

CONFORMED COPY

LOAN NUMBER 7513-BR

Loan Agreement

**(Alto Solimões Basic Service and Sustainable Development Project
in support of the *Zona Franca Verde* Program)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

STATE OF AMAZONAS

Dated August 12, 2008

LOAN AGREEMENT

Agreement dated August 12, 2008, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the STATE OF AMAZONAS (“The Borrower”). The Borrower and the Bank hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. (a) Except as otherwise provided in (b) below, the General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- (b) Notwithstanding the provisions of Section 1.01. (a) of this Agreement, Articles III and IV of the “General Conditions for Loans” of the Bank dated July 1, 2005 (as amended through October 17, 2007) (the 2007 General Conditions), as well as the definitions set forth in the Appendix of the 2007 General Conditions of the terms used in said Articles III and IV, constitute an integral part of this Agreement with respect to Article II and Schedule 3 of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan 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 twenty-four million two hundred and fifty thousand Dollars (\$24,250,000) (“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. The Borrower’s Representatives for purposes of taking any action required or permitted to be taken pursuant to this Section are its Secretary of Planning and Economic Development and its Secretary of Finance.
- 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 2007 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 2007 General Conditions.
- 2.05. The Payment Dates are June 1 and December 1 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 and through the Guarantor's Secretariat of National Treasury, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (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 objectives of the Project and the Program. To this end, the Borrower shall cause CIAMA, through the CIAMA

Agreement, to carry out the Project, in technical partnership with the Participating Secretariats, with the assistance of:

- (a) the Selected Municipalities, through the Municipal Grant Agreements, with respect to Part 4(a)(i) of the Project; and
- (b) the Implementing NGO, through the NGO Implementation Agreement, with respect to Part 4(a)(ii) of the Project;

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 Implementation Entity shall have failed to perform any of its obligations under an Implementation Agreement, provided however, that the suspension of the Borrower's right to make withdrawals from the Loan Account shall be limited by the Bank to withdrawals in respect of Project expenditures incurred or to be incurred by the Implementation Entity under its respective Implementation Agreement.
- (b) the Advisory Committee's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Advisory Committee to perform any of its obligations under the Project.
- (c) the SAAE's Protocol has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SAAE to perform any of its obligations under the Project.

ARTICLE V—EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consists of the following, namely that the staff referred to in Section I.6(b)(i) of Schedule II to this Agreement has been appointed.

- 5.02. The Additional Legal Matter consists of the following, namely, that the Loan has been duly registered with the Central Bank of the Guarantor
- 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 August 26, 2010.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Governor.

6.02. The Borrower's Address is:
Secretaria de Estado da Fazenda SEFAZ-AM
Avenida André Araújo, 150, Aleixo
69060-000 – Manaus, AM
Brazil

Facsimile: (55-92) 2121-1817

With copy to:

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

Facsimile: (55-61) 3225-4022

And with copy to:

UCP –Unidade de Coordenação do Projeto
Avenida Tefé 3279, Japiim
69078-000 – Manaus, AM
Brazil

Facsimile: (55-92) 2123-9992

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)	1-202-477-6391

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

STATE OF AMAZONAS

By /s/ Carlos Eduardo S. Braga
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Briscoe
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the economic and social conditions of the Alto Solimões Region, based on the sustainable use of natural resources and the strengthening of basic services and institutional development, through: (i) the development of policy and institutional strengthening for regional cross-sectoral development; (ii) the promotion of competitive environmentally and socially sustainable production; (iii) the increase of access to potable water and basic sanitation; and (iv) the improvement of health outcomes of targeted populations.

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

Part 1: Policy and Institutional Strengthening for Regional and Cross-sectoral Development

(a) Design of a set of sectoral policies and definition of an institutional framework conducive to the promotion of sustainable development and the improvement of quality of life of Project beneficiaries, through: (i) the gradual development of the Borrower's capacity for planning and coordinating public and private economic activities in the Alto Solimões Region; (ii) the institutional strengthening of the Borrower's central and municipal governments to enable them to promote and accompany the development of environmentally sustainable economic activities, with emphasis on the decentralization of key functions; (iii) the promotion of dialogue between the Borrower and the federal government, as well as between the Borrower and stakeholders in the Alto Solimões Region; (iv) the collection and subsequent dissemination of relevant information pertaining to the sustainable use of natural resources; (v) the review of public sector activities in the Alto Solimões Region to identify areas for explicit coordination and potential synergies, for the purposes of developing a strategy for multi-sectoral, inter-governmental coordination; (vi) the organization of a series of regional planning sessions involving, as the case may be, Borrower and municipalities' officials, as well as representatives of the private sector, local communities, civil society and the Guarantor's relevant sectoral agencies and governmental entities for the purposes of identifying a long-term economic potential and immediate needs for social and economic investments in the Alto Solimões Region; and (vii) the establishment of a monitoring and impact evaluation system for activities development under the Project.

(b) Establishment of a regional management office for the purposes of coordinating Project activities, facilitating regional planning, monitoring and evaluation, introducing alternative governance arrangements and strengthening overall public sector management capacity.

(c) Provision of coordinated logistical support under the Project, including the provision of transportation services to facilitate Project-beneficiary interaction.

(d) Expand and improve the existing shared platform of integrated communication and information technology linking targeted municipalities within the Borrower's territory, the regional management office, and selected public and private institutions, in order to facilitate distance learning, telemedicine, data collection and transmission worldwide, as well as the management of emergency and non-emergency health referrals.

Part 2: Promotion of Competitive Environmentally and Socially Sustainable Production

(a) Promotion of the development of the Alto Solimões Region based on the organization of competitive economic clusters fostering the sustainable use of regional renewable natural resources, through: (i) the review of the Borrower's existing policy framework for fishery and forestry sectors and the enactment of the necessary changes to ensure social and environmental sustainability in said sectors; (ii) the establishment of a mobile control post on the confluence of the *Solimões* and *Javari* rivers to monitor the sustainable use of forest resources; and (iii) the institutional strengthening of the Borrower's sectoral agencies responsible for providing technical assistance, monitoring and control of natural resources.

(b) Contributing towards the economic efficiency of producers in the Alto Solimões Region, through: (i) the completion of a business development plan for each of the four existing productive clusters in the area (timber, non-timber, fishery and fish farming); and (ii) the provision of grants to Beneficiaries to carry out Productive Subprojects.

(c) Provision of support to the increase of productivity of small-scale business carried out by local communities, including indigenous peoples, through the provision of grants to Beneficiaries to carry out Management Incubators Microprojects.

(d) Development and implementation of a training and extension program to support the Beneficiaries of the Productive Subprojects and the micro-business incubators.

Part 3: Water Supply and Sanitation

(a) Development of a new water supply and sanitation, and solid waste management service models in the Borrower's territory, through: (i) the preparation of an institutional, regulatory, legal, planning, operational and financial framework for water supply and sanitation service provision, including the preparation of the Borrower's plan and regional plans for the physical, financial, institutional, operational, environmental

and social aspects of water supply and sanitation and solid waste service delivery; (ii) the development of a plan for the gradual substitution of the existing water supply and sanitation service provider by the new service delivery model; (iii) the preparation of selected engineering designs in Alto Solimões for water supply and sanitation and solid waste management interventions; and (iv) the development of new service delivery models

(b) Establishment of SAAE in accordance with the parameters of Law 11.107.

(c) Strengthening of the existing water supply systems in the Alto Solimões Region, through: (i) the improvement of intake, treatment, storage and distribution of existing systems; (ii) the improvement of the operational efficiency of their day-to-day running (i.e. financial and operation efficiency incentive structures, commercial and billing systems, and micro and macro metering); and (iii) the expansion of certain areas of the distribution network.

(d) Development and piloting of sustainable service delivery models and appropriate technologies for the provision of rural water supply, urban sanitation and urban solid waste management in selected municipalities in the Alto Solimões Region, including the preparation of a Borrower's manual of standard technical and service delivery models for water supply and sanitation, and the preparation of environmental education and promotional materials for urban and rural water and sanitation initiatives in the Borrower's territory.

(e) Strengthening the institutional capacity of the Borrower and selected municipalities, and improving their interface with selected Guarantor relevant agencies, civil society and the private sector in planning, funding, regulation, monitoring and evaluation, and management of water and sanitation and solid waste services in the Borrower's territory.

Part 4: Health

(a) Improvement of the access to and quality of primary and secondary care services for populations residing in the Alto Solimões Region, through: (i) the provision of Municipal Grants to Selected Municipalities for the strengthening of basic health care services based on the Family Health Strategy; (ii) the provision of support to FVS and the Selected Municipalities for the purposes of: (A) provision of support for the strengthening of their capacity to manage immunizations, perform on-time diagnostics, treat and notify communicable diseases, as well as collect information for epidemiological and environmental surveillance; (B) development of water surveillance systems, as well as systems to monitor and control medical waste in hospitals and basic care units; (C) producing bi-annual epidemiological bulletins containing data and analysis on health surveillance in about three municipalities; and (D) the provision of support to Selected Municipalities for the strengthening of basic health care services under the Municipal Grants; and (iii) developing and implementing a quality improvement plan that

would include: (A) upgrading of plant and equipment to convert the *Tabatinga* hospital into a regional referral center with expanded range and quality of specialty, diagnostic and emergency services offered; (B) support the structuring of a regional referral and appointment center located in, or proximate to, the newly converted regional referral center; and (C) publishing manuals on referral guidelines, eligibility criteria and procedures and first-level emergency care protocols and training.

(b) Provision of support for the strengthening of the capacity of SUSAM in managing the Borrower's health sector, focusing on improving quality of spending and on institutional development of the SUSAM's headquarters in the city of *Manaus*, through: (i) the reengineering of and capacity building in core managerial and administrative processes, including planning, budget and financial management, human resources management, and monitoring and evaluation; (ii) the analysis of the health sector procurement process, including an assessment of the conditions of supplier markets with the purposes of proposing and later implementing a strategy for efficiency enhancement and cost reduction in medicine and supply management; and (iii) the support of change management and Project monitoring and evaluation, including: (A) preparation of an organizational change strategy; (B) provision of training for the formation of change agents within SUSAM; (C) design and implementation of an internal communication strategy; and (D) monitoring and evaluation of interventions under the Project.

Part 5: Project Management

Provision of support for Project coordination and strengthening of the PCU and participating agencies under the Project, through the provision of technical assistance (including audits), financing of incremental operating, technical staff (excluding civil servants and seconded staff acting as consultants) costs and provision of the necessary goods and equipment required under the Project.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements.

1. The Borrower shall transfer a portion of the proceeds of the Loan to CIAMA under a subsidiary agreement (the CIAMA Agreement) to be entered into between the Borrower and CIAMA, under terms and conditions acceptable to the Bank, for the purposes of implementing Parts 1, 2, 3, 4(a)(iii), 4(b) and 5 of the Project and setting forth their respective roles and responsibilities regarding the implementation of the Project, including disbursements under all Parts of the Project.

2. For the purposes of carrying the out Parts 4(a)(ii) of the Project and for the provision of administrative support to RMO, the Borrower shall, not later than 90 days after the Effective Date, execute and thereafter maintain, a subsidiary agreement (the NGO Implementation Agreement) with CIAMA and the Implementing NGO under terms and conditions acceptable to the Bank, setting forth their respective roles and responsibilities regarding the implementation of said Part of the Project. Under said NGO Implementation Agreement, the Borrower shall transfer, through CIAMA, a portion of the proceeds of the Loan to the Implementing NGO.

3. For the purposes of carrying out Part 4 (a)(i) of the Project, the Borrower shall:

(a) enter into an agreement (the Municipal Grant Agreement) with each Selected Municipality, setting forth the technical, financial, administrative and fiduciary aspects of Borrower and municipal participation in the implementation of, and use of funds for, Part 4(a)(i) of the Project, including: (i) the Selected Municipality's obligation to procure the goods, works and services in accordance with the requirements of this Agreement and with the contracting procedures and schedule specified in the Procurement Plan for all goods, works and services (which shall form part of the Municipal Grant Agreement); (ii) the Borrower's right to suspend disbursements, or cancel amounts to be disbursed, as the case may be, in the event of non compliance by the Selected Municipality with the obligations set forth in the Municipal Grant Agreement; (iii) a plan to structure and extend the Family Health Strategy in each Selected Municipality; (iv) a list of eligible mandatory and elective interventions to be provided by authorized health care providers and customized to the health necessities of each Selected Municipality; (v) a limited number of financial, physical and technical performance targets of production and coverage, including the necessary investments to reach said targets; and (vi) a list of the expenditures that are eligible for financing by proceeds of the Loan;

(b) disburse periodically, through CIAMA, to each of the Selected Municipalities the Municipal Grant, but only after: (i) the Selected Municipality has entered into the respective Municipal Grant Agreement; and (ii) a financial management

system, satisfactory to the Bank, is in place for such Selected Municipality, all in accordance with the provisions of this Agreement and the terms and conditions of the Operational Manual; and

(c) review annually (or any other interval acceptable to the Bank), together with the Bank, the performance of each of the Selected Municipalities with respect to financial, physical and technical performance targets (included in each of the Municipal Grant Agreement and explained further in the Operational Manual), and provide evidence showing, to the satisfaction of the Bank: (i) that these targets were achieved; and (ii) that the amounts disbursed by the Borrower to each Selected Municipality under the respective Municipal Grant Agreement, were used for goods, works and services eligible for financing out the proceeds of the Loan.

4. The Borrower shall exercise its rights under each of the 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 assign, amend, abrogate, waive or fail to enforce any of the Implementation Agreements, or any of their provisions. In case of any conflict between the terms of this Agreement and the terms of any of the Implementation Agreements, the terms of this Agreement shall prevail.

5. The Borrower shall:

(a) cause CIAMA through the CIAMA Agreement, to enter into an agreement (the “Productive Subproject Agreement” and the “Management Incubators Microproject Agreement” as the case may be), with each Beneficiary, substantially in accordance with the terms of the Model Subproject Agreement and including, *inter alia*, CIAMA’s obligation to make part of the Loan proceeds available to the Beneficiary in the form of grants for the purposes of financing the Subproject in question and the Beneficiary’s obligation to: (i) use the proceeds of the grant exclusively for carrying out the Subproject in question; (ii) have the goods, works and services for the Subproject be procured in compliance with the provisions of Section III of Schedule 2 to this Agreement; and (iii) abide by the technical and environmental practices and systems required for the Subprojects as set forth in the Operational Manual;

(b) cause CIAMA through the CIAMA Agreement, to exercise its rights under each Productive Subproject Agreements and Management Incubators Microproject Agreements in such manner as to protect the interests of CIAMA, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall ensure that CIAMA shall not assign, amend, abrogate, waive or fail to enforce any of the Productive Subproject Agreements or the Management Incubators Microproject Agreements, or any of their provisions.

(c) ensure, before disbursing funds under any of the Subprojects described in Part 2(b) and (c) of the Project, that the respective Productive Subproject Agreement or

the respective Management Incubators Microproject Agreement has been signed on behalf of the parties thereto, all in accordance with the provisions of this Agreement and the terms and conditions of the Operational Manual.

(d) ensure, before disbursing funds to the Implementing NGO under the NGO Implementation Agreement for activities described in Part 4 a(ii) of the Project, that the financial management and procurement assessment of the Implementing NGO has been completed with results satisfactory to the Bank, all in accordance with the provisions of this Agreement and the terms and conditions of the Operational Manual.

6. The Borrower shall:

(a) maintain and strengthen, until completion of the Project: (i) a unit within CIAMA, located in the city of *Manaus* (the PCU), responsible for the management, coordination, supervision, monitoring and evaluation of the Project; and (ii) a regional management office (RMO), located in the city of *Tabatinga*, responsible for the coordination and implementation of activities in remote municipalities within the Alto Solimões Region, as well as the facilitation of cross-sectoral coordination; and

(b) cause such units to have and maintain a structure, responsibilities, and key staff with functions, experience, responsibilities and qualifications acceptable to the Bank as described in the Operational Manual, including: (i) for the PCU, an executive coordinator, three sectoral sub-coordinators, a financial sub-coordinator, an internal auditor and two procurement specialists; and (ii) for the RMO, regional technical supervisor.

7. The Borrower, not later than 30 days after the Effective Date shall establish by decree, an advisory committee (the Advisory Committee) to oversee the process of planning, implementation, monitoring and evaluation of all Project activities and provide recommendations based on the review of the progress reports prepared for the Project. Said committee shall be chaired by a representative of SEPLAN and composed of three representatives of the Borrower and three representatives of the civil society, including an indigenous specialist. The Borrower shall maintain the Advisory Committee until the completion of the Project with at least one annual meeting and shall furnish to the Bank minutes of said meetings.

8. The Borrower shall carry out the Project in accordance with the provisions of: (a) the Environmental Management Plan; (b) the Indigenous Peoples Action Plan; and (c) a manual (the "Operational Manual"), satisfactory to the Bank, said manual to include, *inter alia*: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the criteria for the approval, implementation and monitoring of the Subprojects, including a negative list of environmentally sensitive investments ineligible for financing under a Subproject; (iii) the criteria and procedures for the selection of the Implementing NGO, including financial management and procurement capacity; (iv) guidelines for the adoption of an integrated pest management approach in all applicable

activities to be developed under the Project; (v) environmental guidelines for construction, including procedures to follow in case of unexpected findings of objects with possible cultural or archeological value; (vi) a time-bound action plan for the proper management and disposal of medical waste; and (vii) the indicators to be used for Project monitoring and evaluation. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any of the provisions of the Environmental Management Plan, the Indigenous Peoples Action Plan or the “Operational Manual. In case of any conflict between any provision of the Environmental Management Plan, the Indigenous Peoples Action Plan or the Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail.

9. The Borrower, not later than 120 days after the Effective Date, together with at least six of the municipalities comprising the Alto Solimões Region, shall sign a protocol of intentions (the SAAE’s Protocol) for the establishment of SAAE, for the purposes of delivering and regulating water and sanitation services in the Alto Solimões Region.

Section II. Project Monitoring, Reporting, Evaluation.

A. Project Reports.

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than two months after the end of the period covered by such report.

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 six months after the Closing Date.

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 expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than two months after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

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

4. The Borrower shall, no later than six months after the Effective Date, hire the independent auditors referred to in Section 5.09 (b) of the General Conditions, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III below.

Section III. Procurement.

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

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 Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services.

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

2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultants services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
<p>(a) National Competitive Bidding, subject to the following additional procedures:</p> <p>(i) contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.52 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid;</p> <p>(ii) whenever required by the Bank, the invitation to bid shall be advertised in at least one newspaper of national circulation in Brazil or the national official gazette;</p> <p>(iii) the arrangements, under the invitation to bid, for joint-ventures (<i>consórcios</i>) of Brazilian and foreign firms shall be approved in advance by the Bank in each case;</p> <p>(iv) the invitation to bid shall not establish, for purposes of acceptance of bids, minimum or maximum amounts for the contract prices; and</p> <p>(v) the purchaser shall not, without the Bank's prior approval, issue any change order under a contract which would increase or decrease by more than 15% the quantity of goods (and related services) without any change in the unit prices or other terms and conditions of sale.</p>
(b) Shopping
(c) Community Participation
(d) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services.

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection,

which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Single Source Selection
(b) Selection based on Consultants' Qualifications
(c) Least Cost Selection
(d) Quality-Based Selection
(e) Selection under a Fixed Budget
(f) Individual Consultants
(g) Service Delivery Contractors

D. Review by the Bank of Procurement Decisions.

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds.

A. General.

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may 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.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Works (except as covered by categories (6) and (7) below)	7,600,000	66%
(2) Goods (except as covered by categories (6) and (7) below)	1,100,000	66%
(3) Consultants' Services (except as covered by categories (6) and (7) below)	4,500,000	84%
(4) Training	650,000	80%
(5) Incremental Operating Costs	5,500,000	70%
(6) Productive Subprojects and Management Incubators Microprojects	2,600,000	100%
(7) Municipal Grants	1,300,000	100%
(8) Front-end Fee	61,000	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(9) Premia for Interest Rate Caps and Interest Rate Collars		Amount due under Section 2.07 (c) of this Agreement
(10) Unallocated	939,000	
TOTAL AMOUNT	24,250,000	

3. For the purposes of this Section:

(a) the term “training” means expenditures (other than for consultants’ services) incurred in connection with the carrying out of training, seminars, and workshops under the Project, including the reasonable travel cost and per-diem of the trainers and trainees, training materials and scholarships (tuition only); and

(b) the term “incremental operating costs” means the following management and supervision costs, to the extent they would not have been incurred absent the Project: (i) costs for utilities, maintenance and consumable office supplies, printing services, communication services, and incidental costs associated with the Project; (ii) all costs related to audits; (iii) logistics for workshops; (iv) technical staff (excluding civil servants and seconded staff acting as consultants); and (v) travel expenses (travel tickets and per diem).

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals under categories (1) through (6) set forth in the table in Part A of the previous section, up to an aggregate amount not to exceed \$4,850,000 equivalent may be made for payments made prior to this date but on or after April 12, 2007, but not earlier than 12 months from the date of this Agreement, for Eligible Expenditures under the Project.

2. The Closing Date is June 30, 2012.

SCHEDULE 3

Amortization Schedule

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 1 and December 1 Beginning June 1, 2013 through June 1, 2024	4.17%
On December 1, 2024	4.09%

APPENDIX

Definitions

1. “Advisory Committee” means a committee to be established by the Borrower as set forth in paragraph 7 of Section I of Schedule 2 to this Agreement.
2. Advisory Committee’s Legislation means the Borrower’s decree to be adopted for the establishment of the Advisory Committee.
3. “Alto Solimões Region” means the region within the Borrower’s territory comprising the municipalities of *Atalaia do Norte, Benjamin Constant, Tabatinga, Amaturá, São Paulo de Olivença, Santo Antônio do Içá, Tonantins, Fonte Boa,* and *Jutaí*.
4. “Beneficiaries” means: (a) in the case of a Productive Subproject: a group formed by rural producers, wood workers, fish breeders, fisherman and small-scale entrepreneurs of the wood, fishery and non-timber product productive chains, organized in associations, cooperatives, unions or any other form of incorporation with a legal personality (*pessoa jurídica*), duly established in the Guarantor’s territory in accordance with the applicable laws; and (b) in the case of a Management Incubators Microproject: local residents and communities, particularly but not only those in which indigenous communities are present.
5. “CIAMA” means *Companhia de Desenvolvimento do Estado do Amazonas*, the Borrower’s Development Corporation, responsible for promoting social, economic, technological, industrial and environmental development in the Borrower’s territory, established pursuant to Borrower’s Decree No. 2.326 of May 8, 1995.
6. “CIAMA Agreement” means the agreement referred to in paragraph 1 of Section I of Schedule 2 to this Agreement.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
8. “COSAMA” means *Companhia de Saneamento do Amazonas*, the Borrower’s sanitation company, established pursuant to Borrower’s Decree No. 892 of November 13, 1969.
9. “Environmental Management Plan” means the plan prepared by the Borrower, dated January 22, 2007, published and available to the public on www.seplan.am.gov.br or www.ciama.am.gov.br, which sets out the environmental protection measures in respect of the Project, including: (i) a negative list of environmentally sensitive investments ineligible for Project financing, emphasizing those potentially leading to deforestation; (ii) environmental screening checklist

- for Project interventions; and (iii) environmental supervision, monitoring and evaluation procedures for the Project.
10. “Family Health Strategy” means a strategy for organizing and providing primary health care consisting of the following features: (i) continuous, integrated health services provided to an enrolled population in a fixed geographical area; (ii) focus on the family; (iii) identification of risk factors that can impact the family's health; (iv) active outreach by professionals and paraprofessionals; (v) emphasis on preventive care; and (vi) community-based information and education regarding health.
 11. “FVS” means *Fundação de Vigilância em Saúde*, the foundation for health surveillance, established pursuant to Borrower’s Decree No. 2895 of June 3, 2004.
 12. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
 13. “2007 General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 as amended through October 17, 2007.
 14. “Implementation Agreement” means collectively the CIAMA Agreement, the NGO Implementation Agreement or any of the Municipal Grant Agreements.
 15. “Implementation Entity” means collectively CIAMA, the Implementing NGO or any of the Selected Municipalities.
 16. “Implementing NGO” means a non-profit civil organization acceptable to the Bank and incorporated in accordance with the legal frameworks of the Borrower and the Guarantor which has met the selection criteria set forth in the Operational Manual and which has been selected accordingly by the Borrower to implement Parts 4(a)(ii) of the Project.
 17. “Indigenous Peoples Development Plan” means the plan prepared by the Borrower, dated January 22, 2007, published and available to the public on www.seplan.am.gov.br or www.ciama.am.gov.br, which sets out the measures to be taken to ensure that indigenous peoples will not be harmed by the Project and to ensure their participation and involvement in the implementation and monitoring of the Project as it affects them.
 18. “Law 11.107” means the Borrower’s consortia law No. 11.107 (*Normas gerais de contratação de consórcios públicos*), published in the Guarantor’s official gazette on April 6, 2005.

19. “Management Incubators Microproject” means a subproject consisting of a set of activities designed to nurture small-scale business, including management assistance, access to financing, organizational and technical support services, and access to equipment and space.
20. “Management Incubators Microproject Agreements” means any of the agreements (with respect to Management Incubators Microprojects) referred to in paragraph 5(a) of Section I of Schedule 2 to this Agreement.
21. “Model Subproject Agreement” means the model agreements for Productive Subprojects and Management Incubators Microprojects to be included in the Operational Manual.
22. “Municipal Grant” means a financial transfer from the Borrower to the Selected Municipality, on a periodic basis, for the payment of goods, works and services required for the implementation of Part 4(a)(i) of the Project.
23. “Municipal Grant Agreement” means any of the agreements referred to in paragraph 3(a) of Section I of Schedule I to this Agreement to be executed among the Borrower, CIAMA and Selected Municipalities.
24. “NGO Implementing Agreement” means the agreement referred to in paragraph 2 of Section I of Schedule 2 of this Agreement.
25. “Operational Manual” means the manual referred to in paragraph 8(c) of Section I to Schedule 2 of this Agreement.
26. “Participating Secretariats” means collectively the Borrower’s: (i) SEPLAN; (ii) Secretariat for Agriculture, Ranching, Fishing and Integrated Rural Development (*Secretaria de Estado da Produção Rural*); (iii) Secretariat of Sustainable Development (*Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável*); (iv) Secretariat of Infrastructure (*Secretaria de Estado da Infra-Estrutura*); and (v) SUSAM.
27. “PCU” means the Project implementation unit to be created within CIAMA and referred to in paragraph 6(a)(i) of Section I of Schedule 2 to this Agreement.
28. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
29. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 17, 2007 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.

30. “Productive Subprojects” means a subproject consisting of a set of activities designed to contribute to the economic efficiency of those Producers Associations with a high potential of market accessibility and quality of their products in the Alto Solimões Region.
31. “Productive Subproject Agreement” means any of the agreements (with respect to Productive Subprojects), referred to in paragraph 5(a) of Section I to Schedule 2 to this Agreement.
32. “Program” means the program designed to support strengthening of basic services and sustainable use of natural resources in the Alto Solimões Region and set forth or referred to in the letter dated August 17, 2007 from the Borrower to the Bank.
33. “RMO” means the regional management office referred to in paragraph 6(a)(ii) of Section I of Schedule 2 of this Agreement.
34. “SAAE” means *Serviço Autônomo de Água e Esgoto*, the autonomous water and sanitation service to be created under Part 3(b) of the Project and in accordance with the provisions of Law 11.107, for the purposes of providing and regulating water and sanitation services in the Alto Solimões Region.
35. “SAAE’s Protocol” means the Borrower’s protocol of intention to be signed for the establishment of SAAE as set forth in paragraph 9 of Section I of Schedule 2 to this Agreement.
36. “Selected Municipalities” means municipalities located in Alto Solimões region that are beneficiaries of Municipal Grants and possess the following characteristics: (i) at least 40% of the population is urban; (ii) travel distance between the municipal capital and the regional "pole" municipality (*Tabatinga*) is less than one hour; and (iii) has launched the Family Health Program.
37. “SEPLAN” means *Secretaria de Estado de Planejamento e Desenvolvimento Econômico*, the Borrower’s planning secretariat.
38. “Subprojects” means collectively the Productive Subprojects and the Management Incubators Microprojects.
39. “SUSAM” means *Secretaria de Estado da Saúde*, the Borrower’s health secretariat.