

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7871-BR

Loan Agreement

(Additional Financing for the Second Minas Gerais
Development Partnership Project
*Programa de Parceria para o Desenvolvimento de
Minas Gerais II – Financiamento Adicional*)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE OF MINAS GERAIS

Dated July 9, 2010

Public Disclosure Authorized

LOAN AGREEMENT

Agreement dated July 9, 2010, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and the STATE OF MINAS GERAIS (“Borrower”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of four hundred and sixty one million Dollars (\$461,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing or reimbursing the cost of the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement as reimbursement for part of the Eligible Expenditures incurred by the Borrower under the Eligible Expenditure Programs. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Borrower’s Secretary of 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 General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time, in each case with the prior no-objection of the Guarantor, through the Secretariat of the National Treasury of the Guarantor's Ministry of Finance, 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; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall: (a) carry out the Project through

SEPLAG; and (b) cause the Rural Poverty Reduction Program under the Project to be carried out by IDENE; 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 Event of Suspension consists of the following, namely that the Subsidiary Agreement has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower or of IDENE to perform any of their obligations under this Agreement or the Subsidiary Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement in form and substance satisfactory to the Bank has been signed by the Borrower and IDENE; and
 - (b) The Project Operational Manual in form and substance satisfactory to the Bank has been adopted by the Borrower through a Decree.
- 5.02. The Additional Legal Matter consists of the following:
- (a) the Loan has been registered with the Guarantor's Central Bank; and
 - (b) the Subsidiary Agreement has been duly authorized or ratified by the Borrower and IDENE and is legally binding upon the Borrower and IDENE 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 October 6, 2011.

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:
Secretaria de Estado de Planejamento e Gestão
Cidade Administrativa de Minas Gerais
Rodovia Prefeito Américo Gianetti, s/n, Bairro Serra Verde
Edifício Gerais – 3º Andar
31630-901 Belo Horizonte, MG
Brazil

Facsimile:
(55-31) 3253-5868

With copy to:

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

Facsimile:
(55-61) 2020-5006

Secretaria de Estado de Fazenda
Rua da Bahia, 1816, 7º andar, Lourdes
30160-011 Belo Horizonte, MG
Brazil

Facsimile:
(55-31) 3217-6221

6.03. The Bank's Address is:

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

Cable address:
INTBAFRAD
Washington, D.C.

Telex:
248423(MCI) or
64145(MCI)

Facsimile:
1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative

STATE OF MINAS GERAIS

By /s/ Antonio Augusto Junho Anastasia

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (a) to help the Borrower improve the efficiency and effectiveness of public resource use and allocation for economic and social development; (b) to support the adoption of innovations in public management by the Borrower; and (c) to support the Borrower in strengthening its results-based management system of monitoring and evaluation of results.

The Project consists of the following:

Implementation of the Eligible Expenditure Programs

Support the implementation of the Eligible Expenditure Programs, including the Community Subprojects under the Rural Poverty Reduction Program.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall: (a) carry out the Project through SEPLAG; and (b) cause the Rural Poverty Reduction Program under the Project to be carried out by IDENE; all in accordance with the Project Operational Manual, including the Procurement Plan, the Environmental Management Framework, the Resettlement Framework, and the Indigenous Peoples' Framework, and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail. In addition, in case of any conflict between the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule, said additional instructions shall prevail.
2. The Borrower, until the completion of the execution of the Project, shall have competent staff in adequate numbers with qualifications and experience satisfactory to the Bank, including the following key staff: a Project coordinator, a Project coordination advisor, a procurement specialist and a financial management specialist.
3. The Borrower shall maintain, until the completion of the execution of the Project, the Management Meetings to convene at least once every semester and shall submit the minutes of said meetings to the Bank.
4. The Borrower shall furnish to the Bank on or about the Effective Date and thereafter on or about, six months and twelve months after the Effective Date, regular reports (the EEP Spending Reports) prepared in accordance with the provisions of the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule.
5. The Borrower shall furnish to the Bank on or about April 5 and October 5 each year starting on any such date after the Effective Date, a procurement report (the Procurement Plan Report) confirming that all procurement activities under the Project have been carried out in accordance with the Procurement Plan.
6. The Borrower shall: (a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than nine

months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

7. The EEPs (including civil works under the Infrastructure Transport Sector EEPs) will comply with the eligibility criteria and procedures set forth in the Project Operational Manual.
8. If, at any time, the Bank determines that any portion of the financing under the Project was used for items improperly procured in violation of Section III to this Schedule, was not used for Eligible Expenditures or, in case of the Eligible Expenditure Programs of 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.
9. To facilitate the carrying out of Rural Poverty Reduction Program, the Borrower shall enter into, and thereafter maintain and comply with, an agreement (the Subsidiary Agreement) with IDENE and shall make part of the proceeds of the Loan available to IDENE under terms and conditions included in the Subsidiary Agreement as approved by the Bank and in accordance with the draft Subsidiary Agreement included in the Project Operational Manual.
10. The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Rural Poverty Reduction Program. Except as the Bank shall otherwise agree, the Borrower shall not assign, substantially amend, abrogate, waive or fail to comply with the Subsidiary Agreement or any of its provisions.

B. Anti-Corruption

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

C. Community Subprojects

1. The Borrower, through IDENE, shall make Community Grants to Community Associations in accordance with eligibility criteria and procedures and within priorities defined by Municipal Councils, all acceptable to the Bank and as further detailed in the Project Operational Manual.

2. The Borrower, through IDENE, shall enter into Community Grant Agreements appropriate for the carrying out of the Rural Poverty Reduction Program, such agreements to be made in accordance with terms of the respective draft set forth in model forms approved by the Bank and included in the Project Operational Manual in which the Borrower, through IDENE, shall obtain rights adequate to protect its interests and those of the Bank, including the right to: (1) suspend or terminate the right of a Community Association to use the proceeds of the Community Grant, or obtain a refund of all or any part of the amount of the Community Grant then withdrawn and outstanding, upon the Community Association's failure to perform any of its obligations under the Community Grant Agreement; and (2) require each Community Association to: (a) carry out its Community Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, the Environmental Management Framework, the Resettlement Framework and the Indigenous Peoples' Framework; (b) provide, promptly as needed, the resources required for the purpose; (c) procure the goods, works and services to be financed out of the Community Grant in accordance with the provisions of this Agreement; (d) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Community Subproject and the achievement of its objectives; (e) (i) maintain a simplified financial management system and records in accordance with consistently applied accounting standards acceptable to the Bank for community driven initiatives, both in a manner adequate to reflect the operations, resources and expenditures related to the Community Subproject; and (ii) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (f) enable the Borrower and the Bank to inspect the Community Subproject, its operation and any relevant records and documents; and (g) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

3. The Borrower, through IDENE shall exercise its rights under each Community Grant Agreement 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 or waive any Community Grant Agreement or any of its provisions.

D. Safeguards

1. **Environmental Assessment, Natural Habitats, Pest Management, and Physical Cultural Resources**

The Borrower shall, when applicable in accordance with the provisions of the Environmental Management Framework (including provisions for natural habitats, pest management and chance finding of cultural property): (a) furnish to the Bank for its approval a Specific Environmental Assessment for each Subproject and Community Subproject; and (b) carry out the requirements specified by such Specific Environmental Assessment in accordance with its terms, taking into account the Bank's views and recommendations thereon.

2. **Resettlement**

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

3. **Indigenous Peoples**

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

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 Disbursement-Linked Indicators set forth below in Schedule 5 to this Agreement, when applicable; (b) the EEP Spending Reports; (c) the Procurement Plan Report; and (d) the Environmental Management Framework, the Indigenous Peoples' Framework and the Resettlement Framework. Each Project Report shall be furnished to the Bank on or about April 5 and October 5 each year starting on any such date after the Effective Date and shall cover a period of nine to twelve months (except for the Disbursement-Linked Indicators) preceding the presentation of such Project Report. The Project Reports shall be furnished to the Bank by the Borrower not later than three months after the end of the period covered by such reports.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than September 30, 2012.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than thirty days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, 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.

Section III. Procurement

A. General

1. **Goods, Works and Services (other than consultants' services).** All goods, works, and services (other than consultants' services) required for the Project and to be reimbursed under the Project out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. Contracts under the Project awarded in accordance with Section II of the Procurement Guidelines may draw upon diverse sources of funding for their financing, necessarily including Loan proceeds.
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.

B. Particular Methods of Procurement of Goods, Works, and Services (other than Consultants' Services)

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants' services) shall be

procured under contracts awarded on the basis of International Competitive Bidding.

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

<u>Procurement Method</u>
(a) National Competitive Bidding (including <i>convite</i> , <i>tomada de preços</i> and <i>concorrência</i> set forth in the Guarantor's Law No. 8,666 of June 21, 1993 and <i>pregão</i> set forth in the Guarantor's Law No. 10,520 of July 17, 2002), subject to the following additional procedure, namely, that the bidding documents shall be acceptable to the Bank.
(b) Shopping
(c) Direct Contracting
(d) Established Private or Commercial Practices which have been found acceptable to the Bank
(e) Community Participation procedures as described in the Project Operational Manual.

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 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 or reimburse 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 or reimbursed 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 or reimbursed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed or reimbursed (inclusive of Taxes)
(1) Eligible Expenditure Programs under the Project	459,847,500	Up to 45% of amounts spent and reported under the EEP Spending Reports
(2) Front-end Fee	1,152,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	461,000,000	

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 \$161,350,000 equivalent may be made for payments made twelve months prior to such date for Eligible Expenditure Programs under Category (1) but in no case earlier than October 1, 2009; or
 - (b) for payments made under Category (1) unless: (i) the relevant EEP Spending Report, as referred to in Section I.A.4 of this Schedule, has been submitted to, and found satisfactory by, the Bank, in accordance with the provisions of the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule; and (ii) all other conditions referred to in the Project Operational Manual and in the additional instructions referred to in Section IV.A.1 of this Schedule (including compliance with the Disbursement-Linked Indicators, when applicable and as referred to in Schedule 5 to this Agreement) have been met by the Borrower in form and substance satisfactory to the Bank.
2. If the Bank has:
 - (a) received only partial evidence of compliance under the Disbursement-Linked Indicators referred to in Schedule 5 to this Agreement and/or the 70 percent rule as described in the additional instructions is not met,

and/or the Borrower has not presented enough Eligible Expenditures under the Eligible Expenditure Programs to disburse the full amounts in respect to the withdrawals under Category (1) (as referred to in the Project Operational Manual and the additional instructions referred to in Section IV.A.1 of this Schedule), the Bank may, at its option, authorize that the unwithdrawn portion of the Loan resulting from this lack of evidence be carried forward to the subsequent withdrawals, provided that, if this occurs, the amount to be disbursed by the Bank, in the aggregate under all subsequent withdrawals, shall not exceed 45 percent of the sum of amounts referred in the last four columns of the table in Schedule 4 to this Agreement for the years up to and including the one for which the withdrawal is made; and

- (b) not approved a full withdrawal by the Borrower of the Loan proceeds under Category 1, the Bank may, by notice to the Borrower and the Guarantor, cancel the corresponding amount of the Loan.
3. The Closing Date is March 31, 2012. The Bank may grant an extension of the Closing Date after the Guarantor's Ministry of Finance has informed the Bank that it agrees with such an extension.

Section V. Other Undertakings

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

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)
On each March 15 and September 15 Beginning September 15, 2016 through March 15, 2039	2.13%
On September 15, 2039	2.02%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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

SCHEDULE 4
Eligible Expenditure Programs

Project Sector	Budget Item	Borrower's Budget Line Numbers (as set forth in the Borrower's Budget Laws)	Expenditure Type¹	Amount to be spent by the Borrower in 2008 in R\$	Amount to be spent by the Borrower in 2009 in R\$	Amount to be spent by the Borrower in 2010 in R\$	Amount to be spent by the Borrower in 2011 in R\$
Public Sector	Tax Efficiency and Simplification	04.129.017	Goods/ works/ services/ recurrent costs	12,690,000	13,985,480	18,278,678	9,331,272
Public Sector	Modernization of Fiscal Management	04.129.029	Goods/ works/ services/ recurrent costs	3,010,000	3,232,858	-	-
Public Sector	Professionalization of Public Managers	04.122.002	Goods/ works/ services/ recurrent costs	4,788,000	4,366,400	-	-
Public Sector	Sectoral Public Reform Agenda	04.122.008	Goods/ works/ services/ recurrent costs	3,770,000	3,770,551	5,243,899	6,825,731
Private Sector Development	Simplification of doing business	04.122.013	Goods/ works/ services/ recurrent costs	11,220,000	12,005,663	54,300,001	25,274,086
Private Sector Development	PPPs ²	04.130.032	Goods/ Works/ services/ recurrent costs	2,290,000	3,269,117	1,500,000	649,038
Private Sector Development	Network for Innovation Technology	19.571.043 19.661.043.	Goods/ works/ services/ recurrent costs	22,998,000	31,114,000	23,099,216	11,539,608
Private Sector	Certification	20.122.050	Goods/	12,090,595	15,978,320	10,200,000	5,018,294

¹ For the purposes of this table, "services" means services other than consultants' services. Consultants' services are not eligible

² No PPP will be part of the Project.

Development	Systems	20.126.050 20.128.050 20.304.050 20.602.050 20.603.050 20.604.050 20.665.050 20.722.050	works/ services/ recurrent costs				
Health	Regionalization of Healthcare Services	10.302.044	Goods/ works/ services/ recurrent costs	178,000,000	61,273,477	436,540,000	224,874,979
Health	Home Healthcare	10.301.049	Goods/ works/ services/ recurrent costs	136,000,000	294,655,000	219,310,000	91,315,909
Health	Live Life	10.244.054 10.302.054	Goods/ works/ services/ recurrent costs	35,700,000	88,800,000	65,010,000	45,505,000
Education	Management of Elementary Education	12.361.030 12.362.030	Goods/ works/ services/ recurrent costs	95,299,862	99,243,908	155,886,413	74,592,968
Education	Secondary Vocational Education	12.363.018	Goods/ works/ services/ recurrent costs	20,680,000	21,714,000	22,438,000	12,340,900
Education	Improvement in Quality and Efficiency of Secondary Education	12.362.037	Goods/ works/ services/ recurrent costs	31,648,000	36,124,283	-	-
Education	Administrative Support to Elementary Education	12.361.235	Recurrent costs/ salaries	492,063,941	501,068,711	517,641,821	258,820,911
Education	Administrative Support to Secondary Education	12.362.180	Recurrent costs/ salaries	16,558,167	16,861,181	17,169,741	8,584,871
Education	Development of	12.361.235	Recurrent	1,869,713,541	1,903,929,299	2,002,583,237	1,045,007,086

	Elementary Education		costs/ salaries				
Infra-structure Transport	<i>ProMG-Pleno</i> ³ -Highway Maintenance and Recovery	26.782.038	Goods/ works/ services	172,656,674	220,231,461	271,990,000	116,991,806
Infra-structure Transport	<i>Pro-Acesso</i> ⁴	26.782.035	Goods/ works/ services	365,823,657	387,051,841	283,283,728	61,447,702
Poverty Reduction	Rural Poverty Reduction Program	04.244.191	Goods/ works/ services/ recurrent costs/ salaries/ Community Subprojects	-	-	20,000,000	10,250,000

³ Under *ProMG-Pleno* and *Pro-Acesso*, the eligibility criteria for inclusion under the Project are defined in the Project Operational Manual.

SCHEDULE 5

Disbursement-Linked Indicators

Public Sector Management
<p>1. (a) Among the following six Borrower's Line Secretariats (SEF, SEPLAG, SEMAD, SECTES, SEE and SES), 4 in 2007, 5 in 2008, and 5 in 2009 have reached 70% of performance under their Results Agreements in accordance with their respective terms and as documented through a report prepared by an evaluation commission established for each of the six Line Secretariats above.</p> <p>(b) Among the following eight Borrower's operational systems, each led by one line secretariat (SEF, SEPLAG, SEMAD, SECTES, SEE, SES, SETOP and SEDVAN), 7 in 2010 have reached 70% of performance under their 1st stage Results Agreements in accordance with their respective terms and as documented through a report prepared by an evaluation commission established for each of these eight operational systems. In 2010, six of these eight 1st stage Results Agreements with targets for 2010 will be signed before March 31, 2010.</p>
<p>2. The Borrower's implementation of 2nd stage Results Agreements to track performance of teams within twelve state entities (SEF, SEPLAG, FJP, SEMAD, SECTES, FAPEMIG, SEE, SES, FHEMIG, SETOP, DER-MG, SEDVAN/IDENE) has evolved in 2010: at least eleven of these 2nd stage agreements have been evaluated for compliance with 2009 targets and have been amended to incorporate targets for 2010 by March 31, 2010 all as documented through a report prepared by SEPLAG.</p>
<p>3. (a) The number of certified job categories under the Borrower's public service system has reached at least: 2 in 2007, 4 in 2008, and 6 in 2009 as documented through a report prepared by SEPLAG.</p> <p>(b) The process for certification of job categories under the Borrower's public service system has evolved as documented in 2010: (i) a process for recertification of civil servants certified in 2006 for the position of superintendent of planning, management and finance has been conducted and (ii) training for the certified civil servants for the positions of director of human resources and director of logistics and supplies has been offered all as documented through a report prepared by SEPLAG.</p>
<p>4. The Borrower's primary surplus (in millions of R\$) and the ratio of personnel expenditures with respect to net current revenue (in percentage) as documented through a report prepared by STN or SEF, have reached the following values: in 2007: R\$1,704 million and 59.43%; in 2008: values defined under the PAF for the 2008 fiscal year; in 2009: values defined under the PAF for the 2009 fiscal year; and in 2010: values defined under the PAF for the 2010 fiscal year.</p>
<p>5. The Borrower's gross operating balance as a ratio of net current revenue as documented through a report prepared by SEF has reached the following values in 2010: 13%.</p>
<p>6. The resources allocated by the Borrower to all its Strategic Projects divided by the Borrower's total annual budget expenditures (considering <i>despesa liquidada</i>) multiplied by 100 has reached the following percentages: in 2007: 6.97%; in 2008: 8.67%; in 2009: 9%; and in 2010: 9.5% as documented through a report prepared by SEPLAG.</p>
<p>7. The Borrower's systems for procurement management are improved in the following manner: in 2008 a new regulation on price registration is adopted and published by the Borrower; in 2009, at least one Line Secretariat has an acceptable and operational electronic invoicing system integrated</p>

<p>with SIAD as evidenced in a report prepared by SEPLAG; and in 2010, the Borrower has an acceptable and operational system integrated with SIAD and SIAFI for the management of civil construction contracts as evidenced in a report prepared by SEPLAG.</p>
<p>8. The Bank has received, as evidenced by EpR: in 2008 a sample pilot survey and a pilot quality assurance survey; in 2009, evidence that three impact evaluation surveys have been launched; and in 2010, the final version of the three impact evaluation reports, all in form and substance satisfactory to the Bank.</p>
<p>9. The Borrower's use of evidence for policy making continues to improve as evidenced; in 2010: an executive evaluation of indicators is done; a pilot of executive evaluation of projects is completed and a document for transition about M&E agenda is prepared, as evidenced in a report prepared by SEPLAG.</p>
<p style="text-align: center;">Private Sector Development</p>
<p>10. The Borrower has successfully integrated <i>Minas Facil</i> in the city of Belo Horizonte with the <i>Cadastro Sincronizado</i> in 2008 and has reduced the number of Registration Days for <i>Minas Facil</i> in the city of Belo Horizonte from 26 in 2007, to 11 in 2009, and to 10 in 2010, as documented and evidenced by SEPLAG.</p>
<p>11. The Borrower has increased the number of operational physical units for <i>Minas Facil</i> from 21 in 2007, to 23 in 2008, 25 in 2009, and to 27 in 2010, as documented and evidenced by SEPLAG.</p>
<p>12. The Borrower has increased the number of contracted PPPs and/or published proposals for PPPs for the provision of public interest services from one contract in 2007 to 2 published proposals in 2008, 2 contracts in 2009, and 3 contracts in 2010, as documented and evidenced by SEDE.</p>
<p>13. The Borrower has increased the number of operational NITs from 4 in 2007, to 7 in 2008, 10 in 2009, and 13 in 2010, as evidenced and documented in a report prepared by SECTES.</p>
<p style="text-align: center;">Health</p>
<p>14. An institution accredited by ONA has been selected in 2008 by the Borrower to assess state and municipal hospitals in the Borrower's territory as well as the ones managed by social organizations, all of these hospitals participating of Pro-Hosp, and the percentage of such hospitals formally assessed for accreditation by said institution has reached 25% in 2009, and 50% in 2010, as documented and evidenced by SES.</p>
<p>15. A standardized costing system for state hospitals is being implemented in the Borrower's territory with the following steps: Design of the system completed in 2008; software developed to support the system in 2009, and the system is operational in at least fifteen hospitals in 2010, as documented and evidenced by SES.</p>
<p>16. An impact evaluation system of Viva Vida centers in the Borrower's territory has been implemented with terms of reference approved by the Bank in 2008, the contract signed in 2009, and the report concluded and presented to the state and relevant municipal health authorities in 2010, as evidenced and documented by SES.</p>
<p style="text-align: center;">Education</p>
<p>17. The percentage of 8-year-old students in state public schools with expected reading level in the third year of elementary school has reached 65% in 2007, a percentage between 70 and 80% in 2008, 75% in 2009, and between 76% and 78% in 2010, as evidenced by SEE and documented through the exams annually carried out by SEE. In 2009 the Borrower will also have prepared a report analyzing the 2009 results and potential causes for slow rates of improvement in expected</p>

reading levels.
18. (a) A standardized evaluation and feedback system for student assessment in Portuguese and in mathematics (for 3 rd grade of elementary schools - PROALFA - for 5 th and 9 th grades of elementary schools and 3 rd year (junior year) of high schools - PROEB -) is being implemented by SEE towards corrective actions and reinforcement: in 40% of the Borrower's public schools in 2008 including PROALFA 2008 results and PROEB 2007 results; in 70% of the Borrower's schools in 2009 including PROALFA 2009 results and PROEB 2008 results; all as evidenced and documented by SEE. (b) A program for evaluating student learning outcomes has been introduced for the Borrower's public schools as evidenced by (i) the total number of new test items available in the item bank, and (ii) by the number schools participating in the evaluation: in 2010: (i) 30,000 items and (ii) 800 state secondary schools, as evidenced by reports prepared by SEE.
19. A standardized information and costing system per student is being implemented towards the efficient allocation of resource across public schools in the Borrower's territory with the following steps: in 2009, the system includes information on investments funded by the state and other sources of funding than the state; and in 2010, additional information on the sources of funds other than the state are included in the system and cost indicators are posted on SEE's website; all as evidenced and documented by SEE.
20. (a) The number of 15-24 year-old students registered in courses in the secondary vocational public schools in the Borrower's territory has reached: 20,000 in 2008; and 25,000 in 2009 all as evidenced and documented by SEE. (b)The Borrower's program for secondary vocational education continues to evolve as evidenced by the number of new students enrolled in courses offered by the Borrower's Program of Vocational Education (PEP) in secondary vocational schools: in 2010: 30,000 all as evidenced and documented by SEE.
Infra-structure - Transport
21. The percentage of the state highway network (15,697 km) paved through <i>Pro-MG Pleno</i> contracts for result-based maintenance and rehabilitation in the Borrower's territory has reached: 11% in 2007; 21% in 2008; 31% in 2009; and 37% in 2010, as evidenced by DER-MG and documented through published contracts.
22. The percentage of the 853 municipalities in the Borrower's territory with at least one paved access has reached: 83% in 2007; 86% in 2008; 90% in 2009; and 93% in 2010, as evidenced and documented through <i>Pro-Acesso</i> by DER-MG.
23. (a) The development of new highways through PPPs has evolved in the Borrower's territory in the following manner: in 2008 a PPP model has been designed and the related draft bidding documents have been prepared; and in 2009, the requests for expression of interest for three highways in the Borrower's territory have been published; as evidenced and documented by SETOP. (b) The number of electronic speed control equipments – considering both ostensive control barrier (REV) and fixed speed excess register (REVF) – in operation in the Borrower's territory has increased to 60 in 2010 as evidenced and documented by SETOP.
24. The average percentage of <i>Pro-Acesso</i> paving works delays above 60 days compared with the contractual terms calculated weighted by the extension in kilometers of each work has reached the following levels: 37.9% in 2007; 35% in 2008; 30% in 2009, and 25% in 2010, as evidenced and documented by DER-MG.

Poverty Reduction
25. The number of families benefited by the Borrower's Rural Poverty Reduction Program starting in 2010 has increased to 16,800 in 2010 as evidenced and documented by IDENE.
26. Number of monitoring meetings for the intensive monitoring and management of Rural Poverty Reduction Program starting in 2010 has evolved to 6 in 2010. The status reports for each meeting will serve as evidence.
27. The available data on poverty in the Borrower's territory has been improved through the publishing of the 2009 Minas Gerais household survey in 2010 and the field work for the 2010 Minas Gerais household survey is planned, as documented by SEPLAG.
28. Number of secondary schools in the great north region that offer initial work preparation courses for the assembling and maintenance of computers has increased to 90 in 2010 as evidenced and documented by SEE.
29. The proportion of live births from mothers with seven or more pre-natal consultations in the Great North region of the Borrower's territory has increased to 47.0% (in reference to 2008) in 2010 as evidenced and documented by SES.
Environmental and Social Quality
30. The average time for concession of environmental licenses (<i>licença de instalação</i> and <i>licença de operação</i> for classes 3 and 4) by the Borrower for activities having an environmental impact in the Borrower's territory has decreased from: 180 days in 2007 and 2008, to 120 days in 2009 and 90 days in 2010 as evidenced and documented by SEMAD.
31. The number of interdisciplinary indigenous health teams in the Borrower's territory has reached: 12 in 2007 and 16 from 2008 through 2010 as evidenced and documented by SES.
32. The number of certified teachers in the indigenous teaching courses offered by SEE has reached: 137 in 2007; and 212 from 2008 through 2010 as evidenced and documented by SEE.

APPENDIX

Section I. Definitions

1. “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.
2. *Cadastro Sincronizado* means an inter-government system integrating tax administration at the Guarantor’s, Borrower’s and municipal levels as mandated by the Guarantor’s Constitutional amendment number 42 dated December 19, 2003, which has modified, inter alia, Article 39, XXII of the Guarantor’s Constitution.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Association” means a civil association formed by members of a community (*associação civil*) duly established in the Borrower’s territory in accordance with the Guarantor’s laws, and which meets the criteria set forth in the Project Operational Manual for participating in the Rural Poverty Reduction Program.
5. “Community Grant” means grants to be made by the Borrower through IDENE to a Community Association for the financing of the Community Subprojects under a Community Grant Agreement in the Borrower’s eligible municipalities as set forth in the Project Operational Manual.
6. “Community Grant Agreements” means any of the agreements to be entered into between the Borrower through IDENE and a Community Association for a Community Grant.
7. “Community Subprojects” means any socio-economic infrastructure or productive activity under the Rural Poverty Reduction Program to be carried out by a Community Association utilizing the proceeds of a Community Grant, and which meets the criteria set forth in the Project Operational Manual.
8. “DER-MG” means *Departamento de Estradas de Rodagem do Estado de Minas Gerais*, the Borrower’s department for highways, supervised by SETOP.
9. “Disbursement-Linked Indicators” means a set of indicators as specified in Schedule 5 to this Agreement.

10. “EEP” or “Eligible Expenditure Programs” means a set of defined expenditures for goods, works, consulting and non-consulting services and operating costs (including salaries) under the Program’s Project Sector budget lines as specified in Schedule 4 to this Agreement.
11. “EEP Spending Report” means the report prepared by the Borrower in accordance with the Project Operational Manual and referred to in Section I.A.6 of Schedule 2 to this Agreement on the spending status of the Eligible Expenditure Programs under the Project.
12. Environmental Management Framework means the document (published and available to the public on the website www.planejamento.mg.gov.br), dated January 31, 2008 and revised on December 22, 2009, outlining general implementation procedures, mitigation measures and monitoring procedures for environmental purposes under the Project, as said framework may be amended from time to time with the Bank’s prior approval.
13. “EpR” means *Estado para Resultados*, an administrative/executive group within the Vice Governor’s Office of the Borrower responsible for monitoring results indicators and action plans under the Program, as established and operating under Law No. 112, dated January 25, 2007.
14. “FAPEMIG” means *Fundação de Amparo à Pesquisa do Estado de Minas Gerais*, the Borrower’s agency to foster scientific and technological development in Minas Gerais, as created and operating under the Borrower’s Law No. 11,552, dated August 3, 1994.
15. “FHEMIG” means *Fundação Hospitalar do Estado de Minas Gerais*, the Borrower’s hospital foundation, as created and operating under the Borrower’s Law No. 7,088, dated October 3, 1997.
16. “FJP” means *Fundação João Pinheiro*, a foundation in the Borrower’s territory as created and operating under the Borrower’s Decree No. 5.399/1969, Law No. 10.623/1992, and Decree No. 43.707 dated December 19, 2003.
17. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
18. “IDENE” means *Instituto de Desenvolvimento do Norte e Nordeste de Minas Gerais*, the Borrower’s institute for the development of its northern and northeastern areas, as created and operating under the Borrower’s Law No. 14171 dated January 15, 2002.

19. “Indigenous Peoples’ Framework” means the document (published and available to the public on the website www.planejamento.mg.gov.br), dated January 31, 2008, as revised on December 22, 2009 and outlining general implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project, as said framework may be amended from time to time with the Bank’s prior approval.
20. “Indigenous Peoples’ Plan” means a document or documents to be prepared, when applicable, in accordance with the provisions of the Indigenous Peoples’ Framework as referred to in Section I.C.3 of Schedule 2 to this Agreement and to be published and available to the public on the website www.planejamento.mg.gov.br, and outlining specific implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under each Subproject or Community Subproject of the Project, as said plan may be amended from time to time with the Bank’s prior approval.
21. “Line Secretariats” mean the Borrower’s state secretariat of finance and the Borrower’s secretariats involved in the Project Sectors.
22. “Management Meetings” mean the meetings held among SEPLAG, the Borrower’s Line Secretariats and the EpR to discuss progress under the Program and the Project and guide overall supervision of the Program.
23. “*Minas Fácil*” means an initiative to facilitate small business development in the Borrower’s territory as established and operating under the Borrower’s Decree No. 43.656, dated November 21, 2003 and Decree No. 44.106, dated September 14, 2005.
24. “Municipal Councils” means the municipal councils in the Borrower’s territory, composed mainly of representative of communities and local organizations, as provided in the Project Operational Manual and in charge of screening and approving Community Subprojects proposals from Community Associations.
25. “NITs” means *Núcleos de Inovação Tecnológica*, the Borrower’s technological innovation centers, as created and operating under the Borrower’s Law No. 17.348 dated January 17, 2008.
26. “ONA” means *Organização Nacional de Acreditação*, the national accreditation organization, created in 1999 as a non-governmental organization of public interest and operating under Resolution No. 921 dated May 9, 2002 issued by the Guarantor’s.
27. “Original Loan Agreement” means the loan agreement for the Original Project between the Bank and the Borrower, dated August 13, 2008 (Loan No. 7547-BR).

28. “PAF” means *Programa de Ajuste Fiscal*, the Borrower’s fiscal adjustment program as created and operating under the Guarantor’s Law No. 9496 , dated September 11, 1997.
29. “PPP” means public-private partnerships in the Borrower’s territory as operating under the Guarantor’s Law NO. 11079/04 and the Borrower’s Laws No. 14869/03 and No. 14869/03.
30. “*Pro-Acesso*” means *Programa Estruturador de Pavimentação de Ligações e Acessos Rodoviários aos Municípios*, the Borrower’s investment program for surfacing of road links between municipal centers and the core road network, as established and operating under the Borrower’s Law No. 17.347 , dated January 16, 2008.
31. “PROALFA” means *Programa de Avaliação da Alfabetização*, the Borrower’s standardized evaluation and feedback system focused on the expected reading level of students on the third grade of elementary public schools.
32. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
33. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 25, 2010 and included in the Project Operational Manual and referred to in paragraph 1.16 of the Procurement Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
34. “Procurement Plan Report” means the report prepared by the Borrower referred to in Section I.A.7 of Schedule 2 to this Agreement on the procurement status of the Project.
35. “PROEB” means *Programa de Avaliação da Rede Pública de Educação Básica*, the Borrower’s standardized evaluation and feedback system focused on the fifth and ninth grades of elementary schools and third year (junior year) of high schools students.
36. “Project Operational Manual” means the operational manual for the Project found satisfactory to the Bank, to be adopted by the Borrower through a Decree and which shall contain, *inter alia*: (i) the terms of reference, functions and responsibilities for the personnel of the Borrower responsible for Project coordination, monitoring and evaluation; (ii) the criteria, detailed rules and procedures for the EEPs; (iii) the procedures for procurement of goods, works, non-consultants’ services and operational costs the Project (including the applicable threshold values for prior reviews), as well as for financial

management and audits (i.e. financial audit and procurement) under the Project; (iv) the indicators to be used in the monitoring and evaluation of the Project; (v) flow and disbursement arrangements of Project funds; (vi) the draft Subsidiary Agreement; (vii) the detailed content of the EEP Spending Report/the customized statements of expenditures, the interim financial reports, the Procurement Plan Report and the Project Reports; (viii) the Environmental Management Framework, the Resettlement Framework and the Indigenous Peoples' Framework; and (ix) the procedures to be followed for the screening, selection and approval of Community Subprojects as well as a model form for the Community Grant Agreements.

37. "Project Sectors" means the six sectors in which EEP take place, namely Public Sector Management, Private Sector Development, Health, Education and Transport.
38. "Program" means the *Programa Mineiro de Desenvolvimento Integrado – PMDI*, the Borrower's program designed to promote long term development in the Borrower's territory as operating under the Borrower's Law No. 17007, dated September 28, 2007 in accordance with the Borrower's Law No. 17352, dated January 17, 2008.
39. "*ProMG-Pleno*" means *Programa de Recuperação e Manutenção Rodoviária do Estado de Minas Gerais* the Borrower's state road maintenance and rehabilitation program using result-based contracts, as established and operating under the Borrower's Law No. 17.347 dated January 16, 2008.
40. "R\$" means Brazilian *reais*, the Guarantor's currency.
41. "Registration Days" means the days necessary to register a firm in the Borrower's territory as reported by firms using the *Minas Facil*, as further described in the Project Operational Manual.
42. "Resettlement Framework" means the document (published and available to the public on the website www.planejamento.mg.gov.br), dated January 31, 2008 and revised on December 22, 2009, outlining general implementation procedure, mitigation measures and monitoring procedures for involuntary resettlement under the Project, as said framework may be amended from time to time with the Bank's prior approval.
43. "Resettlement Plan" means a document or documents to be prepared, when applicable, in accordance with the provisions of the Resettlement Framework as referred to in Section I.C.2 of Schedule 2 to this Agreement and to be published and available to the public on the website www.planejamento.mg.gov.br and outlining specific implementation procedures, mitigation measures and monitoring procedures (including cadastre and action plan) for any involuntary

resettlement under the Project, as said plan may be amended from time to time with the Bank's prior approval.

44. "Result Agreements" means agreements entered into between the Borrower and its line secretariats or agencies as created and operating under the Borrower's Law No. 14.694, dated July 30, 2003 (as amended) and the Borrower's Decree No. 43.675, dated December 4, 2003.
45. "Rural Poverty Reduction Program" means the Borrower's rural poverty reduction program supported as an EEP under the Project, as created and operating under the Borrower's Law No. 18692, dated December 31, 2009, and the Borrower's Decree No. 45307, dated February 12, 2010.
46. "SECTES" means *Secretaria de Estado de Ciência Tecnologia e Ensino Superior*, the Borrower's state secretariat for science, technology and higher education.
47. "SEDE" means *Secretaria de Estado de Desenvolvimento Econômico*, the Borrower's state secretariat for economic development.
48. "SEDEVAN" means *Secretaria de Estado Extraordinária para o Desenvolvimento dos Vales do Jequitinhonha e Mucuri e do Norte de Minas*, the Borrower's special state secretariat for development of the Jequitinhonha and Mucuri Valleys and the northern territory of the Borrower.
49. "SEE" means *Secretaria de Estado de Educação*, the Borrower's state secretariat for education.
50. "SEF" means *Secretaria de Estado de Fazenda*, the Borrower's state secretariat for finance.
51. "SEMAD" means *Secretaria de Estado de Meio Ambiente e Desenvolvimento Sustentável*, the Borrower's state secretariat for environment and sustainable development.
52. "SEPLAG" means *Secretaria de Estado de Planejamento e Gestão*, the Borrower's state secretariat for planning and management.
53. "SES" means *Secretaria de Estado de Saúde*, the Borrower's state secretariat for health.
54. "SETOP" means *Secretaria de Estado de Transportes e Obras Públicas*, the Borrower's state secretariat for transport and public works.

55. “SIAD” means *Sistema Integrado de Administração de Bens e Serviços*, the Borrower’s integrated system for goods and services management, as established and operating under the Borrower’s Decree No. 43.699 dated December 11, 2003.
56. “SIAFI” means *Sistema Integrado de Administração Financeira*, the Borrower’s integrated system for financial management, as established and operating under the Borrower’s Decree No. 35304 dated December 30, 1993.
57. “Specific Environmental Assessment” means a document or documents to be prepared, when applicable, in accordance with the provisions of the Environmental Management Framework as referred to in Section I.C.1 of Schedule 2 to this Agreement and to be published and available to the public on the website www.planejamento.mg.gov.br, outlining specific implementation procedures for each Subproject or Community Subproject under the Project and providing for mitigation measures and monitoring procedures for environmental purposes, including chance finding for cultural property, as said assessment may be amended from time to time with the Bank’s prior approval.
58. “STN” means *Secretaria do Tesouro Nacional*, the Guarantor’s secretariat of the national treasury.
59. “Strategic Projects” means *Projetos Estruturadores*, the Borrower’s project which contain prioritized actions and activities, as created and operating under the Borrower’s Law No. 17.347, dated January 16, 2008.
60. “Subproject” means each specific set of activities to be undertaken as part of the Project and covered by the Eligible Expenditure Programs.
61. “Subsidiary Agreement” means the agreement referred to in Section I.A 11 of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to IDENE.
62. “Viva Vida” means *Programa de Redução da Mortalidade Infantil e Materna em Minas Gerais*, the Borrower’s program aimed at the reduction of mothers and infant mortality rates, as established in the Borrower’s multi-annual plan (Plano Plurianual de Gestão - PPAG) for the years 2008-2011 as approved by the Borrower's Law No. 17347, dated January 16, 2008 and revised by subsequent laws.
63. “ZEE” means *Zoneamento Ecológico Econômico*, the Borrower’s economic ecologic zoning, as created and operating under the Borrower’s Law No. 6.938, dated August 31, 1981 and Decree No. 4.297, dated July 10, 2002.

64. “70 percent rule” means the disbursement criterion referred to in Section IV B.2.a of Schedule 2 to this Agreement as further detailed in the additional instructions referred to in Section IV.A.1 of said Schedule.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. Suspension by the Bank

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

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

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”