69.2	44.9
Education	Technological Modernization	1909	Goods/ works/ non consulting services/ and operating costs	24.0	20.5	19.7	11.0
Education	Participatory Evaluation System	5791	Goods/ works/ non consulting services/ and operating costs	3.6	3.6	3.6	0.2
Private Sector Development	Cluster Governance and Monitoring	3342/3335	Goods/ works/ non consulting services/	2.7	2.9	2.6	2.4



			and operating costs				
Private Sector Developme nt	Industrial Extension Services	3334	Goods/ works/ non consulting services/ and operating costs	3.8	7.0	7.0	6.8
Private Sector Developme nt	Science Parks and Innovation Networks	6704	Goods/ works/ non consulting services/ and operating costs	19.0	18.4	18.6	11.3
Public Sector Manageme nt	Public asset management	8089	Goods/ works/ non consulting services/ and operating costs	3.0	2.5	2.1	2.9

SCHEDULE 5

Disbursement-Linked Indicators

Public Sector Management – Fiscal Performance	
1.	The Primary Balance (in millions of R\$) shall have reached the following values from a baseline of 1,623 as of end of calendar year 2011: by end calendar year 2012: 1,483; by end calendar year 2013: 1,573; by end calendar year 2014: PAF Target for 2014; and by end calendar year 2015: PAF Target for 2015.
2.	The Borrower's investment expenditures (in millions of R\$) shall have reached the following values from a baseline of 882, as of the end of calendar year of 2011: by end calendar 2012: 944; by end calendar year 2013: 1,010; by end calendar year 2014: 1,100; and by end calendar year 2015: 1,200.
3.	The Borrower's revenue from ICMS (in millions of R\$) shall have reached the following values from a baseline of 19,503, as of the end of calendar year 2011: by end calendar year 2012: 20,500; by end calendar year 2013: 21,500; by end calendar year 2014: 22,500; and by end calendar year 2015: 23,500.
Transport – Highway Rehabilitation and Repair	
4.	The cumulative percentage of the state highway network under CREMA Contracts shall have reached the following percentages (from a baseline value of 0 by end FY 2012): 0% by end FY 2013, 5% by end FY 2014, 15% by end FY 2015, and 20% by end FY 2016.
Education – Facilities Refurbishment	
5.	The number of school construction and refurbishment projects completed <u>per year</u> shall have reached the following (from a baseline value of 75 by end FY 2012): FY 2013: 40; FY 2014: 60; FY 2015: 100; FY 2016: 40.
Private Sector Development – Cluster Governance, Industrial Outreach Services, Science & Technology Parks and Innovation Networks	
6.	The number of annual agreements signed or renewed between AGDI and cluster organizations <u>per year</u> shall have reached the following (from a baseline value of 0 by end FY 2012): FY 2013: 10; FY 2014: 20; FY 2015: 20; FY 2016: 20.
7.	The number of annual agreements signed or renewed between AGDI and with extension centers <u>per year</u> shall have reached the following (from a baseline value of 0 by end FY 2012): FY 2013: 10; FY 2014: 20; FY 2015: 20; FY 2016: 20.
8.	The number of new Triple Helix Alliances implemented and/or renewed <u>per year</u> shall have reached the following (from a baseline value of 0 by end FY 2012): FY 2013: 5; FY 2014: 5; FY 2015: 5; FY 2016: 5.



APPENDIX

Section I. Definitions

1. “Additional Implementation Agreements” means any of the agreements referred in Section I.A.3 of Schedule 2 to this Agreement.
2. “Additional Implementing Entity” means any of the public or private entities (such as universities, unions, municipalities, and non-governmental organizations) selected in a manner acceptable to the Bank that will support the Borrower in the carrying out of Part B of the Project.
3. “AGDI” means *Agência Gaúcha de Desenvolvimento e Promoção de Investimentos*, the Borrower’s agency for development and investment promotion.
4. “Agency” means either IPERGS, SEPLAG, SARH, SEMA, DAER, SEINFRA, SEDUC, AGDI and SCIT, and “Agencies” means collectively IPERGS, SEPLAG, SARH, SEMA, DAER, SEINFRA, SEDUC, AGDI, and SCIT.
5. “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 and revised in January 2011.
6. “Bank Safeguards Policies” means the Bank’s operational policies and procedures set forth in the Association’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60, as said manual is published under www.WorldBank.org/opmanual.
7. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
8. “CECOM” means *Central de Compras*, the Borrower’s central procurement agency.
9. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
10. “CREMA Contracts” means *contratos de reabilitação e manutenção* (rehabilitation and repair contracts), any multi-year contract entered into by the Borrower through DAER with a private sector contractor, which contract comprises all phases of road rehabilitation and repair work as a single package, from design and programming of the works, through the execution of such



works, with respect to an identified portion of the corresponding Borrower road network.

11. “DAER” means *Departamento Autônomo de Estradas de Rodagem*, the Borrower’s autonomous department of highways.
12. “Disbursement-Linked Indicator” or “DLI” means each and any of the indicators specified in Schedule 5 to this Agreement; and “DLIs” means all such indicators.
13. “EEP” or “Eligible Expenditure Programs” means a set of defined expenditures (excluding, specifically, consultants’ services) for goods, works, non-consulting services and operating costs incurred by the Borrower for Part B of the Project under the Borrower’s Program Sector budget lines as specified in Schedule 4 to this Agreement, a portion of which will be financed by the Loan.
14. “EEP Spending Reports” means the reports referred in Section I.B.1 of Schedule 2 to this Agreement.
15. “Environmental and Social Management Framework” or “ESMF” means the Borrower’s environmental and social management framework for the Project dated January 2012 and published on the Borrower’s website (www.seplag.rs.gov.br) on January 21, 2012, as said framework may be amended, from time to time, with the Bank’s prior written approval.
16. “FY” or “Fiscal Year” means the Bank’s fiscal year, i.e. the period going from July 1st each year to June 30th of the following year.
17. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
18. “ICMS” means *imposto sobre operações relativas a circulação de mercadorias e prestação de serviços de transporte interestadual e intermunicipal e de comunicação*, the Borrower’s tax on circulation of goods and services.
19. “ICT” means information, communications and technology.
20. “Independent Verification Agency” means the entity referred to in Section II.A.2 of Schedule 2 to this Agreement.
21. “Indigenous Peoples Planning Framework” or “IPPF” means the Borrower’s framework for the Project, dated January 2012 and published on the Borrower’s website (www.seplag.rs.gov.br) on January 26, 2012, setting forth, *inter alia*, provisions to ensure, *inter alia*, that indigenous peoples benefit from the Project in a culturally appropriate manner, including the basis and procedures to prepare specific indigenous peoples’ plans or related instruments during Project

implementation, as said framework may be amended, from time to time, with the Bank's prior written approval.

22. "Inter-Agency Agreement" means any of the agreements referred to in Section I.A.1 of Schedule 2 to this Agreement.
23. "Interim Unaudited Financial Report" or "IFR" means the report mentioned in Section II.B.3 of Schedule 2 to this Agreement.
24. "IPERGS" means *Instituto de Previdência do Estado do Rio Grande do Sul*, the Borrower's pension institute.
25. "PAF" means the fiscal adjustment program ("*Programa de Ajuste Fiscal*") periodically agreed between the Guarantor and the Borrower under the framework of the Guarantor's Law No. 9496, dated September 11, 1997, the Guarantor's Senate Resolution No. 64/98, and agreement No. 014/98 STN/COAFI dated April 15, 1998.
26. "PAF Target for 2014" means the target primary balance of the Borrower for calendar year 2014, as set forth in the latest applicable PAF.
27. "PAF Target for 2015" means the target primary balance of the Borrower for calendar year 2015, as set forth in the latest applicable PAF.
28. "Performance Indicators" means the Project monitoring and evaluation indicators set forth in the Project Operational Manual.
29. "Primary Balance" means the current revenues minus the non-financial expenditures of the Borrower.
30. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.
31. "Procurement Plan" means the Borrower's procurement plan for the Project, dated January 13, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
32. "Program/ Sector" means any of the eight programs of the Borrower listed in Schedule 4 to this Agreement.
33. "Project Operational Manual" means the manual referred in Section I.A.5 of Schedule 2 to this Agreement, as the same may be amended from time to time with the Bank's prior written approval.



34. "Resettlement Policy Framework" or "RPF" means the Borrower's framework for the Project dated January 2012 and published on the Borrower's website (www.seplag.rs.gov.br) on January 26, 2012, setting forth, *inter alia*, the principles and objectives governing resettlement preparation and implementation, and the process for preparing and approving resettlement plans under the Project, as said framework may be amended, from time to time, with the Bank's prior written approval.
35. "R\$" means *Reais*, the Borrower's currency.
36. "Safeguards Documents" means any of the following documents: the Environmental and Social Management Framework, the Indigenous Peoples Planning Framework, the Resettlement Policy Framework, and any other environmental management plan, resettlement action plan, and indigenous peoples plan developed by the Borrower during Project implementation following the procedures set forth in the ESMF, the IPPF and/or the RPF, as any of said documents may be amended, from time to time, with the Bank's prior written approval.
37. "SARH" means *Secretaria da Administração e dos Recursos Humanos*, the Borrower's state secretariat for administration and human resources.
38. "SCIT" means *Secretaria de Ciência, Inovação e Desenvolvimento Tecnológico*, the Borrower's state secretariat of science, innovation and technological development.
39. "SEDUC" means *Secretaria da Educação*, the Borrower's state secretariat of education.
40. "SEFAZ" means *Secretaria da Fazenda*, the Borrower's state secretariat of finance.
41. "SEINFRA" means *Secretaria da Infraestrutura e Logística*, the Borrower's state secretariat of infrastructure.
42. "SEMA" means *Secretaria do Meio Ambiente*, the Borrower's state secretariat of environment.
43. "SEPLAG" means *Secretaria do Planejamento, Gestão e Participação Cidadã*, the Borrower's state secretariat of planning and administration.
44. "Special Bidding Committee" means the committee, with members in numbers, with qualifications and experience, and working under terms of reference,



satisfactory to the Bank, referred in Section I.A.7 of Schedule 2 to this Agreement.

- 45. "Triple Helix Alliances" means alliances between a municipality, a university and a business.
- 46. "70% Rule Indicator" means a condition to be met by the Borrower for certain Loan disbursements to take place, namely that for the aggregate amount of all EEPs there has been spent, in the previous July 1 to June 30 period, 70% of the budgeted EEPs funds (specified in Schedule 4 to this Agreement) for said period under Part B of the Project.